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Audit Committee

Date:	**TUESDAY, 23 SEPTEMBER 2014**
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

Vacancy (Chairman)
George Cooper (Vice-Chairman)
Tony Eginton (Labour Lead)
Richard Lewis
Susan O'Brien

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Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
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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 Meetings held on 30 July and 10 September 2014 (**Pages 1-8)**

4 Exclusion of Press and Public

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

5 Approval of the 2013/14 Statement of Accounts and External Audit Report on the Audit for the Year Ended 31 March 2014 **(Pages 9-172)**

6 External Auditor Report on the Pension Fund Annual Report and Accounts **(Pages 173-242)**

7 Deloitte Draft Annual Audit Letter **(Pages 243-254)**

8 Internal Audit - Progress Report for Quarter 2 2014/15 **(Pages 255-272)**

9 Work Programme **(Pages 273-276)**

PART II

10 Risk Management **(Pages 277-316)**

Minutes

Audit Committee
Wednesday 30 July 2014
Meeting held at Committee Room 5- Civic Centre, High Street, Uxbridge UB8 1UW

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	Members Present: Councillors George Cooper (Vice-Chairman - In the Chair), Tony Eginton, John Hensley and Richard Mills. **Apologies:** Councillors Richard Lewis (Councillor John Hensley substituting) and Susan O'Brien (Councillor Richard Mills substituting). **Officers Present:** Kevin Byrne (Head of Policy, Performance and Partnerships), Garry Coote (Corporate Fraud Investigation Manager), Sarah Hydrie (Principal Internal Auditor), Muir Laurie (Head of Internal Audit), Nancy Le Roux (Deputy Director of Strategic Finance), Paul Whaymand (Director of Finance), Martyn White (Senior Internal Audit Manager) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Sam Maunder (Deloitte).
2.	**DECLARATIONS OF INTEREST** Councillor George Cooper declared a Non-Pecuniary Interest in Agenda Item 5 – Corporate Fraud Investigation Report because one of the prosecutions detailed in the report related to a constituent who he knew. He remained in the room and took part in discussions on the item.
3.	**MINUTES OF THE MEETING HELD ON 11 MARCH AND 5 JUNE 2014** Agreed as accurate records.
4.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that all the items on the Agenda be considered in public.
5.	**CORPORATE FRAUD INVESTIGATION PROGRESS REPORT** The Corporate Fraud Investigation Manager provided Members with a summary on the work undertaken by the Corporate Fraud Investigation Team. Members were reminded that the Single Fraud Investigation Service had been transferred to the Department for Work and Pensions which had meant that the Team was no longer

	responsible for Benefit investigations. This had meant that the Team had the opportunity to diversify its operations to other areas of fraud detection and investigation across the Council. Discussion took place on the Team's activities and particular reference was made to the work carried out on Council Tax inspections and identifying those persons who had been fraudulently claiming single person discount. Reference was made to those persons who claimed second homes Council Tax discount and the Corporate Fraud Investigation Manager reported that the Team would also widen the scope of their investigations to include this area. Concern was expressed at the Bed and Breakfast visits and inspections which had identified a high number which appeared to be unoccupied by the homeless person or family. Members were informed that the Team would be investigating this area because this type of fraud would provide significant savings to the Council. **RESOLVED -** **1. That the Corporate Fraud Investigation Team report be noted.**	**Action By:** **Garry Coote** **Garry Coote**
6.	**INTERNAL AUDIT - EFFECTIVENESS OF INTERNAL AUDIT 2013/14** The Principal Internal Auditor presented the report and reminded Members that the Accounts and Audit (England) Regulations 2011 required relevant bodies to conduct an annual review of the effectiveness of its Internal Audit. Members were informed that overall the opinion was that there was reasonable level of assurance over the key risks to the achievement of objectives for the effectiveness of Internal Audit. Reference was made to the key priority for 2013/14 which was completing the Internal Audit Plan to enable the Head of Internal Audit to provide a full and complete Annual Assurance Statement to those charged with governance. Members were informed that there had been a significant improvement on previous years which evidenced a positive direction of travel for the service. **RESOLVED-** **1. That the findings, recommendations and management actions proposed in the report be noted.**	

7.	**INTERNAL AUDIT - EFFECTIVENESS OF THE AUDIT COMMITTEE** The Principal Internal Auditor presented the report and informed Members that an effective and independent Audit Committee was a key element in the Council's corporate governance and risk management framework. The report aimed to provide independent, objective assurance to the Council over the effectiveness of the Audit Committee. The following key areas were reviewed: • Audit Committee Terms of Reference; • Audit Committee meeting agendas and minutes; • Audit Committee Members' relevant experience, training and skills; • Review of key Audit Committee documents including (but not limited to) Statement of Accounts and the Annual Internal Audit Report; and • Survey feedback of a number of Audit Committee attendees. The Committee was informed that there was a reasonable level of assurance over the key risks to the achievement of objectives for the effectiveness of the Audit Committee. Particular mention was given to the Committee having an independent Chairman which less than 25% of local authorities had. Reference was made to the Management Action Plan and Members were informed that of the four medium risks identified, three had been actioned immediately. Discussion took place on the recommendations and it was noted that in relation to the recommendation relating to the need for a training and development plan for Members, that a draft training and development programme which had been produced in March 2014, would be used to form the basis of an Audit Committee Member training and development programme. **RESOLVED –** **1. That the findings, conclusions, recommendations and management actions proposed in the report be noted.**	

		Action By:
8.	**INTERNAL AUDIT - ANNUAL REPORT & OPINION STATEMENT 2013/14** The Head of Internal Audit presented the report and informed Members that all but one Internal Audit assurance reviews for 2013/14 had been completed to final report stage which represented a significant achievement for the service. Reference was made to the Head of Internal Audit opinion that overall Internal Audit provided reasonable assurance that the system of internal control had been in place. There had been a total of 49 2013/14 Internal Audit assurance reports and 7 consultancy reports which had been finalised, of which five were limited assurance and 1 had been no assurance. The Committee was informed that Internal Audit opinion on the effectiveness of the Council's Risk Management was that the Council needed to improve the Risk Management process for identifying and recording risks at an operational level. Reference was made to the status of the Internal Audit 2013/14 recommendations and the Head of Internal Audit reported that on-going dialogue was taking place with management on the outstanding medium risk recommendations. Members noted the 100% completion rate of Client Feedback Questionnaires which helped form improvements to the Internal Audit service. **RESOLVED –** **1. That Internal Audit Annual Report and Opinion Statement for 2013/14 be noted.**	
9.	**DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2013-14** Members were provided with an update on the progress of the AGS and were informed that steady progress had been made in delivering the key components feeding into the draft AGS. These had included collecting cross-Council assurance statements and reflecting progress in Internal Audit reviews of key processes. Reference was made to the outstanding governance issues which had been identified and where improvements were required, and the Council had implemented a range of improvement actions as part of its overall continuous improvement programme to strengthen governance arrangements and control systems.	

	Reference was made to the paragraph relating to the Council monitoring legislative changes and giving consideration to the implications and opportunities and ensuring that the authority was fully compliant with laws and regulations. A Member challenged this on the basis that the Council may not have complied with the new statutory regulations concerning publication of Council newspapers and magazines in respect of Hillingdon People being published six times a year. The Head of Policy, Performance and Partnerships would investigate this and give consideration as to whether the AGS would need to be updated as a result of his findings. **RESOLVED –** 1. **That draft AGS and the comments made be noted.**	
10.	**INTERNAL AUDIT - PROGRESS REPORT FOR QUARTER 1 2014/15** The Head of Internal Audit presented the report which provided summary information on all Internal Audit work covered in relation to the 2014/15 Internal Audit Plan, together with assurance levels. Reference was made to Internal Audit work on the 2014/15 Internal Audit Plan commencing on 2 April and that planning had been initiated on all quarter one audits. Good progress had been made during the first quarter with 23% at planning stage, 54% at fieldwork stage and 23% at draft reporting stage. Discussion took place on audits in relation to schools and Members were provided with an update on the assurance work which had taken place at Chantry School. Major control weaknesses on the School's governance arrangements, financial management processes, personnel procedures and ICT arrangements had been found which would result in a no assurance opinion being given. **RESOLVED –** 1. **That the Internal Audit progress report for 2014/15 Quarter 1 be noted.** 2. **That the coverage, performance and results of Internal Audit activity be noted.**	
11.	**INTERNAL AUDIT - AUDIT COMMITTEE ANNUAL REPORT 2013/14** The report summarised the work which this Committee undertook during 2013/14 and which would be reported to	

	Council in September. Discussion took place on improvements which could be made to the Audit Committee's effectiveness and in particular around training for Members and substitute Members, and it was agreed that the training programme to be given be approved by officers, in consultation with the newly appointed Independent Chairman. **RESOLVED –** 1. **That approval be given to the contents of the report and to its submission to the Council meeting on 11 September 2014.**	
12.	**WORK PROGRAMME 2014/15** Noted.	
	The meeting which commenced at 7.00pm, closed at 8.10pm **Next meeting: 25 September 2014 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.

Minutes

Audit Committee
Wednesday 10 September 2014
Meeting held at Committee Room 3- Civic Centre, High Street, Uxbridge UB8 1UW

HILLINGDON
LONDON

	Members Present: Councillors George Cooper (Vice-Chairman - In the Chair), Tony Eginton, Richard Lewis and Susan O'Brien. **Also Present:** Councillor Jonathan Bianco. **Officer Present:** Paul Whaymand (Corporate Director of Finance) and Khalid Ahmed (Democratic Services Manager).	
13.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that Item 4 on the agenda, the Appointment of the Independent Chairman of the Audit Committee be considered in Part II of the agenda.	
14.	**APPOINTMENT OF INDEPENDENT CHAIRMAN OF AUDIT COMMITTEE** The Committee interviewed three candidates for the role of Independent Chairman of the Audit Committee. **RESOLVED -** **(1) That this Committee recommends to Council the appointment of Mr Rajiv Vyas as the Independent Chairman of the Audit Committee.**	
	The meeting which commenced at 6.30pm, closed at 8.15pm **Next meeting: 23 September 2014 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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APPROVAL OF THE 2013/14 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2014

Contact: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2013/14 Statement of Accounts. The report will be presented to Audit Committee on 23 September 2014 by Deloitte.

The auditor has indicated that, subject to completion of some minor procedures, an unqualified 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 11 March 2014.

RECOMMENDATIONS

It is recommended that Audit Committee

1. **Approve the audited Statement of Accounts for 2013/14.**
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 24 June 2014, 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 2014 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. The contents of this letter are set out at Appendix 2 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 2013/14 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 4 factual misstatements in the draft accounts which have all been corrected; the more significant of these was the result of subsequent demolition of primary school buildings within the schools capital programme. The report also provides suggestions for improving procedures and systems controls in relation to the fixed asset valuation process. There were no recommendations in relation to the accounts or financial control processes within the organisation. 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 increase on the Balance sheet of £66.9m, mainly caused by the improvement in council asset valuations despite the council writing out of £18.2m of community schools as a result of them transferring to academy status.

The Comprehensive Income and Expenditure shows a surplus of £60.2m mainly attributable to reversal of prior year impairment on HRA dwellings. Much of this surplus is reversed out due to accounting requirements to represent the statutory cost of the general fund and HRA for Council Tax and rent setting purposes. The actual increase to General Fund balances was £3.8m and for the HRA £3.7m. Earmarked reserves also increased by £10.9m.

There were two minor changes to accounting requirements this year; the introduction of Public Health services and a change to accounting requirements on IAS19 for Pensions liabilities, which resulted in a restatement to the published 2012/13 accounts.

Post Balance Sheet Events

Since the 31 March 2014 three of the Council's school buildings were demolished as part of the schools expansion capital programme. The remaining asset values on these schools buildings (£3.1m) will be written out of the accounts in 2014/15.

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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London Borough of Hillingdon

External audit report to the Audit Committee on the audit of the year ended 31 March 2014

10 September 2014

Contents

"I am delighted to present our final report on the findings from our audit for the year ending 31 March 2014"

Heather Bygrave, Audit Partner

A reminder of our audit plan:

- Materiality set at £10.1m
- Threshold for reporting misstatements set at £505k
- Significant risks over recognition of grant income; bad debt provision against sundry debt; recording of capital spend; and management override of controls.
- We have taken a mainly substantive audit approach in accordance with our audit plan.

The findings from our work on the pension scheme will be provided in a separate report, which will initially be presented to the Pensions Committee. The findings from our grant work, which is still ongoing, will be reported to the Audit Committee on completion of our procedures in January 2015.

The big picture

The big picture

Significant audit risk	Conclusion
Grant income recognition	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. Grant income was £475.6m for the year (2012/13 £413.8m). Our testing concluded that grant income recognition is appropriate.
Bad debt provision against sundry debt	This is an area of management judgement with the sundry debt balance comprising various types of debt, each with different methods for allocating a provision. The sundry debt balance was £25.2m with a provision of £13.4m. Our testing concluded that the provision is within a materially reasonable range, but at the slightly prudent end of that range.
Recording of capital spend	We identified this as a significant risk because of the volume of capital spend in the financial year (£79.4m compared with £41.9m in 2012/13) and the judgmental area of classifying revenue and capital expenditure. Our testing did not identify any significant issues, and a proposed re-classification of an asset under construction to a surplus asset was accepted by management.
Management override of controls	We have not identified any material weaknesses in controls or any evidence of management override.

Other areas of responsibility	
Value for Money (VFM)	In our audit plan issued on 27 February 2014, we communicated our preliminary assessment that we had not identified any significant risks in relation to our VFM responsibilities. We have since performed additional procedures to take into consideration any developments since our planning work was undertaken. This work did not identify any significant risks and so we anticipate issuing an unqualified VFM conclusion.
Annual Governance Statement	We are required to consider the completeness of the disclosures in the Annual Governance Statement and consider any inconsistencies between the disclosures and the information we are aware of from our work on the financial statements. We reviewed the draft Annual Governance Statement presented for audit, and have held discussions with management regarding changes to be made. These changes have been reflected in the revised Annual Governance Statement and so we have no issues to report in this area.
Pensions audit and grant certification	The pensions audit work is complete and is summarised in a separate report presented to you. Grants certification procedures are ongoing and findings will be reported to you in January 2015 on completion of this work.

Audit progress and areas to complete

- Our audit is largely completed. The following are the remaining areas we are required to complete to finalise the audit:
  - Receipt of remaining investment confirmations.
  - Completion of procedures for WGA.
  - Completion of internal quality assurance procedures.
  - Updating our review of events since 31 March 2014.
  - Receipt of signed management representation letter.

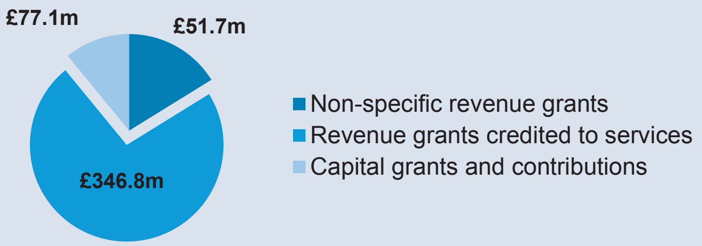
Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and disclosure matters within the financial statements.

1. Grant income recognition

We consider revenue and capital grant recognition to be reasonable

	Income (£m)
2013/14 Actual	**£475.6m**
2012/13 Actual	**£413.8m**



Nature of risk

We identified recognition of grant income as a significant risk due to:

- complex accounting for grant income, as the basis for revenue recognition in the financial statements will depend on guidance associated with each individual grant; and
- significant management judgement over determining if there are any conditions attached to a grant, and whether conditions have been met.

Total grant income recognised in the 2013/14 year is significant at £475.6m (2012/13 £413.8m).

Key judgement areas, its impact on the financial statements and our audit challenge

To address this risk we tested the design and implementation of key controls regarding the way in which the Council manages and recognises grant income. We did not identify any issues from this work.

We also performed detailed testing on a sample of revenue and capital grants received in the year. This involved reviewing correspondence associated with each grant selected, and then undertaking testing to assess whether the Council had recognised income in accordance with the CIPFA Code. Where the grant was conditional on the Council spending the grant in a specific way, we tested a sample of expenditure to verify this.

No significant issues were identified from our detailed testing, although we did propose a re-classification of a grant within the specific grant category. This amounted to £664k, which management has corrected this in the latest draft of the financial statements.

Deloitte view

Our testing did not identify any significant issues. A proposed re-classification has been accepted and amended by management.

2. Bad debt provision against sundry debt

We consider the provision against sundry debt to be materially reasonable

	Gross debt (£m)	Provision (£m)	Net debt (£m)
2013/14 Actual	**£25.2m**	**(£13.4m)**	**£11.8m**
2012/13 Actual	**£21.4m**	**(£11.0m)**	**£10.4m**

	Gross balance £m	Provisions allocated £m	Net balance £m	Provision % against gross debt %
	[1]	[2]	[1] – [2]	[2] / [1]
Housing benefit	10.2	(8.2)	2.0	80%
Social Care	3.9	(2.1)	1.8	54%
Housing rent	3.6	(2.7)	0.9	75%
Other	3.2	(0.4)	2.8	13%
Prepayments	4.3	-	4.3	0%
Total	**25.2**	**(13.4)**	11.8	50%

Nature of risk

We considered the bad debt provision against sundry debt (referred to as 'other entities and individuals' in the draft financial statements to be a significant risk because:

- provisions are by nature based on management judgement; and
- there are several sub-categories of debtor within this larger grouping, all of which have different methodologies for calculating the required provision.

Both gross and net debt has increased in 2013/14, although the percentage of provision applied to gross debt has remained very similar.

Key judgement areas, its impact on the financial statements and our audit challenge

We tested the design and implementation of the key controls relating to the calculation of the provision for these types of debt, and did not identify any issues. Management has calculated the provision for this type of debt in the same way as in 2012/13.

We performed further testing on these balances by completing the following procedures:

- Performing testing to validate the underlying information used by the Council to calculate the provision, and then recalculating the provision using the Council's methodology.
- Considered whether the level of provision was reasonable by reviewing historical accuracy of provision.
- Performing detailed sample testing of sundry debt balances to assess for recoverability of debt post year end.

2. Bad debt provision against sundry debt (continued)

Deloitte view

Of the gross debtor balance of £25.2m, a provision of £13.4m (53%) has been allocated. Based on our review of recovery of prior year debt, we consider the provision for sundry debt prepared on the same methodology as this year, to be within a materially reasonable range, but at the slightly prudent end of that range. We highlight that our testing in the 2012/13 financial year also concluded that we considered the Council provision for this account balance to be prudent, but materially reasonable based on historical cash recovery rates.

Our detailed testing identified a disclosure adjustment regarding the classification of a provision. We suggested to re-classify a provision in order to match against the gross debt. This amounted to £751k, which management accepted and has reflected in the draft financial statements.

3. Recording of capital spend

No significant issues were identified from our testing

	Capital expenditure (£m)
2013/14	£79.4m
Actual 2012/13	£41.9m

Nature of risk

Actual

We identified the recording of capital spend as a significant risk due to:

- A forecast of significant capital spend for the 2013/14 year in comparison with previous years; and
- There being a management judgement on classification of expenditure as revenue or expenditure.

Capital spend was £79.4m in 2013/14, and 89% increase on the £41.9m spend in the 2012/13 financial year. One of the key drivers of this change is the culmination of the primary schools capital programme, which is due for completion in 2014.

Key judgement areas, its impact on the financial statements and our audit challenge

We tested the design and implementation of controls surrounding the capital expenditure process, including the process by which expenditure is classified as revenue or capital expenditure, and when assets under construction are identified as being completed.

We performed detailed testing on a sample of capital additions to identify if they had been classified correctly as capital assets. We also performed detailed testing on a sample of revenue expenditure classified under repairs and maintenance, in order to assess whether any of this spend should be classified as capital expenditure. No issues were identified from this testing.

We identified one minor error regarding the classification of an asset under construction amounting to £800k, which was subsequently found to be a surplus asset. We proposed an adjustment to re-classify this asset and recognise it as a surplus asset, which was accepted and adjusted by management. No other errors of this type were identified.

Deloitte view

One minor error was identified regarding the classification of an asset under construction, which was subsequently amended by management. No other issues were identified from testing.

4. Management override of controls

We have not identified any instances of management override of controls.

Nature of risk

International Standards on Auditing require us to presume a significant risk in relation to management override of key controls.

Our audit work is designed to test management override of controls and key estimates. We identified key judgements around the provision for sundry debt to be an area of significant risk and have discussed our approach and findings in this area on the previous pages. In this section, we will consider broader areas of management judgement including other bad debt provisions and other areas where judgements or assumptions are used.

Audit work completed to address this risk

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Council reported results that show an underspend against revenue budget. We have considered this and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements. Specific areas of work are:

Journals

We have reviewed the Council’s total population of journal entries for the year to 31 March 2014 and selected a sample of journals with characteristics that may be indicative of a higher risk of fraud (for example, journals posted on a weekend, round number journals, duplicate journals etc.).

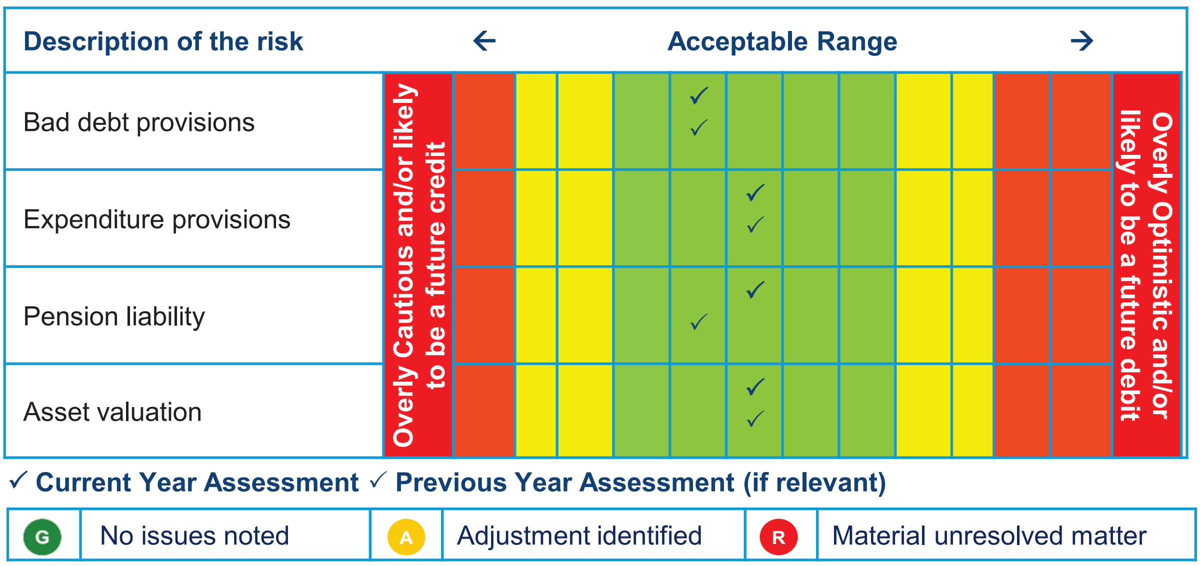
Our work focussed on the testing of journal entries made throughout the year and checking that entries had been properly authorised and reviewed, but also that they made clear business sense.

Our testing did not indicate any instances of management override of controls

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Accounting estimates

In addition to the key estimates discussed above, we have tested the basis for other estimates used in the financial statements and deem them to be within an acceptable range.



Deloitte view

No significant issues were identified from testing.

Value for money conclusion

2. Value for Money (VfM)

We anticipate issuing an unmodified audit report in respect of the VFM conclusion.

Background

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".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
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.

Audit work completed to address the significant risk

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

- the Council'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 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Procedures performed

In our audit plan issued to you on 27 February 2014, we reported that we had undertaken a preliminary assessment and had not identified any risks to our value for money conclusion that required further work to be performed. However, we also reported that we would need to consider any additional sources of information subsequent to the date of issuing our planning report.

Additional information considered includes the Head of Internal Audit annual report, cabinet and audit committee papers, and the draft annual governance statement, as well as the results of our own audit procedures and the year end outturn reported by the Council in the draft financial statements.

Specific areas of follow-up as part of the procedures noted above included the actions taken in response to the OFSTED report discussed within the Annual Governance Statement, progress made in the area of contract management following issues raised in the Head of Internal Audit report, and the extent of plans in place regarding the challenging future savings which the Council must realise in the medium term.

On completion of these procedures we concluded that there were no significant risks which required us to perform further work, and we propose to issue an unqualified value for money conclusion.

Insight and observations

Our observations on your financial statements and annual governance statement

We have reviewed the Council's annual governance statement and financial statement disclosures and suggested some changes to management

Annual Governance Statement

We have read the annual governance statement and considered against other sources of information we have reviewed as part of our audit procedures. We suggested an amendment relating to the Annual Governance Statement in relation to providing further detail in relation to the Internal Audit findings of the Anti-fraud and anti-corruption review. This proposed adjustment has been accepted by management and has been reflected in the latest version of the Annual Governance Statement.

Financial statements

We considered the draft financial statements presented for audit to be complete and of a good standard. As part of our procedures we have proposed a number of amendments to the presentation and disclosure of the draft financial statements. We consider the majority of these to be minor in nature, but have identified the more significant changes made in Appendix 1.

Internal control observations

We have identified risk management and control observations which we have discussed with management, the most significant of which are detailed below:

<table>
<tr><th>Description</th><th colspan="2">Observation and Deloitte recommendation</th><th>Status</th></tr>
<tr><td rowspan="3">Fixed asset valuation</td><td colspan="2">Whilst undertaking detailed testing on the Council’s asset valuations, we identified a number of recommendations:
• Adoption of Modern Equivalent Asset basis: The engagement letter in place between the valuer and the finance department states that where assets are valued under depreciated replacement cost (DRC), a modern equivalent asset basis (MEA) should be adopted. Specific discussions with the valuer identified that MEA had not generally been considered on the basis that comparable evidence was not available, and in one valuation abnormal costs had been included in the valuation, which would not be appropriate under an MEA approach. Given the assets in question are not significantly aged or collectively material, we do not consider this to represent a material issue for the valuations undertaken for the year ended 31 March 2014. However, we recommend that the MEA basis is applied for all DRC valuations undertaken in future, and where actual practice varies from engagement terms, this should be highlighted to the finance team.
• Documentation of valuation methodology: we identified several assets within the same category which were valued using different methodologies. Whilst subsequent discussions with the valuer found this approach to be reasonable, we consider that documentation of the rationale for a particular methodology could be improved, particularly where this is a departure from usual practice.</td><td rowspan="3">A</td></tr>
<tr><td colspan="2">Management response

Adoption of Modern Equivalent Asset basis: We acknowledge and agree that MEA should be applied for all DRC valuations and MEA excludes abnormal costs. However in this isolated situation, there were two valuations of modular public conveniences where the valuer referred to actual construction costs including certain site works. The valuer sought QS advice on the costs of providing new modular conveniences because the information available on BCIS did not cover such types of building . The QS advised that it would be appropriate to refer to the actual construction cost as a guide including the site works in these circumstances.

Documentation of valuation methodology: We will amend documentation in future to ensure that these matters are clarified as necessary</td></tr>
<tr><td>Timeframe: September 2014</td><td>Owner: Michael Paterson, Estates Manager</td></tr>
</table>

Y Minor control recommendation   A Requires improvement   R Significant improvement required

Internal control observations

Update on prior year recommendations made

Description	Observation and Deloitte recommendation	Status
Property valuation technique	In 2012/13 we identified a number of recommendations regarding documentation of individual valuations and the formalisation of the wider valuation process between finance and the valuation team. Our current year testing has identified that formal engagement processes have been followed between finance and the valuation team, and our detailed testing of property valuations has noted improvements in valuation documentation. Therefore we consider these recommendations to have been implemented, although we note the separate recommendations made regarding valuations on the previous page. **Management update on recommendations not yet implemented** N/A - implemented	●

Description	Observation and Deloitte recommendation	Status
Accuracy check of data to actuary	In 2012/13 we identified some immaterial errors regarding the submission of Council data to its actuary. We recommended that controls were put in place to check that data to be sent to the actuary is accurate prior to being submitted. Our current year testing did not identify any issues in this area and management has confirmed that additional controls have been put in place. **Management update on recommendations not yet implemented** N/A - implemented	●

Description	Observation and Deloitte recommendation	Status
Journal codings	In 2012/13 we identified a significant number of manual journals labelled as ‘correction’ or ‘error’. We recommended that refresher training was put in place to encourage a ‘right first time’ approach. We note that management has implemented this recommendation by holding ‘back to basics’ training in the 2013/14 financial year. **Management update on recommendations not yet implemented** N/A - implemented	●

Key: Completed | Partially complete | Not yet completed

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Accounting Officer and Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you previously.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

10 September 2014

This report has been prepared for the 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.

Appendices

Appendix 1: Audit Adjustments

Uncorrected Misstatements

We only report to you uncorrected misstatements that are either qualitatively material or exceed the clearly trivial threshold of £505,000. Management has adjusted all misstatements identified in excess of this threshold.

Corrected Misstatements

We report all individual identified recorded audit adjustments in excess of £505,000 and other identified misstatements in aggregate adjusted by management in the table below.

		Debit/(credit) I&E £'000	Debit/(credit) in net assets £'000	Debit/(credit) in reserves £'000
Factual misstatements				
Re-classification of Asset under construction	[1]			
- Assets under construction		-	(800)	-
- Surplus assets		-	800	-
Re-classification of provision for bad-debt	[2]			
- Housing rents allowance for impairment		-	751	-
- Other entities and individuals allowance for impairment		-	(751)	-
Accelerated depreciation on schools	[3]			
Depreciation		2,751		
Fixed assets			(2,751)	
Movement in Reserves statement				(2,751)
Capital Adjustment Account				2,614
Revaluation reserve				137
Reclassification of investments	[4]			
Cash equivalents			(1,000)	
Investments (current)			1,000	

[1] Relates to the re-classification of one property (South Ruislip Library) which was originally recognised as an asset under construction but subsequently identified to be abandoned as a project. As a result we suggested it should be disclosed as a surplus asset.

[2] Relates to the re-classification of a provision to another category of debt in order to ensure that the provision relates to the gross debt for this category.

[3] Relates to accelerated depreciation of schools, which were demolished subsequent to the year end of 31 March 2014.

[4] Relates to the re-classification of two school deposits from cash equivalents to short-term investments.

Appendix 1: Audit Adjustments (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. Whilst we have proposed a number of disclosure amendments, we consider the vast majority to be minor in nature. Some of the more significant disclosure changes we have suggested include:

- **Cash flow statement:** changes to the prior year restated balances to correct casting and double-counting errors. This was subsequently corrected.
- **Accounting policies:** we suggested a clarification to the accounting policy for depreciation to state the policy of not depreciating in the year of acquisition and applying a full year of depreciation in the year of disposal. This was subsequently corrected.
- **Provisions:** we suggested a further analysis of provisions between current and non-current, and a more detailed narrative regarding uncertainties of settlement. This was subsequently corrected with the exception of the Insurance provision; officers have proposed a detailed review of the split of this provision in the 2014/15 year.
- **Financial instruments:** we suggested an amendment to the disclosures to reflect the requirements of the Code. This was subsequently corrected.

Scoping of material account balances, classes of transactions and disclosures

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement.

We performed procedures to review and understand significant movements in all material balances compared to the prior year. We reviewed break downs of current year balances to assess whether they contained any unusual items and we considered, based on our prior year audit knowledge, whether there was a history of error in the accounts balance.

Appendix 2: Management representation letter

The draft management representation letter for the 2013/14 audit is set out below. Any further recommendations required based on the results of our outstanding audit procedures (refer Big Picture) will be communicated separately in advance of the Audit Committee meeting.

(Council Letterhead)

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3TF

[Date]

Our Ref: HAB/SM/2014

Dear Sirs

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 2014 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 London Borough of Hillingdon as of 31 March 2014 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework and the Companies Act 2006. We are aware that under Section 501 of the Companies Act 2006, it is an offence to mislead a company auditor.

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, as set out in the terms of the audit engagement letter.

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

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 “Related party disclosures”.*

4. 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.

5. 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.

Appendix 2: Management representation letter (continued)

6. 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.

7. 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.

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

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

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

11. We are not aware of any deficiencies in internal control.

12. 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 or revalued amount less residual value over the remaining useful lives.

13. 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.

14. 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.

Appendix 2: Management representation letter (continued)

Information provided

15. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter and required by sections 499 and 500 of the Companies Act 2006.

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

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

18. 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.

19. We are not aware of any fraud or suspected fraud that affects the entity or group 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.

22. 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.

23. 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

24. 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.

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

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

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

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

Signed on behalf of London Borough of Hillingdon

Appendix 3: Independence and fees

We confirm our 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:

Independence confirmation	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.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	There are no other relationships with the Council and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

Appendix 3: Independence and fees (continued)

We have set out below our audit fees for 2013/14

The table below details our audit fees and non-audit fees for the year ending 31 March 2014 for those services for which we have been engaged or proposed for as at the date of this report.

	Current year £'000	Prior year £'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 of money conclusion (**Note 2**)	211.5	207.1
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	232.5	**228.1**
Fees payable for the certification of grant claims	57.6	90.2
Total fees payable in respect of our role as Appointed Auditor	**290.1**	**318.3**
Non audit fees		
Deloitte Real Estate contract monitoring engagement (**Note 1**)	53.6	157.1

Note 1: Deloitte Real Estate has been monitoring the delivery of a building contract for the expansion of 6 primary schools. We have considered the potential independence risks, including any potential risk in respect of a 'self-review threat' or 'management threat'. We have concluded that this work does not compromise our independence as DRE is not exercising authority on behalf of the Council and not making any management decisions for the Council. Furthermore, the work is undertaken by a separate team to the audit team and we have not encountered the work of DRE in our capacity as external auditors when testing capital balances or through or value for money procedures. We have received approval from the Audit Commission to undertake this work.

Note 27 to the draft financial statements discloses non-audit fees paid to Deloitte as £145k. This includes the £53.6k retained by Deloitte above for services performed, and £91.2k paid to sub-contractors.

Note 2: The fee of £211,500 includes a fee of £3,450 relating to additional procedures in respect of testing of Non-domestic rates following the removal of grant certification work covering this area in 2013/14.

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London Borough of Hillingdon

Statement of Accounts
for the year to 31 March 2014

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London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2014

	Contents	Page

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 2013/14. These provide a financial view of the Council's delivery of services to residents during the year and details of the Council's financial standing at 31 March 2014.

The Council has continued to protect frontline service to residents during 2013/14 despite managing the dual pressures of a growing population and reductions in government funding. Strong financial management has delivered £17.1 million in savings over the last year, principally through our Business Improvement Delivery (BID) Programme which continues to transform the way the Council delivers key services. This local approach and driving efficiency improvements ensures we continue to offer the full range of frontline services valued by residents.

In addition to protecting services in the face of austerity, the Council continues to invest in the enhancement of key services with 2014 seeing the completion of the refurbishment of all 17 libraries across the borough - an achievement unmatched by any other Council. This investment has resulted in increased usage across our library service, including a 26 per cent rise in footfall at our flagship Uxbridge Library since its reopening in April 2014.

We continue to ensure every child in the borough has a school place as close to their home as possible, with the current programme of school expansions - the largest of its kind in London - set to deliver 6,500 additional places. A total of 1,140 places were provided for the September 2013 primary school intake, and a further 3,675 places delivered for September 2014, ensuring every child has a quality school place.

Investment in local services extends to Hillingdon's roads, with growth of £3 million supporting a borough-wide programme of renewal and enhancement of vital infrastructure. Completion of the programme of investment at Ruislip Lido, including the new Woodland Centre and Cafe, shows our continued commitment to open spaces - with our borough being awarded more Green Flags for parks and open spaces than any other local authority in the country for the second year running.

The Council is able to deliver excellent services for residents because of its sound financial management, with the past year seeing balances reaching £35.9 million to support service delivery in the financially tough years ahead. Our financial resilience is further enhanced by our balance sheet position seen in these accounts, with improved cash balances available to manage unforeseen risks. Council Tax continues to be frozen for all residents into 2014/15, with the freeze on track to be extended into its seventh year in 2015/16, and resources set aside to ensure those over 65 will see no increase in their Council Tax until at least 2018/19.

Alongside the Council's traditional functions, from April 2013 it took on responsibility for promotion of public health within the borough from Hillingdon Primary Care Trust. The same rigorous approach to the financial management of public health is being undertaken by the Council to ensure services to residents in this area are maintained and enhanced.

As ever our values remain our people, our environment and our heritage, putting Hillingdon residents first. Strong financial management will remain vital in continuing to achieve these goals 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 2014. 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 126 to assist the understanding of the financial statements.

2.1 Statements within the accounts

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 income from taxpayers and general government grants. 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 £60.3 million (£9.0 million 2012/13) on the provision of services for 2013/14. Of this, £-0.9 million relates to the general fund and £61.2 million relates to the Housing Revenue Account.

There are various items that are accounted for through the Comprehensive Income and Expenditure Statement to comply with statutory accounting requirements such as depreciation, revaluation and impairment losses and losses on disposal; however these items are removed for the purposes of council tax setting. As a result these items of expenditure are reversed out of the General Fund Balance in the Movement on Reserves Statement.

Movement in Reserves Statement

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

Usable reserves increased in 2013/14 from £99.5 million in 2012/13 to £124.6 million in 2013/14. Within this movement there was an opening balance of £17.2 million of capital grants that were predominantly for application to the Primary Schools Capital Programme in 2013/14. As well as this movement there was an increase of £9.5 million in Usable Capital receipts from the sale of council dwellings through the right to buy scheme where the council has retained receipts to replace the social housing on a 1 for 1 basis. Unusable reserves increased from £396.5 million in 2012/13 to £438.3 million in 2013/14.

To support the Movement in Reserves Statement, Note 1 to the accounts shows the Adjustments between Accounting Basis and Funding Basis under Regulations. This note reverses the items of income and expenditure that are required to be credited or charged to the Comprehensive Income and Expenditure Statement, that do not affect the general fund balance for council tax purposes.

Total adjustments for 2013/14 were £19.1 million within the general fund. This increases the general fund surplus in year to £18.1 million before the council transferred money between reserves.

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 2013/14 was £562.9 million (£496.0 million 2012/13) largely constituting non-current assets valued at £1,230.2 million, net pension liabilities of £381.9 million and long term borrowing of £323.6 million.

The council maintains reserve balances to meet the cost of unforeseen demands or events and as a result keeps a minimum level of balances. As at 31 March 2014 the Council has £36.6 million General Fund balances and £22.0 million Earmarked Reserves held for specific purposes. Further details can be seen in note 2 to the accounts.

Cash Flow Statement

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

There was a decrease in cash and cash equivalents in 2013/14 of £23.0 million. This was made up of a decrease in cash held of £5.5 million and a decrease in cashable short term investments of £17.5 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, capital financing costs, and major income sources such as rents and other income.

There was a surplus in 2013/14 on HRA services of £61.2 million (£27.9 million 2012/13). This includes a reversal of prior year impairment on Council Dwellings of £37.9 million.

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. For example revaluation gains and losses on council dwellings and gains/losses on disposal of asset are reversed.

The overall HRA surplus for the year, after adjustments made in the Statement of Movement on the HRA Balance, was £3.7 million in 2013/14 (£5.7 million 2012/13).

Collection Fund Revenue Account

The Collection Fund is a separate account into which amounts raised from local taxation are paid through council tax and business rates. From this, amounts due to preceptors including the Council itself are paid. The Collection Fund showed a surplus of £2.0 million in 2013/14 for council tax and a deficit of £1.3 million for National Non Distributed Rates (NNDR). Council Tax income for the year was £127.0 million and NNDR income for the year was £336.3 million.

The Council share of the council tax collected through the collection fund is 78% so the Council has recognised income of £1.5 million within the main accounting statements. The Council share of NNDR is 30% therefore a deficit of £0.4 million has been recognised in the main statements.

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.

This document also includes the following:

Notes to the Accounts

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

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 forms an integral part of these accounts.

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.

2.2 Financial Performance

The financial challenges facing the Council as a result of the Government's austerity programme and the wider economic environment continued through 2013/14 and will continue well into the future. Councils are continuing to see central government funding decline; however Hillingdon were able to successfully freeze Hillingdon's share of Council Tax for another year without impacting on front-line service to the public as well as 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. This enabled delivery of the required £17.1 million savings to balance the budget while driving improvement in service quality across the Council.

As well as budgetary constraints 2013/14 has seen significant changes to arrangements for Local Council Tax Support and the retention of a share of Business Rates income raised within Hillingdon which replaced the previous formula grant system with the business rates retention system. Business rates income is now part of the Council's core revenue funding. As such, a share of any growth in business rates income goes towards assisting the Councils overall budget strategy in the context of further government funding reductions and does not represent an additional resource. The new funding system allows Hillingdon to retain 15% growth however it would also bear the cost of 15% reduction in yield.

A number of Public Health responsibilities transferred to Local Authorities from the abolished Primary Care Trust (PCT) on the 1st April 2013. These new responsibilities and duties have been funded by a ring fenced Public Health grant from central government. The Council has shown the provision of this service on the face of the Income and Expenditure Statement as an acquired service. There is no comparative data for the provision of this as a result.

Within the statement of accounts the Council has had to restate the comparator year for accounting policy changes to those published in 2012/13. These adjustments are due to changes in the regulatory environment in which the Council has to prepare its accounts rather than internal policy changes. The first change is in relation to post employee benefits where there has been a change in the definition for costs of pension fund liabilities. The Pension liability has not changed remaining at £373.3 million liability at the end of 2012/13, however the charges to individual services lines and the actuarial gain /loss has been adjusted. The second change was in relation to a new requirement to separate the provision of public health duties on the face of the Income and Expenditure Statement to meet new reporting disclosures as established in the CIPFA Service reporting code of practice. Neither change impacted on the reported worth of the Council as at 31 March 2013. Further details of the restatement changes can be seen on page 35 within this document.

In June 2010 Central Government gave schools across the country the opportunity to become academies. As a result many of the Council schools have converted since. The implications of this are the income and expenditure of the schools is no longer reported by the Council as the academy becomes independent to the operations of the council and the school assets become those of the academy rather than the Council. During 2013/14 two schools became academies and the councils PFI School (Barnhill Community School) was removed from the councils financial assets as it is an academy; as a result £18.2 million of asset disposals have been written out of the Comprehensive Income and Expenditure as loss on disposal attributable to the transfer of these school assets. To date in 2014/15 there are a further three community schools that have transferred to academy status so the assets of these schools will be removed in the 2014/15 Statement of Accounts.

2.3 Revenue Budget

The Council's net revenue budget for 2013/14 totalled £212 million, 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.

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 under spend of £7.045 million against budget at outturn. From this £7.045 million surplus, £1.380 million was transferred to Earmarked reserves to fund the freeze on older people's council tax freeze. There were also some exceptional items reported to management in relation to the Icelandic investment Impairment, due to timing of data released, which were accounted for in the 2012/13 Statement of Accounts. The outturn position for the General Fund revenue budget is set out below:

General Fund Services	**Budget £'000**	**Outturn £'000**	**Variance £'000**
Administration & Finance	22,847	21,826	(1,021)
Residents Services	67,710	66,863	(847)
Adult Social Care	58,668	58,296	(372)
Children & Young People's Services	23,421	23,365	(56)
Net Cost of Services	**172,646**	**170,350**	**(2,296)**
Contingencies & Priority Growth	20,699	20,107	(592)
Financing Costs	10,891	8,391	(2,500)
Levies & other corporate budgets	7,412	7,412	0
Exceptional Items	0	(1,657)	(1,657)
Total Net Expenditure	**211,648**	**204,603**	**(7,045)**
Budget Requirement	(211,648)	(211,648)	0
General Fund Surplus for 2013/14	**0**	**(7,045)**	**(7,045)**

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

Details on how the General fund outturn position for management decision making links through to the Comprehensive Income and Expenditure Statement surplus for the year, in accordance with accounting standards, can be seen in note 26 to the accounts.

Achievement of the surplus in 2013/14 was in part due to an under spend on capital financing costs due to the deferral of borrowing in support of the Primary school expansion, early delivery of savings and a number of posts across directorates being held open.

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 2014/15 and beyond.

Capital Investment

The Council's programme of capital investment for 2013/14 totalled £91.2 million (£48.9 million in 2012/13) and was funded from a range of sources. These included grants, contributions from revenue resources and proceeds from asset sales and prudential borrowing (details in note 37 to the accounts).

Investment during 2013/14 focused heavily on the Council's major programme of Primary school expansions and refurbishment of the flagship central library in central Uxbridge, which completes the programme of refurbishment for all borough libraries.

Treasury Management

The council takes a very prudent strategy in investing its cash balances to ensure money is invested at a very low level of risk. The strategy for investing funds first considers the security of the deposit, the liquidity of investments and then the return on the investment. The economic environment has continued to be very tight with limited returns available on investments with the bank of England base rate retaining at the historic low of 0.5% since March 2009. The Council sticks strictly to counterparties which have been agreed through the Treasury Management Strategy, which consist of other local authorities, instant access funds as well as institutions with a credit rating A- or above. Investment income returns for the year on internally managed cash yielded 0.48% (0.66% 2012/13), resulting in total investment income this year of £629k.

During the year the Council utilised internal balances and no new borrowing was taken to fund capital expenditure. The Council's loan portfolio has average rate of 3.00%. The portfolio was reduced by £10.3 million with debt that matured naturally leaving a balance at year end of £334.3 million. The total interest paid over the year totalled £10.2 million.

At the start of the financial year there were unpaid investments with Icelandic banks; Heritable (£3.3 million) and Landsbanki (£2.6 million). During the year the administrators of Heritable issued a dividend leaving a balance of £0.9 million outstanding at year end. The Landsbanki winding up board issued an interim dividend, which was followed by the sale of the claim in final settlement of the issue.

Looking Ahead

Looking forward the main challenge the Council faces financially is the development of further revenue savings of £12.8 million in 2014/15 on top of the £17.1 million delivered in 2013/14 and over £70 million in total over the 4 years since 2010/11. This is as a result of the Government's continuing policy to reduce public expenditure. The Council's BID programme continues to drive the delivery of these savings and good progress continues to be made to achieve these savings.

In addition to the funding cuts from Central Government the council has budgeted to deliver a freeze in the Hillingdon element of Council Tax for 2014/15 and 2015/16, with a further five year freeze for the over 65's. As with prior years the Council will continue to deal with potential funding required to cover a range of financial risks faced such as significant demographic and demand led pressures facing the Council.

Amongst these significant financial pressures, the council has developed priority growth proposals within the borough which include allocations to Primary Schools Expansions, extended library openings, sport and activity for all ages, Social Care initiatives, lamp post refurbishment programme, Telecareline and Local Rating Enforcement. In addition to a large proportion of the capital programme being spent to meet growing demand for Primary and Secondary School places across the Borough, the capital programme plans for additional funding for the provision of a new landmark theatre and museum, investment in roads and pavements, as well as investment in three new Youth centres and improvement work associated with other environmental and recreational facilities.

The Council continues to achieve strong growth in the council tax base, with expected growth in council tax revenues in 2014. This is due to a number of properties coming on stream between April 2014 and March 2015, which includes a significant number of properties on key development sites such as St Andrew’s Park, Uxbridge. There is however a financial impact of the resulting increase in population to the Council, such as school places and social care implications.

With effect from 1 April 2013, the Business Rate Retention System has resulted in the Council sharing in the benefit of economic development through retention of a proportion of growth in the Business Rates base. While there has been a clear downward trend in rateable value within the Borough since the 2010 revaluation, on- going review of potential developments as part of wider economic development work has identified a number of growth areas, which offer the opportunity to capitalise on this new opportunity.

The Council's medium term financial strategy aims to incorporate these funding strains with minimal impact on the delivery of front line services via transformation of service delivery within council activities. The Council will continue to maintain balances and reserves well in excess of the minimum recommended level. This will provide a significant buffer over the medium term as there is forecast to be significant further cuts in central Government funding from 2015/16 through to 2018/19.

Additional challenges over future years relate to the Better Care Fund which has been announced for introduction in 2015/16 which represents a further risk to the Council to be managed. This will see integrated working between the health and local government sectors. As a result of the major changes to Adult Social Care funding arrangements set out in the 2013 Care Bill, which includes introduction of capped care costs and increased deferred payment arrangements, there will be significant new burdens over social care funding expected in the medium-term. Despite these funding risks, the Councils budget does however still contain significant flexibility, particularly in the level of balances and reserves built up through prudent financial management, which gives the potential to smooth the impact of any funding gap in 2015/16 over the following years.

3. 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 2013/14 (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 2014 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
29 September 2014

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 23 September 2014.

Signed on behalf of London Borough of Hillingdon

ACTING CHAIRMAN (AUDIT COMMITTEE)
23 September 2014

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

Opinion on the Authority financial statements

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement and the related notes 1 to 47, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 8, and Collection Fund and the related notes 1 to 3. 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 2013/14.

This report is made solely to the members of 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. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial 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 Corporate Director of Finance and the overall presentation of the financial 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2013/14.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial 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 financial statements

We have audited the pension fund financial statements for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2013/14.

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. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial 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 Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory 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 pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, 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 financial statements are prepared is consistent with the financial 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 are 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 2013, 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 myself 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 2014.

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 2013, We are satisfied that, in all significant respects, *the London Borough of Hillingdon* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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 behalf of Deloitte LLP
Appointed auditor, St Albans, UK
September 2014

5. Statement of Accounting Policies

The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2013/14 financial year and its position as at the year-end of 31 March 2014. The Statement of Accounts must be prepared in accordance with proper accounting practices as per the Accounts and Audit Regulations 2011. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 (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.

CAPITAL

1. Property, Plant and Equipment

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

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

Depreciation is charged annually and is charged in the year of disposal and not in the year of acquisition. Assets under construction do not incur depreciation until they are complete.

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 (previously 75% for dwellings - now councils can retain the full receipt providing they can spend sufficient level of resources on replacement social housing, 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 or Housing Revenue Account 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.

<u>The Council as Lessee</u>

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).

<u>The Council as Lessor</u>

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 or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including 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.

9. Acquisitions and Discontinued Operations

Acquired operations

The Council has acquired the operation of Public Health in the borough as of 1st April 2013, where the function has transferred from the NHS. This expands the Councils role in improving the health of the local population and responsible for commissioning and collaborating on a range of public health services and for advising the commissioners of local NHS services. As a result of this there has been a transfer of public health staff to provide this service and the government has provided additional funding to the Council in the form of a Public Health Grant.

There were no operations acquired in the year to 31 March 2013.

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.

There have been two changes in accounting policy in 2013/14 which have resulted in a prior period adjustment to the comparator year of the accounting statements. The first accounting policy change is in relation to the adoption of the 2011 amendments to IAS19 in the Code surrounding definitions of post employee benefits. The second change is due to a change in the Service Reporting Code of practice (SeRCOP), which has introduced a new classification of service level expenditure to be defined on the face of the accounts under cost of services; for public health activities. The council has not prepared a third balance sheet for these amendments to the standard, as the Councils Balance position has not retrospectively changed. The changes from the restatement of the accounts are documented in on page 35 to the accounts.

12. Employee Benefits

<u>Benefits Payable During Employment</u>

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.

<u>Termination Benefits</u>

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.

<u>Post Employment Benefits</u>

The Council participates in four defined benefit pension schemes-

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

NHS Pensions Scheme

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

The Local Government Pension Scheme

- The pension liabilities attributable to the Council 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 the following components:
- Service cost comprising:
    - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
    - The return on assets – excluding amounts included in net interest on the net defined benefit liability (asset) the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return– debited to the Pensions Reserve as other Comprehensive Income and Expenditure.

    - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to pension funds – cash paid as employer's contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

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.

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. Administration and Finance)	Staff numbers
Administrative buildings	Area occupied
Computing and Telephony	Estimated usage

Allocations are not made in relation to Corporate and Democratic Core or Non-Distributed costs.

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
Capital 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 Council's share of 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

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 2014 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. Assets are subject to a 5 year rolling valuation and assumptions are made by the specialist valuer regarding	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £1.9m for every year that useful lives had to reduced. A fall in value of the Council's assets would impact on the net worth of the council, however would not impact on the

	market indicators and other data available to asses an asset's value.	Council's usable balances. Fluctuations in the value of assets will not correlate with normal market conditions, however a 1% movement in asset values would move the councils balance sheet position by £12.3m.
Provisions	Provisions are defined as probable future liabilities based on past events and there are therefore inherent uncertainties related to provisions that have been made and the amounts set aside.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.
Arrears	Provisions have been made for debt owed to the Council for which payment may not be received. The Council reviews its basis for calculating doubtful debts making the current levels appropriate. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient.	Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts. Sensitivity analysis is represented in note 47 to the accounts on page 90.

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 the last year of its introductory phase which ends on 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 Code of Practice requires that the Authority discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2014 for 2013/14). Disclosure requirements are expected to be included in a subsequent edition of the Code.

The following accounting policy changes are not yet reflected in the councils accounts and are unexpected to have a material impact on the 2013/14 accounts were they to be applied.

- IFRS 13 Fair Value Measurement (May 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 32 Financial Instruments: Presentation.

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 the Accounts and Audit Regulations 2011. They summarise the overall financial position of the Council and in particular include the following:

Comprehensive Income and Expenditure Statement (page 38)

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 39)

This sets out the assets and liabilities of the Council as at 31 March 2014, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 40)

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 42)

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.

Prior period Adjustments, Changes in Accounting Policies and Estimates

Prior period adjustments have been made to the Councils 2012/13 published financial statements in relation to the following:

IAS19 Change to Accounting Standard

There have been several significant changes in relation to the international reporting standard IAS19 Employee Benefits. This has resulted in changes to accounting treatment for financial years starting on or after 1 January 2013. There is no impact on the Balance sheet however.

The main changes are as follows:

Expected Return on Assets
This is in relation to the return on Pension Scheme assets such as those held by the London Borough of Hillingdon Local Government Pension Fund. Advance credit for anticipated outperformance of return seeking assets (such as equities) is no longer permitted by IAS19. This has been replaced with an equivalent figure calculated using a discount rate (as opposed to using a figure calculated using expected return on assets assumptions).

Asset Disclosures
IAS19 requires a much more detailed breakdown of the pension fund assets. The values of the assets, broken down into different classes that distinguish between the nature and risk now need to be disclosed. A further breakdown is also needed showing those assets which have a quoted market price and those which do not. The disclosure included in the Council's 2012/13 published financial statements only showed the main categories of equities, bonds, property and cash as required. As a result of the change some of these categories are split further.

Disclosure Presentation
In order to be consistent with the new requirements of IAS19 the disclosures in relation to the Council's defined benefit pension scheme have changed from those published in 2012/13. By making these changes to the accounting standard, it is intended that the presentation of the information is easier for the user to understand (see note 46).

Public Health

From April 2013, local authorities were provided with a ring-fenced public health grant to discharge the new public health responsibilities being transferred to them from primary care trusts. CIPFA, working with the Department of Health, has added a new Service Expenditure Analysis level – Public Health – which explains how spend on those responsibilities, funded by a grant from the Department of Health, and any additional spend on those responsibilities, should be recorded. As a result the functions the Council carried out in 2012/13 have been separated from their previous service reporting heading and are now shown on the Comprehensive Income and Expenditure statement as Public Health service provision.

Prior period Adjustments, Changes in Accounting Policies and Estimates

RESTATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	2012/13 Net Expenditure £000's	IAS19 Restatement £000's	Public Health Restatement £000's	Restated 2012/13 Net Expenditure
EXPENDITURE ON SERVICES				
Central Services to the Public	5,165	0	(477)	4,688
Culture and Related Services	16,058	0	(235)	15,823
Environmental and Regulatory	24,696	0	(538)	24,158
Planning Services	1,913	0	0	1,913
Education and Children's Services	55,851	0	(534)	55,317
Highways and Transport Services	19,260	0	(164)	19,096
Local Authority Housing (HRA)	(32,878)	0	0	(32,878)
Other Housing Services	13,472	0	0	13,472
Adult Social Care	71,443	0	(1,227)	70,216
Public Health		0	3,175	3,175
Corporate and Democratic Core	7,429	0	0	7,429
Non-Distributed Costs	(7,206)	4	0	(7,202)
COST OF SERVICES	**175,203**	**4**	**0**	**175,207**
Other Operating Expenditure	2,191	0	0	2,191
Net loss on disposal of fixed asset	34,746	0	0	34,746
Net Financing and Investment Income and Expenditure	18,465	4,516	0	22,981
Taxation and Non-Specific Grant Income	(244,116)	0	0	(244,116)
Corporate Amount	**(188,714)**	**4,516**	**0**	**(184,198)**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	**(13,511)**	**4,520**	**0**	**(8,991)**
(Surplus)/Deficit on revaluation of Property, Plant and Equipment	(5,182)	0	0	(5,182)
Actuarial loss on pension assets and liabilities	58,859	(4,520)	0	54,339
(Surplus) on revaluation of available for sale financial assets	(5)	0	0	(5)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	**40,161**	**0**	**0**	**40,161**

Prior period Adjustments, Changes in Accounting Policies and Estimates

OTHER STATEMENT CHANGES FOR REVISED IAS19 STANDARD FOR 2012/13

Movement in Reserves Statement

	Published 2012/13			2012/13 Restated		
	General Fund Balance £000's	HRA Balance £000's	Pensions Reserve £000's	General Fund Balance £000's	HRA Balance £000's	Pensions Reserve £000's
Opening Balance	23,720	13,412	(313,199)	23,720	13,412	(313,199)
Surplus on provision of services	13,511	0	0	(18,957)	27,948	0
Other Comprehensive Income and Expenditure	0	0	(58,859)	0	0	(54,339)
Adjustments between accounting basis & funding basis	(169)	5,677	(1,204)	32,014	(21,986)	(5,724)
Transfers to/from reserves	(4,295)	0	0	(4,010)	(285)	0
Total reserve Balances	**32,767**	**19,089**	**(373,262)**	**32,767**	**19,089**	**(373,262)**

NB: Surplus on provision of services has also been split between General Fund and HRA balances within the restatement from that published in 2012/13

Note 1. Adjustments between accounting basis and funding basis under regulations

	Published 2012/13			Restated 2012/13		
	General Fund Balance £000's	HRA Balance £000's	Pension Reserve £000's	General Fund Balance £000's	HRA Balance £000's	Pension Reserve £000's
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(22,410)	0	22,410	(26,926)	0	26,926
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	21,206	0	(21,206)	21,000	202	(21,202)
All other note 1 Items not restated	1,373	(5,677)	0	(26,088)	21,784	0
Total Adjustments between accounting basis & funding basis	**169**	**(5,677)**	**1,204**	**(32,014)**	**21,986**	**5,724**

Cash Flow Statement

	Published 2012/13 £000's	Restated 2012/13 £000's
Net (surplus)/deficit on the provision of services	(13,511)	(8,991)
Adjust net surplus on the provision of services for non cash movements	(55,928)	(62,371)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	33,023	34,946
Net cash flows from operating activities	(36,416)	(36,416)
Net cash flows from investing activities	656	656
Net cash flows from financing activities	17,967	17,967
(Increase) in cash and cash equivalents	**(17,793)**	**(17,793)**
Cash and cash equivalents at the beginning of the reporting period	(54,179)	(54,179)
Cash and cash equivalents at the end of the reporting period	**(71,972)**	**(71,972)**

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. Councils 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.

		31 March 2014			31 March 2013 Restated		
	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		9,585	(3,898)	5,687	30,037	(25,349)	4,688
Culture and Related Services		24,264	(3,178)	21,086	18,951	(3,128)	15,823
Environmental and Regulatory		37,373	(8,754)	28,619	32,498	(8,340)	24,158
Planning Services		5,324	(4,328)	996	5,602	(3,689)	1,913
Education and Children's Services		244,551	(179,572)	64,979	238,763	(183,446)	55,317
Highways and Transport Services		30,564	(9,104)	21,460	28,137	(9,041)	19,096
Local Authority Housing (HRA)		(2,001)	(61,289)	(63,290)	28,050	(60,928)	(32,878)
Other Housing Services		171,430	(156,172)	15,258	166,894	(153,422)	13,472
Adult Social Care		86,954	(18,877)	68,077	90,605	(20,389)	70,216
Public Health		3,528	0	3,528	3,500	(325)	3,175
Corporate and Democratic Core		8,399	(702)	7,697	8,237	(808)	7,429
Non-Distributed Costs		4,138	(3,786)	352	(6,670)	(532)	(7,202)
Total Cost of Services from existing operations		624,109	(449,660)	**174,449**	644,604	(469,397)	**175,207**
Public Health - Acquired Operation		9,804	(15,622)	(5,818)	0	0	0
TOTAL COST OF SERVICES		633,913	(465,282)	**168,631**	644,604	(469,397)	**175,207**
Other Operating Expenditure	*3*	1,591	0	1,591	2,191	0	2,191
Net loss on disposal of fixed asset *		11,791	0	11,791	34,746	0	34,746
Net Financing and Investment Income and Expenditure	*4*	27,842	(1,131)	26,711	26,195	(3,214)	22,981
Taxation and Non-Specific Grant Income	*5*	0	(269,003)	(269,003)	0	(244,116)	(244,116)
Corporate Amount		41,224	(270,134)	**(228,910)**	63,132	(247,330)	**(184,198)**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES		**675,137**	(735,416)	**(60,279)**	**707,736**	(716,727)	**(8,991)**
Deficit/(surplus) on revaluation of Property, Plant and Equipment assets				1,288			(5,182)
Actuarial (gain)/loss on pension assets and liabilities	*46/47*			(7,969)			54,339
Deficit/(surplus) on revaluation of available for sale financial assets	*22*			15			(5)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				**(66,945)**			**40,161**

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

Balance Sheet

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

Reserves are reported in two categories:

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

The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note	31 March 2014 £000's	31 March 2013 £000's
Property, Plant & Equipment	*6*	1,215,961	1,163,437
Heritage Assets	*19*	501	501
Intangible Assets	*10*	509	570
Investment Properties	*9*	5,717	5,806
Long Term Investments	*11*	7,093	1,732
Long Term Debtors	*14*	383	405
LONG TERM ASSETS		**1,230,164**	**1,172,451**
Inventories	*12*	345	255
Short Term Debtors	*13*	28,230	22,930
Short Term Investments	*11*	55,101	33,293
Cash and Cash Equivalents	*17*	48,954	71,972
Assets held for sale	*18*	1,911	11,539
CURRENT ASSETS		**134,541**	**139,989**
Short Term Provisions	*20*	(3,640)	(2,231)
Short Term Borrowing	*11*	(10,705)	(11,791)
Short Term Creditors	*15*	(62,388)	(69,698)
CURRENT LIABILITIES		**(76,733)**	**(83,720)**
Long Term Provisions	*20*	(3,985)	(5,149)
Deferred Credits		(81)	(87)
Long Term Borrowing	*11*	(323,643)	(332,895)
Long Term Creditors	*16*	(2,898)	(3,897)
Capital Grant Receipts in Advance	*36*	(10,292)	(14,980)
Deferred Liabilities	*38*	(2,211)	(2,473)
Net Liabilities Related to Defined Benefit Pension Schemes	*46*	(381,940)	(373,262)
LONG TERM LIABILITIES		**(725,050)**	**(732,743)**
NET ASSETS		**562,922**	**495,977**
Usable Reserves	*21*	124,581	99,502
Unusable Reserves	*22*	438,341	396,475
TOTAL RESERVES		**562,922**	**495,977**

Paul Whaymand
Corporate Director of Finance
29 September 2014

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 £000's	Schools Reserves £000's	Earmarked Reserves £000's	Housing Revenue Account £000's	Major Repairs Reserve £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Total Usable Reserves £000's	Revaluation reserve £000's	Capital Adjustment Account £000's	Financial Instruments Adjustment Account £000's	Pensions Reserve £000's	Collection Fund Adjustment Account £000's	Accumulated Absences Account £000's	Available for Sale Financial instruments £000's	Total Unusable Reserves £000's	Total Council Reserves £000's
Balance at 31 March 2013 Restated		**32,767**	**14,950**	**11,134**	**19,089**	**1,123**	**17,156**	**3,283**	**99,502**	**59,624**	**713,540**	**(367)**	**(373,262)**	**2,853**	**(5,959)**	**46**	**396,475**	**495,977**
Surplus on provision of services		(955)	0	0	61,234	0	0	0	**60,279**	0	0	0	0	0	0	0	**0**	**60,279**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	**0**	(1,288)	0	0	7,969	0	0	(15)	**6,666**	**6,666**
Total Comprehensive Income and Expenditure		(955)	0	0	61,234	0	0	0	**60,279**	**(1,288)**	**0**	**0**	**7,969**	**0**	**0**	**(15)**	**6,666**	**66,945**
Adjustments between accounting basis & funding basis under regulations	1	19,061	0	0	(53,422)	5,506	(15,829)	9,484	**(35,200)**	**0**	**50,071**	**12**	**(16,647)**	**1,167**	**597**	**0**	**35,200**	**0**
Net increase/(decrease) before transfers to Earmarked Reserves		18,106	0	0	7,812	5,506	(15,829)	9,484	25,079	(1,288)	50,071	12	(8,678)	1,167	597	(15)	**41,866**	**66,945**
Transfers (from)/to Earmarked Reserves	2	(14,304)	2,719	10,916	(4,081)	4,750	0	0	**0**	**(1,955)**	**1,955**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increase/(Decrease) in Year		3,802	2,719	10,916	3,731	10,256	(15,829)	9,484	**25,079**	**(3,243)**	**52,026**	**12**	**(8,678)**	**1,167**	**597**	**(15)**	**41,866**	**66,945**
Balance at 31 March 2014		**36,569**	**17,669**	**22,050**	**22,820**	**11,379**	**1,327**	**12,767**	**124,581**	**56,381**	**765,566**	**(355)**	**(381,940)**	**4,020**	**(5,362)**	**31**	**438,341**	**562,922**

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 £000's	Schools Reserves £000's	Earmarked Reserves £000's	Housing Revenue Account £000's	Major Repairs Reserve £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Total Usable Reserves £000's	Revaluation reserve £000's	Capital Adjustment Account £000's	Financial Instruments Adjustment Account £000's	Pensions Reserve £000's	Collection Fund Adjustment Account £000's	Accumulated Absences Account £000's	Available for Sale Financial instruments £000's	Unusable Reserves £000's	Total Council Reserves £000's
Balance at 31 March 2012		**23,720**	**16,332**	**5,457**	**13,412**	**0**	**14,898**	**0**	**73,819**	**57,458**	**723,483**	**(379)**	**(313,199)**	**2,112**	**(7,197)**	**41**	**462,319**	**536,138**
Surplus on provision of services (restated)		(18,957)	0	0	27,948	0	0	0	**8,991**								**0**	**8,991**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	**0**	5,182			(54,339)			5	**(49,152)**	**(49,152)**
Total Comprehensive Income and Expenditure (restated)		(18,957)	0	0	27,948	0	0	0	**8,991**	5,182	0	0	(54,339)	0	0	5	**(49,152)**	**(40,161)**
Adjustments between accounting basis & funding basis under regulations (restated)	1	32,014	0	0	(21,986)	1,123	2,258	3,283	**16,692**		(12,959)	12	(5,724)	741	1,238		**(16,692)**	**0**
Net increase/(decrease) before transfers to Earmarked Reserves		13,057	0	0	5,962	1,123	2,258	3,283	25,683	5,182	(12,959)	12	(60,063)	741	1,238	5	**(65,844)**	**(40,161)**
Transfers (from)/to Earmarked Reserves	2	(4,010)	(1,382)	5,677	(285)	0	0	0	**0**	(3,016)	3,016						**0**	**0**
Increase/(Decrease) in Year		9,047	(1,382)	5,677	5,677	1,123	2,258	3,283	**25,683**	2,166	(9,943)	12	(60,063)	741	1,238	5	**(65,844)**	**(40,161)**
																		0
Balance at 31 March 2013 Restated		**32,767**	**14,950**	**11,134**	**19,089**	**1,123**	**17,156**	**3,283**	**99,502**	**59,624**	**713,540**	**(367)**	**(373,262)**	**2,853**	**(5,959)**	**46**	**396,475**	**495,977**

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 Council.

	Note	2013/14 £000's	2012/13 £000's
Net (surplus)/deficit on the provision of services	*23*	(60,279)	(8,991)
Adjust net surplus on the provision of services for non cash movements	*23*	(51,169)	(62,371)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	*23*	56,609	34,946
Net cash flows from operating activities	*23*	(54,839)	(36,416)
Net cash flows from investing activities	*24*	52,894	656
Net cash flows from financing activities	*25*	24,963	17,967
Decrease/(Increase) in cash and cash equivalents		**23,018**	**(17,793)**
Cash and cash equivalents at the beginning of the reporting period		**(71,972)**	**(54,179)**
Cash and cash equivalents at the end of the reporting period		**(48,954)**	**(71,972)**

Notes to Main Financial Statements

1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2013/14	General Fund Balance £000's	Housing Revenue Account £000's	MRR £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Usable Reserves £000's	Capital Adjustment Account £000's	Financial Instruments Adjustment Account £000's	Pensions Reserve £000's	Collection Fund Adjustment Account £000's	Accumulated Absences Account £000's	Unusable Reserves £000's
Amortisation of intangible assets	(332)					(332)	332					332
Depreciation and impairment of non current assets	(32,746)	37,946	(9,492)			(4,292)	4,292					4,292
Statutory provision for the financing of capital investment	4,701	9,854				14,555	(14,555)					(14,555)
Revenue expenditure funded from capital under statute	(11,298)					(11,298)	11,298					11,298
Capital grants and contributions applied	51,568	103		15,829		67,500	(67,500)					(67,500)
Capital expenditure charged in year to the General Fund balance	1,999		3,986			5,985	(5,985)					(5,985)
Use of Capital Receipts Reserve to finance new capital expenditure					8,922	8,922	(8,922)					(8,922)
Amounts written off on disposal of non current assets	(17,364)	5,580			(19,359)	(31,143)	31,143					31,143
Finance Lease Principal	263					263	(263)					(263)
Gain/Loss Investment Property	(89)					(89)	89					89
Other Income						0						0
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(953)				953	0						0
Premiums and discounts	(23)	35				12		(12)				(12)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(41,325)	(96)				(41,421)			41,421			41,421
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	24,774					24,774			(24,774)			(24,774)
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	1,167					1,167				(1,167)		(1,167)
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	597					597					(597)	(597)
Total Adjustments	**(19,061)**	**53,422**	**(5,506)**	**15,829**	**(9,484)**	**35,200**	**(50,071)**	**(12)**	**16,647**	**(1,167)**	**(597)**	**(35,200)**

Notes to Main Financial Statements

1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS

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 Council to meet future capital and revenue expenditure.

2012/13 (Restated)	General Fund Balance £000's	Housing Revenue Account £000's	MRR £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Usable Reserves £000's	Capital Adjustment Account £000's	Financial Instruments Adjustment Account £000's	Pensions Reserve £000's	Collection Fund Adjustment Account £000's	Accumulated Absences Account £000's	Unusable Reserves £000's
Amortisation of intangible assets	(279)					(279)	279					279
Depreciation and impairment of non current assets	(19,570)	11,813	(1,123)			(8,880)	8,880					8,880
Statutory provision for the financing of capital investment	5,068	6,752				11,820	(11,820)					(11,820)
Revenue expenditure funded from capital under statute	(6,785)					(6,785)	6,785					6,785
Capital grants and contributions applied	28,903	120		(2,258)		26,765	(26,765)					(26,765)
Capital expenditure charged in year to the General Fund balance	2,694					2,694	(2,694)					(2,694)
Use of Capital Receipts Reserve to finance new capital expenditure					7,457	7,457	(7,457)					(7,457)
Amounts written off on disposal of non current assets	(37,801)	3,055			(12,304)	(47,050)	47,050					47,050
Finance Lease Principal	388					388	(388)					(388)
Gain/Loss Investment Property	206					206	(206)					(206)
Other Income	705					705	(705)					(705)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,564)				1,564	0						0
Premiums and discounts	(32)	44				12		(12)				(12)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(26,926)					(26,926)			26,926			26,926
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	21,000	202				21,202			(21,202)			(21,202)
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	741					741				(741)		(741)
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					(1,238)	(1,238)
Total Adjustments	**(32,014)**	**21,986**	**(1,123)**	**(2,258)**	**(3,283)**	**(16,692)**	**12,959**	**(12)**	**5,724**	**(741)**	**(1,238)**	**16,692**

Notes to Main Financial Statements

2. EARMARKED RESERVE TRANSFERS

	31 March 2014 £000's	Transfers Out 2013/14 £000's	Transfers In 2013/14 £000's	31 March 2013 £000's	Restated Transfers Out 2012/13 £000's	Restated Transfers In 2012/13 £000's	31 March 2012 £000's
Earmarked Reserves:							
Grants Unapplied	6,487	(640)	4,261	2,866	(203)	2,189	880
Member Initiatives	8,317	(2,175)	8,359	2,133	(1,452)	2,065	1,520
Other Reserves	5,457	(2,028)	2,698	4,787	(451)	3,323	1,915
Public Health Reserve	1,284	(1,720)	3,004	0	0	0	0
Parking Revenue Account / New Roads & Street Works Reserve	459	(174)	0	633	(79)		712
HRA - Earmarked Reserve	46	(669)	0	715	(384)	669	430
Total Earmarked Reserves	**22,050**	**(7,406)**	**18,322**	**11,134**	**(2,569)**	**8,246**	**5,457**

Specific Reserves

Grants Unapplied - Funds set aside from specific revenue grants to support future investment in services, which will be drawn down as required to support on-going projects. Balances at 31 March 2014 include monies in respect of the Education Services Grant, Troubled Families Grant and Local Waste Collection Grant alongside a range of other smaller sums.

Member Initiatives - Funds set aside to support delivery of specific local initiatives, including the freeze on Council Tax for over 65s, Hillingdon Improvement Programme and Leader's Initiatives amongst other balances. These monies are expected to be drawn down over the life of these initiatives.

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

Public Health Reserve - A new reserve required under statute to earmark any accounting under spend on Public Health activates transferred into the Council from the National Health Service from 1 April 2013. Monies set aside include funds to meet outstanding commitments from 2013/14 and manage any risks associated with the new service.

Parking Revenue Account / New Roads & Street Works Reserve - A statutory reserve earmarking monies primarily raised from on-street parking operations to support related investment in local infrastructure, further details on these operations are set out in note 28.

HRA Earmarked Reserve - Monies specifically earmarked for projects within the Housing Revenue Account.

3. OTHER OPERATING EXPENDITURE

	2013/14 £000's	2012/13 £000's
Payments to Government Housing Capital Receipts Pool	953	1,564
Precepts and Levies	638	627
Total	**1,591**	**2,191**

4. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2013/14 £000's	2012/13 £000's
Interest payable and similar charges	11,153	11,525
Interest receivable	(1,124)	(2,302)
Net interest on the net defined benefit liability	16,600	14,670
Changes in the fair value of investment properties	89	(206)
Other income	(7)	(706)
Total	**26,711**	**22,981**

5. TAXATION AND NON-SPECIFIC GRANT INCOME

	2013/14 £000's	2012/13 £000's
Council tax income	(99,355)	(113,629)
Non domestic rates Income	(99,010)	(79,004)
Non-Domestic Rates Tariff payable to Central Government	58,027	0
Non-Domestic Rates Levy payable to Central Government	113	0
Non-ringfenced government grants	(77,106)	(28,883)
Capital grants & contributions	(51,672)	(22,600)
Total	**(269,003)**	**(244,116)**

6. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2013/14

	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 2013	523,000	484,776	57,886	227,033	9,973	9,770	10,863	**1,323,301**
Additions	1,839	38,432	17,684	10,223	47	11,039	155	**79,419**
Revaluation (decreases)/increases recognised in Revaluation Reserve	0	(1,927)	0	0	0	0	(181)	**(2,108)**
Revaluation (decreases)/increases recognised in Surplus/Deficit on the Provision of Services	37,946	(14,106)	0	0	(8)	0	(25)	**23,807**
Derecognition - Disposals	(5,530)	(23,283)	(111)	0	(22)	(643)	0	**(29,589)**
Derecognition - Other	(40)	(302)	(29,808)	0	0	0	(227)	**(30,377)**
Assets reclassified within Property Plant and Equipment	0	(5,912)	9	0	4,564	1,412	(73)	**0**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	(831)	3,637	**2,806**
Other Movements in Cost Valuation	0	0	0	0	0	0	0	**0**
Cost of Valuation as at 31 March 2014	**557,215**	**477,678**	**45,660**	**237,256**	**14,554**	**20,747**	**14,149**	**1,367,259**
Accumulated Depreciation & Impairment at 1 April 2013	(17,118)	(23,809)	(37,220)	(81,467)	0	0	(250)	**(159,864)**
Depreciation charge for 2013/14	(8,875)	(13,491)	(2,936)	(5,632)	0	0	(180)	**(31,114)**
Depreciation written out to Revaluation Reserve	0	779	0	0	0	0	26	**805**
Depreciation written out to Surplus/Deficit on Services	0	3,006	0	0	0	0	9	**3,015**
Derecognition - Disposals	269	4,993	57	0	0	0	0	**5,319**
Derecognition - Other	40	302	29,808	0	0	0	227	**30,377**
Other Movements in Depreciation & Impairment	0	430	30	0	(460)	0	164	**164**
Accumulated Depreciation & Impairment at 31 March 2014	(25,684)	(27,790)	(10,261)	(87,099)	(460)	0	(4)	**(151,298)**
Balance Sheet amount 1 April 2013	505,882	460,967	20,666	145,566	9,973	9,770	10,613	**1,163,437**
Balance Sheet amount 31 March 2014	**531,531**	**449,888**	**35,399**	**150,157**	**14,094**	**20,747**	**14,145**	**1,215,961**
Nature of asset holding								
Owned	531,531	449,888	35,100	150,157	14,094	20,747	14,145	**1,215,662**
Finance Lease	0	0	299	0	0	0	0	**299**
PFI	0	0	0	0	0	0	0	**0**
Balance Sheet amount 31 March 2014	**531,531**	**449,888**	**35,399**	**150,157**	**14,094**	**20,747**	**14,145**	**1,215,961**

NB: Of the £24.3m written out for disposals, £18.2m relates to community schools converting to academy status.

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	52,502	222,855	10,253	12,432	10,675	**1,318,438**
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	0	0	0	0	200	**3,543**
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	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**	**57,886**	**227,033**	**9,973**	**9,770**	**10,863**	**1,323,301**
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	0	0	0	0	0	0	0	**0**
Impairment losses/(reversals) recognised in the	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	14,352	146,908	10,253	12,432	10,585	**1,178,047**
Balance Sheet amount 31 March 2013	**505,882**	**460,967**	**20,666**	**145,566**	**9,973**	**9,770**	**10,613**	**1,163,437**
Nature of asset holding								
Owned	505,882	458,544	20,353	145,566	9,973	9,770	10,613	**1,160,701**
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**	**20,666**	**145,566**	**9,973**	**9,770**	**10,613**	**1,163,437**

NB: Figures in Vehicles Plant and equipment have been adjusted from the published version of the 2012/13 statement of accounts to remove Heritage assets worth £501k (closing NBV) as this is shown in the accounts separately.

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

During 2013/14, the Council has recognised total revaluation losses of £12,847k (£51,785k in 2012/13), which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. The Council recognised valuation gains of £39,580k (£18,260 in 2012/13) representing the reversal of previously recognised losses, mainly on council dwellings. These entries were then reversed through the Movement in Reserves Statement to mitigate any impact on General Fund and Housing Revenue Account Balances.

8. COMMITMENTS UNDER CAPITAL CONTRACTS

As at March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2014/15 and future years budgeted to cost £40,433k. Similar commitments at 31 March 2013 were £14,017k. The major commitments are:

Scheme	31 March 2014 £000's	31 March 2013 £000's
Queenswalk Development	1,469	0
Schools Expansions Programme	35,019	9,857
New Vehicles	477	2,015
Other Capital Projects	3,468	3,045
	40,433	**14,917**

9. INVESTMENT PROPERTIES

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

	2013/14 £000's	2012/13 £000's
Rental income from investment property	(438)	(449)
Direct operating expenses arising from investment property	41	66
Net gain	**(397)**	**(383)**

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:

	2013/14 £000's	2012/13 £000's
Opening Balance	5,806	5,722
Net (loss)/gains from fair value adjustments	(89)	206
Transfers: - to Property, Plant and Equipment	0	(122)
Closing Balance	**5,717**	**5,806**

10. 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:

	2013/14 £000's	2012/13 £000's
Service		
Central Services to the Public	93	93
Cultural, Environment and Planning	237	184
Adult Social Care	2	2
Total	**332**	**279**

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

	2013/14 £000's	2012/13 £000's
Software		
Gross carrying amounts	2,631	2,494
Accumulated amortisation	(2,061)	(1,782)
Net carrying amount at the start of the year	**570**	**712**
Purchases	271	137
Gross Book Value Derecognition Other as fully depreciated	(433)	0
Amortisation Derecognition Other	433	0
Amortisation for the period	(332)	(279)
Net carrying amount at end of year	**509**	**570**
Comprising		
Gross carrying amounts	2,469	2,631
Accumulated amortisation	(1,960)	(2,061)
Total	**509**	**570**

Notes to Main Financial Statements

11. FINANCIAL INSTRUMENT BALANCES

		Current		Long-Term		Total	
	Note	31 March 2014 £000's	31 March 2013 £000's	31 March 2014 £000's	31 March 2013 £000's	31 March 2014 £000's	31 March 2013 £000's
Investments and Cash Equivalents							
Loans and receivables		55,101	33,293	7,001	1,626	62,102	34,919
Loans and receivables - shown as cash equivalents	17	39,505	56,004	0	0	39,505	56,004
Available-for-sale financial assets		0	0	92	106	92	106
Total investments		**94,606**	**89,297**	**7,093**	**1,732**	**101,699**	**91,029**
Trade Debtors							
Financial assets carried at contract amounts		6,502	8,296	38	393	6,540	8,689
Total included in Trade Debtors		**6,502**	**8,296**	**38**	**393**	**6,540**	**8,689**
Borrowings							
Financial liabilities at amortised cost	43	(10,705)	(11,791)	(323,643)	(332,895)	(334,348)	(344,686)
Total included in borrowings		**(10,705)**	**(11,791)**	**(323,643)**	**(332,895)**	**(334,348)**	**(344,686)**
Other Long-Term Liabilities							
PFI and finance lease liabilities	38	(260)	(263)	(2,211)	(2,473)	(2,471)	(2,736)
Total Other Long-Term Liabilities		**(260)**	**(263)**	**(2,211)**	**(2,473)**	**(2,471)**	**(2,736)**
Trade Creditors							
Financial liabilities carried at contract amount		(27,925)	(40,875)	0	0	(27,925)	(40,875)
Total Trade Creditors		**(27,925)**	**(40,875)**	**0**	**0**	**(27,925)**	**(40,875)**

NB: Figures in Long-Term Trade Payables have been adjusted from the published version of the 2012/13 statement of accounts to remove S106 agreements which are not financial instruments but are included within creditor balances.

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:

	2013/14				2012/13			
	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	10,205	0	0	10,205	10,521	0	0	10,521
Total expense in Surplus or Deficit on the Provision of Services	**10,205**	**0**	**0**	**10,205**	**10,521**	**0**	**0**	**10,521**
Interest income	0	(629)	0	(629)	0	(798)	0	(798)
Notional Icelandic Interest	0	(173)	0	(173)	0	(203)	0	(203)
Gain on Derecognition	0	(168)	0	(168)	0	0	0	0
Impairment Adjustment	0	(137)	0	(137)	0	(1,301)	0	(1,301)
Total income in Surplus or Deficit on the Provision of Services	**0**	**(1,107)**	**0**	**(1,107)**	**0**	**(2,302)**	**0**	**(2,302)**
(Gains) / Loss on revaluation	0	0	15	15	0	0	(5)	(5)
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**15**	**15**	**0**	**0**	**(5)**	**(5)**
PFI Interest	868	0	0	868	926	0	0	926
Other	80	(17)	0	63	78	0	0	78
Net (loss)/gain for the year	**11,153**	**(1,124)**	**15**	**10,044**	**11,525**	**(2,302)**	**(5)**	**9,218**

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 2014		31 March 2013	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
PWLB (Maturity Fixed)	(144,494)	(139,891)	(147530)	(151454)
PWLB (Maturity Variable)	(40,003)	(39,864)	(40002)	(39864)
PWLB (EIP Fixed)	(92,231)	(85,573)	(98035)	(97378)
PWLB (EIP Variable)	(9,003)	(8,975)	(10503)	(10470)
Market	(48,617)	(60,075)	(48616)	(68165)
Total Financial Liabilities	**(334,348)**	**(334,378)**	**(344686)**	**(367331)**
PFI/Finance Lease	0	(2,149)	0	(2,181)
Creditors	(40,875)	(40,875)	0	0

The fair value of PWLB liabilities is lower than the carrying amount because the Council's debt portfolio includes a number of loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. In contrast Market loans are higher because this portfolio includes loans where the interest rate payable is higher than the prevailing rates. Overall there is a marginal notional future loss (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders above current market rates.

Financial Liabilities 2013/14

- 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 PWLB Certainty New Loan 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.

- Creditors

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

- PFI/Finance Lease

The fair value of finance lease liabilities and of PFI scheme liabilities have been calculated by discounting the principal payments at the appropriate AA corporate bond yield.

Financial Assets 2013/14

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:

- Short-Term - 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. However tradeable instruments maturing within 12 months have been updated to show their 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.

- Long-Term Investments

The fair value is calculated based on an equivalent SWAP rate.

- Long-Term 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.

- Debtors

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 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000's	£000's
Short-Term	94,606	94,607	89,297	89,297
Long-Term	7,001	7,016	1,626	1,626
Long-Term Available for Sale	92	92	106	106
Debtors	6,540	6,540	8,689	8,689
Total Financial Assets	**108,239**	**108,255**	**99,718**	**99,718**

ICELANDIC IMPAIRMENTS

HERITABLE BANK

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. At the commencement of 2013/14 the Council had a balance of unpaid deposits with Heritable Bank of £3,338k . During the year a dividend was received from the administrators of Heritable Bank for £2,526k representing 16.74% of the claim. To date, dividends received total £14,188k which represents 94.02% of the claim value. The remaining dividends are expected to be received during 2014/15.The deposits have been updated to show an impairment of 5% reflecting current market recovery expectations.

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 £59k of notional interest in relation to Heritable was credited to the Comprehensive Income and Expenditure Statement during 2013/14.

LANDSBANKI ISLANDS

At the beginning of 2013/14 the Council had unpaid investments of £2.6m with Landsbanki Islands. The administrators of Landsbanki issued a dividend this year of £251k, which was 4.98% of the claim value, bringing the total received to 52% of the total claim. Furthermore, on the 30th January 2014 the Council successfully sold its claim against Landsbanki through an auction process conducted by Deutsche Bank. The agreed final auction price exceeded the reserve set by the Council and the auction proceeds were received on 3rd February 2014 in full and final settlement of the claim.

12. INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2013/14 £000's	2012/13 £000's	2013/14 £000's	2012/13 £000's	2013/14 £000's	2012/13 £000's
Balance outstanding at start of year	91	100	164	175	255	275
Purchases	1,075	1,259	842	468	1,917	1,727
Recognised as expense in year	(1,108)	(1,268)	(719)	(479)	(1,827)	(1,747)
Balance outstanding at year-end	**58**	**91**	**287**	**164**	**345**	**255**

13. SHORT TERM DEBTORS

	31 March 2014 £000's	31 March 2013 £000's
Central Government bodies	6,951	6,404
Allowance for Impairment	0	(249)
Central Government Bodies net of Impairment	**6,951**	**6,155**
Other local authorities	**2,315**	**1,393**
NHS bodies	464	335
Allowance for Impairment	(169)	(331)
NHS bodies	**295**	**4**
Housing rents	2,660	2,724
Allowance for Impairment	(1,831)	(1,638)
Housing rents net of Impairment	**829**	**1,086**
Council taxpayers	11,930	10,202
Allowance for Impairment	(7,205)	(6,518)
Council taxpayers net of Impairment	**4,725**	**3,684**
Non-domestic rate payers	2,233	0
Allowance for Impairment	(996)	0
Non-domestic rate payers net of Impairment	**1,237**	**0**
Other entities and individuals	25,238	23,295
Allowance for Impairment	(13,360)	(12,687)
Other entities and individuals net of Impairment	**11,878**	**10,608**
Total Debtors	51,791	44,353
Less: Provision for doubtful debts	(23,561)	(21,423)
	28,230	**22,930**

14.LONG TERM DEBTORS

	31 March 2014 £000's	New Advances £000's	Repayments £000's	31 March 2013 £000's
Housing advances & associations	8	0	(1)	9
Sale of Council houses	81	0	(6)	87
Long term payments in advance	37	24	(39)	52
Other loans & advances	257	0	0	257
	383	**24**	**(46)**	**405**

15.SHORT TERM CREDITORS

	31 March 2014 £000's	31 March 2013 £000's
Council taxpayers	(3,580)	(2,833)
Central Government departments	(6,647)	(4,871)
NHS bodies	(2,333)	(1,526)
Housing rents	(669)	(575)
Non-domestic rates pool	0	(20,196)
Non-domestic rates payers	(2,094)	0
Other local authorities	(4,340)	(4,607)
Sundry Creditors	(42,725)	(35,090)
	(62,388)	**(69,698)**

16.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 £2,898k at 31 March 2014 (£3,897k at 31 March 2013).

17. CASH AND CASH EQUIVALENTS

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

	31 March 2014 £000's	31 March 2013 £000's
Cash held by the Council	9,449	15,968
Instant Access Accounts	39,505	56,004
Total Cash and Cash Equivalents	**48,954**	**71,972**

18. ASSETS HELD FOR SALE

At 31 March 2014 the Council held £1,911k 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	
	31 March 2014 £000's	31 March 2013 £000's
Balance outstanding at start of year	11,539	12,966
Assets newly classified as held for sale:		
Property Plant & Equipment	(2,970)	1,807
Revaluation gains	16	348
Assets sold	(6,872)	(3,727)
Other movements	198	145
	1,911	**11,539**

19. HERITAGE ASSETS

At 31 March 2014 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. 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	
	31 March 2014 £000's	31 March 2013 £000's
Balance at start of year	501	178
Increase/(Decrease) in value	0	323
Balance at end of year	**501**	**501**

20. PROVISIONS

Short-Term Provisions

	31 March 2014 £000's	Additional provisions made in 2013/14 £000's	Amounts used in 2013/14 £000's	Unused amounts reversed in 2013/14 £000's	1 April 2013 £000's
Housing Repairs Claim	564	0	(436)	0	1,000
CRC Allowance Purchase	352	352	(328)	0	328
Dilapidation Provision	1,295	816	(30)	(130)	639
Collection Fund NNDR Share	1,289	1,289	0	0	0
Repossessed Properties	0	0	0	(154)	154
Personal Searches	140	96	0	(66)	110
Total Provisions	**3,640**	**2,553**	**(794)**	**(350)**	**2,231**

Long-Term Provisions

	31 March 2014 £000's	Additional provisions made in 2013/14 £000's	Amounts used in 2013/14 £000's	Unused amounts reversed in 2013/14 £000's	1 April 2013 £000's
Insurance Provision	3,675	292	(268)	(8)	3,659
MMI	131	0	(408)	(683)	1,222
Section 117 Mental Health Act	179	0	0	(89)	268
Total Provisions	**3,985**	**292**	**(676)**	**(780)**	**5,149**

Housing Repairs Claim
Outstanding legal claim relating to Housing Repairs Contracts. This provision has been partially settled and is expected to be settled in full in 2014/15.

CRC Allowance Purchase
The 2013/14 financial year was the third 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 2014. The Council will then be required to surrender allowances to the scheme by the last working day in July 2014 in proportion to their reported emissions for the preceding scheme year.

2013/14 is the last year of Phase I. Registration for Phase II of the scheme was fully completed on 25th November 2013.

The Government’s simplification of the CRC Energy Efficiency Scheme introduced changes effective in Phase II (April 2014 to March 2019).

20. PROVISIONS (Continued)

NNDR Collection Fund Share
See note 3 to the Collection Fund Accounts on page 97. The Collection Fund Share represents the Council's 30% obligation in relation to appeals over the rateable value of properties from NNDR purposes.

Dilapidation Provision
The Council is contractually obliged to fund dilapidation costs on a number of leased properties. The Highgrove pool claim was settled and the remainder of the provision was released. Stockley Park is now being treated as an insurance item and has been transferred to this provision. The remaining balance relates to a number of commercial properties which has increased in the year bringing the total to £1,295k. Works are expected to be carried out during 2014/15 on current properties provided for.

Repossessed Properties
The provision has been released as the Council is satisfied that, in accordance to statute, former owners have no claim against deposits paid or a rise in value of the property.

Personal Searches
Following the release of the Building Control provision the Other Provision now solely relates to Personal Searches and has been renamed accordingly.

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 2014.

There is no certainty as to when claims will be resolved, so full insurance provision is held as long term.

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 levy was set at 15% and payment was requested and made in January 2014. In addition, for all future claims after the 1st January 2014, LBH will be required to pay 15% of settlement payments and solicitors costs. As such, an estimation has been undertaken of all outstanding claims to determine their potential liability and the provision has been reduced to this level. This will be monitored each year and the provision will be adjusted in line with outstanding claims. There is no certainty on when claims/costs will be incurred.

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. There is no certainty on when claims/costs will be incurred.

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

22. 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.

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.

	2013/14		2012/13	
	£000's	£000's	£000's	£000's
Balance at 1 April		**713,540**		**723,483**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
- Charges for depreciation and impairment of non-current assets	(31,114)		(27,496)	
- Revaluation gains/(losses) on Property, Plant and Equipment	26,822		10,882	
- Amortisation of intangible assets	(332)		(279)	
- Revenue expenditure funded from capital under statute	(11,298)		(6,785)	
- 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	(31,143)	(47,065)	(46,719)	(70,397)
- HRA settlement debt		0		10,251
Adjusting amounts written out of the Revaluation Reserve		1,955		3,272
Net written out amount of the cost of non-current assets consumed in the year		(45,110)		(56,874)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	8,922		7,457	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	51,671		12,605	
- Application of grants to capital financing from the Capital Grants Unapplied Account	15,829		14,134	
- Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	14,555		5,068	
- Finance Lease Principal	263		388	
- Capital expenditure charged against the General Fund and HRA balances	5,985	97,225	7,073	46,725
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure		(89)		206
Balance at 31 March		**765,566**		**713,540**

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.

	2013/14 £000's	2012/13 £000's
Balance at 1 April	**(367)**	**(379)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	98	98
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	**(355)**	**(367)**

COLLECTION FUND ADJUSTMENT ACCOUNT

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

The movement in the Collection Fund Adjustment Accounts is represented by a surplus of £1,554k for Council Tax and a deficit of £387k for Non-Domestic Rates.

	31 March 2014 £000's	31 March 2013 £000's
Balance at 1 April	**2,853**	**2,112**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	1,167	741
Balance at 31 March	**4,020**	**2,853**

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.

	2013/14		2012/13	
	£000's	£000's	£000's	£000's
Balance at 1 April		**59,624**		**57,458**
Upward revaluation of assets				
- Land & Buildings	3,132		7,241	
- Surplus Assets	0		200	
- Assets held for sale	16		348	
- Heritage Assets	0	3,148	323	8,112
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(4,281)		(2,851)	
- Surplus Assets	(155)		0	
- Accumulated Gains	0	(4,436)	(79)	(2,930)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**(1,288)**		**5,182**
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(1,446)		(2,992)	
- Surplus Assets	(23)		(24)	
- Assets under construction	(5)	(1,474)	0	(3,016)
Accumulated gains on assets sold or scrapped				
- Assets held for sale	(358)		0	
- Land & Buildings	(116)		0	
- Community	(7)	(481)	0	0
Amount written off to the Capital Adjustment Account		**(1,955)**		**(3,016)**
Balance at 31 March		**56,381**		**59,624**

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.

	2013/14 £000's	2012/13 £000's
Balance at 1 April	**(373,262)**	**(313,199)**
Actuarial gains/(losses) on pensions assets and liabilities	7,969	(54,339)
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	(41,421)	(26,926)
Employer's pension contributions and direct payments to pensioners payable in the year	24,774	21,202
Balance at 31 March	**(381,940)**	**(373,262)**

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.

	2013/14 £000's	2012/13 £000's
Balance at 1 April	**(5,959)**	**(7,197)**
Settlement or cancellation of accrual made at the end of the preceding year	5,959	7,197
Amounts accrued at the end of the current year	(5,362)	(5,959)
Balance at 31 March	**(5,362)**	**(5,959)**

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.

	2013/14 £000's	2012/13 £000's
Balance as at 1 April	**46**	**41**
Change in Fair Value in year	(15)	5
Balance as at 31 March	**31**	**46**

23. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2013/14 £000's	2012/13 £000's
(Surplus)/Deficit on the provision of services	**(60,279)**	**(8,991)**
Depreciation and impairment of non current assets	(4,292)	(7,757)
Amortisation of intangible fixed assets	(332)	(279)
Revenue Expenditure Funded from Capital under Statute	(11,298)	(6,785)
Pension Fund adjustments	(16,551)	(5,724)
(Increase) in impairment for provision for bad debts	(2,138)	(294)
Decrease/(Increase) in creditors	8,309	14,315
(Decrease)/Increase in debtors	7,416	(2,300)
(Decrease)/Increase in inventories	90	(20)
Carrying amount of non-current assets sold	(31,143)	(46,719)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(1,230)	(6,808)
Total adjusting items	**(51,169)**	**(62,371)**
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	19,360	12,438
Net proceeds from long-term investments	0	785
Capital Grants credited to Surplus or Deficit on the Provision of Services	51,671	29,023
Billing Authorities - Council Tax and NNDR adjustments	(14,422)	(7,300)
Total included elsewhere on Cash Flow Statement	**56,609**	**34,946**
Net cash flows from operating activities	**(54,839)**	**(36,416)**

Interest received, interest paid and dividends received

	2013/14 £000's	2012/13 £000's
Interest payable and similar charges	(11,153)	(11,525)
Interest receivable	1,124	2,302

24. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2013/14 £000's	2012/13 £000's
Cash Outflows		
Purchase of property, plant and equipment	79,888	42,197
Other payments for investing activities	11,298	6,785
	91,186	**48,982**
Cash Inflows		
Sale of property, plant and equipment	(19,360)	(12,438)
Capital grants received	(41,447)	(24,821)
Other receipts from investing activities	(4,654)	(4,202)
	(65,461)	**(41,461)**
Net Cash Outflow	**25,725**	**7,521**
Net (Decrease)/Increase in Short-Term Investments	21,808	(6,080)
Net (Decrease) in Long-Term Investments	5,361	(785)
Net cash flows from investing activities	**52,894**	**656**

25. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2013/14 £000's	2012/13 £000's
Cash Outflows		
Repayments of amounts borrowed	10,278	10,278
Capital element of finance lease rental and on-balance sheet PFI payments	263	389
Cash Inflows		
Billing Authorities - Council Tax and NNDR adjustments	14,422	7,300
Net cash flows from financing activities	**24,963**	**17,967**

26. 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 2013/14 RECORDED IN OUTTURN REPORT

	Administration Finance & Corporate Items £000's	Residents Services £000's	Adult Social Care £000's	Children & Young People's Services £000's	Total General Fund £000's	Housing Revenue Account £000's	Schools Budget £000's	Parking Revenue Account £000's	Total £000's
Expenditure	177,924	138,668	72,235	33,485	**422,312**	52,596	142,970	3,878	**621,756**
Income	(156,098)	(71,805)	(13,939)	(10,120)	**(251,962)**	(56,328)	(146,042)	(3,726)	**(458,058)**
Directorate Operating Budgets	**21,826**	**66,863**	**58,296**	**23,365**	**170,350**	**(3,732)**	**(3,072)**	**152**	**163,698**
Corporate Operating Budgets	15,803	0	0	0	**15,803**	0	0	0	**15,803**
Development & Risk Contingency	1,400	4,877	10,402	1,898	**18,577**	0	0	0	**18,577**
Priority Growth	1,530	0	0	0	**1,530**	0	0	0	**1,530**
Exceptional Items	(1,457)	0	0	(200)	**(1,657)**	0	0	0	**(1,657)**
Budget Requirement	(211,648)	0	0	0	**(211,648)**	0	0	0	**(211,648)**
Management Outturn	**(172,546)**	**71,740**	**68,698**	**25,063**	**(7,045)**	**(3,732)**	**(3,072)**	**152**	**(13,697)**

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

	£000's	
Cost of Services in Service Analysis (above)	**(13,697)**	
Notional accounting charges not reported to management	(35,434)	Notional accounting charges, primarily in respect of Depreciation, which are not chargeable to the Council Taxpayer under Statute are excluded from the management outturn.
Amounts reported to management not included in Comprehensive Income and Expenditure net cost of services	217,762	The Code of Practice requires certain items to be shown below the Net Cost of Services in the Comprehensive Income and Expenditure Statement or within the Movement in Reserves Statement which are included within the Outturn report. This adjustment also reversed out all intercompany transactions through corporate recharging which cannot be shown in the Comprehensive Income and Expenditure Statement.
Cost of Services in Comprehensive Income and Expenditure Statement	**168,631**	

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.

2013/14

Reconciliation to Subjective Analysis	Service Analysis £000's	Notional Accounting Charges not reported to management £000's	Amounts reported to management not included in Comprehensive Income and Expenditure net cost of services £000's	Net Cost of Services £000's	Below Net Cost of Services £000's	Total £000's
Fees, charges & other service income	(258,139)	0	139,655	(118,484)	**(7)**	(118,491)
Interest and investment income	(2,424)	0	2,424	0	**(1,124)**	(1,124)
Income from Council Tax and Non-Domestic Rates	(139,787)	(438)	140,225	0	**(140,225)**	(140,225)
Government Grant and Contributions	(423,904)	0	77,106	(346,798)	**(128,778)**	(475,576)
Total Income	**(824,254)**	**(438)**	**359,410**	**(465,282)**	**(270,134)**	**(735,416)**
Employee expenses	234,757	(49)	(9,367)	225,341	**16,600**	241,941
Other service expenses	553,372	489	(5,257)	548,604	**0**	548,604
Depreciation, amortisation & impairment	9,492	(35,195)	(114,329)	(140,032)	**89**	(139,943)
Interest payments	12,298	(241)	(12,057)	0	**11,153**	11,153
Precepts & Levies	638	0	(638)	0	**638**	638
Payments to Housing Cap Receipts Pool	0	0	0	0	**953**	953
Gain or Loss on Disposal of Non Current Assets	0	0	0	0	**11,791**	11,791
Total operating expenses	**810,557**	**(34,996)**	**(141,648)**	**633,913**	**41,224**	**675,137**
Deficit/(Surplus) on the provision of services	**(13,697)**	**(35,434)**	**217,762**	**168,631**	**(228,910)**	**(60,279)**

Notes to Main Financial Statements

SERVICE INFORMATION 2012/13 RECORDED IN OUTTURN REPORT

	Central Services £000's	Social Care, Health & Housing £000's	Environment and Community Services £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	**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	(5,530)	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.
Net Cost of Services in Comprehensive Income and Expenditure Statement	**175,207**	

2012/13

Reconciliation to Subjective Analysis	Service Analysis £000's	Service Amounts not in Analysis £000's	Net Cost of Service Adjustments £000's	Not included in I&E services £000's	Net Cost of Services £000's	Below Net Cost of Services £000's	Total £000's
Fees, charges & other service income	(210,216)	(60,734)	157,468	0	**(113,482)**	(706)	**(114,188)**
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	(356,274)	(2,610)	2,969	0	**(355,915)**	(130,487)	**(486,402)**
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**	14,670	**234,274**
Other service expenses	560,860	28,694	(164,173)	(381)	**425,000**	0	**425,000**
Depreciation, amortisation & impairment	556	0	(556)	0	**0**	0	**0**
Interest payments	0	0	0	0	**0**	11,525	**11,525**
Precepts & Levies	0	0	0	0	**0**	627	**627**
Payments to Housing Cap Receipts Pool	0	0	0	0	**0**	1,564	**1,564**
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**	34,746	**34,746**
Total operating expenses	**788,511**	**22,441**	**(165,967)**	**(381)**	**644,604**	**63,132**	**707,736**
Deficit/(Surplus) on the provision of services	**222,021**	**(40,903)**	**(5,530)**	**(381)**	**175,207**	**(184,198)**	**(8,991)**

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)**

27. 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:

	2013/14 £000's	2012/13 £000's
Fees payable in regard to external audit services carried out by the appointed auditor	211	207
Fees payable for the certification of grant claims and returns	39	208
Total External Audit costs	**250**	**415**

Non Audit Fees - The Council incurred £145k of costs during 2013/14 (£349k 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.

28. PARKING REVENUE ACCOUNT

The Parking Revenue Account is maintained in accordance with Section 55 of the Road Traffic Regulation Act 1984 which provides that a London Borough council must keep an account of the income and expenditure in respect of parking places on the highway and sets out how any deficit must be treated and limitations on the use of any surplus.

	2013/14 £000's	2012/13 £000's
Income	(3,726)	(3,964)
Expenditure	2,941	3,189
Total (Surplus)	**(785)**	**(775)**

29. AGENCY SERVICES

In August 2012 the agency accounts were closed for the Heathrow Health Control unit and the responsibility passed to the Health Protection Agency.

30. MEMBER ALLOWANCES

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

	2013/14 £000's	2012/13 £000's
Salaries & Allowances	1,544	1,540
Total	**1,544**	**1,540**

Further details on Members allowances on website.

31. POOLED BUDGETS

A section 75 agreement is in operation between London Borough of Hillingdon and Hillingdon Clinical Commissioning Group (CCG) 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 2013/14 this service provided support to approximately 604 clients at a gross cost of £30,329k which included approximately 23 CCG clients for which the council received £2,494k.

A further section 75 agreement is in operation between London Borough of Hillingdon (LBH) and Hillingdon Clinical Commissioning Group (CCG) in respect of Community Equipment Services. This S75 agreement started on 1st April 2010. This is operating as a Pooled Budget with LBH and CCG sharing the cost of the service for 2013/14 at 58% and 42% respectively. The service is to provide community equipment to assist residents with daily living tasks. The net Pooled Budget expenditure for 2013/14 was £1,160k of which the CCG funded £486k and the LBH funded £674k.

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 2013/14 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 2013/14 was £20,733k (£19,118k 2012/13). A precept of £350k was paid to the London Pension Fund Authority in 2013/14 (£339k 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 2013/14 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	£519,500.62
Hillingdon Carers	Councillor Judith Cooper	£422,961.70
Hillingdon & Ealing Citizens Advice	Councillor George Cooper	£408,829.24
Hillingdon & Ealing Citizens Advice	Councillor Carol Melvin	£408,829.24
Hillingdon Mind	Councillor Peter Kemp	£262,278.95
Hillingdon Mind	Councillor Mary O'Conner	£262,278.95
Hillingdon AIDS Response Trust	Councillor Richard Barnes	£112,000.00
Hillingdon AIDS Response Trust	Councillor Peter Curling	£112,000.00
Hillingdon AIDS Response Trust	Councillor Scott Seaman-Digby	£112,000.00
Hillingdon Assoc Of Voluntary Serv.	Councillor Judith Cooper	£83,018.00
Hillingdon Assoc Of Voluntary Serv.	Councillor John Major	£83,018.00
Hillingdon Assoc Of Voluntary Serv.	Councillor David Routledge	£83,018.00
Groundwork South Trust Ltd	Councillor George Cooper	£80,500.00
Ruislip Northwood Old Folks Assoc	Councillor Catherine Dann	£79,600.00
Hillingdon Outdoor Activities Centre	Councillor Henry Higgins	£58,535.00
Hillingdon Crossroads	Councillor John Major	£54,551.44
Colne Valley CIC	Councillor David Payne	£24,557.00
Hospital Radio Hillingdon	Councillor Peter Curling	£20,000.00
The Hillingdon Hospital NHS Trust	Councillor Neil Fyfe	£17,045.02
The Hillingdon Hospital NHS Trust	Councillor Raymond Puddifoot MBE	£17,045.02

32. RELATED PARTY TRANSACTIONS (Continued)

Precepts/Levies
In 2013/14 the following precepts and levies are considered related party transactions:

	2013/14 £000s
Business Rate Retention - DCLG	210,678
Business Rate Retention - GLA	66,265
Greater London Authority Precept	26,744
Greater London Authority Crossrail	12,289
West London Waste Authority Levy	10,419
TFL Concessionary Fares	7,699
Lee Valley Regional Park Authority	287
TFL CIL	214
Environment Agency	205

33. OFFICER EMOLUMENTS

The number of employees in 2013/14 whose remuneration, excluding pension contributions, was £50k or more, are detailed below in bands of £5k. The bandings only include the remuneration of senior employees that have not been disclosed separately. The number of employees included in the totals that exceeded the £50k threshold due to lump sum termination payments are indicated in brackets. These employees left the employment of the Council during the financial year.

	LBH EMPLOYEES (Excluding Senior Employees)				SCHOOL EMPLOYEES			
Remuneration Band	**2013/14 Total**	**2013/14 Due to Lump Sum**	**2012/13 Total**	**2012/13 Due to Lump Sum**	**2013/14 Total**	**2013/14 Due to Lump Sum**	**2012/13 Total**	**2012/13 Due to Lump Sum**
£50,000 - £54,999	55	(2)	57	(1)	52	0	49	(2)
£55,000 - £59,999	24	(1)	30	(1)	19	0	25	0
£60,000 - £64,999	17	(3)	19	(4)	23	0	17	0
£65,000 - £69,999	9	(1)	6	0	16	0	20	0
£70,000 - £74,999	5	0	7	(1)	18	0	13	0
£75,000 - £79,999	4	0	4	(1)	6	0	7	0
£80,000 - £84,999	5	0	3	0	6	0	7	0
£85,000 - £89,999	1	0	2	0	1	0	1	0
£90,000 - £94,999	1	0	2	0	1	0	1	0
£95,000 - £99,999	1	0	0	0	1	0	0	0
£100,000 - £104,999	0	0	2	0	1	0	1	0
£105,000 - £109,999	0	0	0	0	0	0	1	0
£110,000 - £114,999	1	0	0	0	0	0	0	0
£115,000 - £119,999	0	0	0	0	0	0	0	0
	123	**(7)**	132	(8)	**144**	**0**	142	(2)

Disclosure of Remuneration for Senior Employees (Schools):-

Details of school employees in the above table earning over £100,000 during 2013/14 is listed below.

Job Title	**Pensionable Pay 2013/14**	**Pensionable Pay 2012/13**
Headteacher - Harlington Community School	£101,152	£103,353

In the 2012/13 Statement of Accounts an additional Headteacher earning over £100k was disclosed. This school has subsequently acquired Academy status and thus is not included in the Council's financial statements.

Notes to Main Financial Statements

Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2013/14

			2013/14				
Group	**Job Title**		**Pensionable Pay**	**Expenses**	**Compensation**	**EER's pension Contributions**	**Total**
Administration	Chief Executive and Corporate Director of Administration (F Beasley)		£185,796	£0	£0	£39,203	£224,999
	Head of Corporate Communications		£77,220	£0	£0	£16,403	£93,624
	Head of Democratic Services		£96,582	£0	£0	£20,379	£116,961
	Head of Human Resources		£99,137	£0	£0	£20,918	£120,055
	Head of Legal Services		£115,025	£0	£0	£24,270	£139,295
	Head of Policy Performance & Partnerships		£82,358	£0	£0	£17,378	£99,736
Finance	Corporate Director of Finance (P Whaymand)		£142,914	£0	£0	£30,155	£173,069
	Deputy Director of Corporate Finance and Head of Operational Finance		£94,489	£0	£0	£19,937	£114,427
	Deputy Director of Strategic Finance		£94,711	£0	£0	£19,984	£114,695
	Head of Internal Audit	**1**	£56,723	£0	£0	£0	£56,723
	Head of Procurement		£90,911	£0	£0	£19,237	£110,148
	Head of Revenue and Benefits		£76,970	£0	£0	£16,241	£93,211
Residents	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)		£178,884	£0	£0	£0	£178,884
	Deputy Director Public Safety		£119,237	£0	£0	£25,159	£144,395
	Deputy Director ICT, Highways and Business Services		£128,466	£0	£0	£27,106	£155,572
	Deputy Director Environmental Policy and Community Engagement		£121,135	£0	£0	£25,559	£146,694
	Deputy Director Asset Management		£100,004	£0	£0	£21,101	£121,105
	Interim Director of Public Health	**2**	£94,595	£0	£0	£13,243	£107,838
	Interim Head of Education, Policy and Standards		£109,865	£0	£0	£23,181	£133,046
	Head of Planning, Green Spaces and Culture		£107,377	£0	£0	£22,657	£130,034
	Head of Housing		£123,825	£0	£0	£26,127	£149,952
Adult Social Care	Director Adult Social Care	**3**	£92,965	£0	£0	£18,578	£111,543
	Head of Early Intervention & Prevention	**6**	£16,587	£0	£0	£3,500	£20,087
	Head of Disability Services	**7**	£14,037	£0	£0	£2,962	£16,998
	Head of Adults Safeguarding Quality Partnership	**8**	£18,551	£0	£0	£3,914	£22,466
Children and Young People's Services	Director of Children and Young People's Service		£124,299	£0	£0	£26,227	£150,526
	Head of Early Intervention		£74,458	£0	£0	£15,711	£90,169
Leavers	Head of Childrens Safeguarding	**9**	£59,836	£0	£0	£12,625	£72,461
	Finance Manager SC&H	**4**	£44,282	£0	£46,277	£5,955	£96,514
	Corporate Director SC&H (L Sanders)	**5**	£37,453	£0	£124,955	£7,903	£170,310

1 - Employment commenced 1 July 2013
2 - Employment commenced 1 April 2013
3 - Employment commenced 11 July 2013
4 - Employment ended 31 July 2013
5 - Employment ended 30 June 2013

6 - New post created, employee in post from 1 January 2014
7 - New post created, employment commenced 30 January 2014
8 - New post created, employee in post from 7 December 2013
9 - Employment ended 23 February 2014

Notes to Main Financial Statements

Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 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
	Head of Procurement	**1**	£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 (J Palmer)		£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
	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	**2**	£147,272	£0	£0	£0	£147,272
Administration	Head of Corporate Communications	**3**	£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)	**4**	£133,416	£0	£0	£0	£133,416
	Head of Internal Audit	**5**	£110,803	£0	£0	£12,823	£123,626
	Head of Older People's Services	**6**	£64,346	£0	£0	£8,032	£72,378

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 16 November 2012
2 - Employment commenced 01 May 2012
3 - Employment commenced 28 August 2012

4 - Employment ended 12 December 2012
5 - Employment ended 15 January 2013
6 - Employment ended 25 September 2012

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 and is a cost to the Council, not a direct payment to the employee.

	LBH EMPLOYEES					
Exit Package Cost Band (including special payments and Pension Strain Costs)	2013/14 No. of LBH Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £000's	Pension Strain Costs £000's	Total Exit Package Cost £000's
£0 - £20,000	75	0	75	543	69	**612**
£20,001 - £40,000	21	0	21	480	127	**607**
£40,001 - £60,000	4	0	4	108	112	**220**
£60,001 - £80,000	6	0	6	113	316	**429**
£80,001 - £100,000	0	0	0	0	0	**0**
£100,001 - £150,000	2	0	2	41	216	**257**
	108	**0**	**108**	**1,285**	**840**	**2,125**

	LBH EMPLOYEES					
Exit Package Cost Band (including special payments)	2012/13 No. of LBH Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £000's	Pension Strain Costs £000's	Total Exit Package Cost £000's
£0 - £20,000	94	0	94	691	549	**1,240**
£20,001 - £40,000	17	0	17	465	426	**891**
£40,001 - £60,000	0	0	0	0	0	**0**
£60,001 - £80,000	0	0	0	0	0	**0**
£80,001 - £100,000	0	0	0	0	0	**0**
£100,001 - £150,000	0	0	0	0	0	**0**
	111	**0**	**111**	**1,156**	**975**	**2,131**

	SCHOOL EMPLOYEES					
Exit Package Cost Band (including special payments)	2013/14 No. of Schools Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £000's	Pension Strain Costs £000's	Total Exit Package Cost £000's
£0 - £20,000	21	7	14	123	7	**130**
£20,001 - £40,000	4	1	3	103	12	**115**
£40,001 - £60,000	0	0	0	0	0	**0**
	25	**8**	**17**	**226**	**19**	**245**

	SCHOOL EMPLOYEES					
Exit Package Cost Band (including special payments)	2012/13 No. of Schools Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £000s	Pension Strain Costs £000's	Total Exit Package Cost £000's
£0 - £20,000	9	0	9	54	0	**54**
£20,001 - £40,000	0	0	0	0	0	**0**
£40,001 - £60,000	0	0	0	0	0	**0**
	9	**0**	**9**	**54**	**0**	**54**

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 School and Early Years Finance (England) Regulations 2012. 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 2013/14 are as follows:

		Schools Budget Funded by Dedicated Schools Grant		
		Central Expenditure £000's	Individual Schools Budget £000's	Total £000's
A	Final DSG for 2013/14 before academy recoupment			231,848
B	Academy figure recouped for 2013/14			(86,477)
C	Total DSG after academy recoupment for 2013/14			145,371
D	Brought-forward from 2012/13			709
E	Carry-forward to 2014/15 agreed in advance			(709)
F	Agreed initial budgeted distribution in 2012/13	29,551	115,820	145,371
G	In year adjustments	1,629	(1,629)	0
H	**Final budgeted distribution for 2013/14**	**31,180**	**114,191**	**145,371**
I	Less actual central expenditure	28,108		28,108
J	Less actual ISB deployed to schools		114,191	114,191
K	Plus Local Authority contribution for 2013/14	0	0	0
L	Carry-forward to 2014/15	**(3,072)**	**(0)**	**(3,072)**

A: DSG figure as issued by the Department in July 2013.

B: Figure recouped from the authority in 2013/14 by the DfE for the conversion of maintained schools into academies.

C: Total figure after DfE academy recoupment for 2013/14.

D: Figure brought forward from 2012/13 as agreed with the Department. Details of this exercise were contained in the Financial Monitoring Team's email of 18 May 2013.

E: Any amount which the authority decided after consultation with the schools forum to carry forward to 2014/15 rather than distribute in 2013/14 – this may be the difference between estimated and final DSG for 2013/14, or a figure (positive or negative) brought forward from 2012/13 which the authority is carrying forward again.

F: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.

G: Changes to the initial distribution, for example, adjustments for exclusions.

H: Budgeted distribution of DSG as at the end of the financial year.

I: Actual amount of central expenditure items in 2013/14 – amounts not actually spent, e.g. money that is moved into earmarked reserves, should be included in items L20 or L21 as carried forward.

J: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares).

K: Any contribution from the local authority in 2013/14 which will have the effect of substituting for DSG in funding the Schools Budget. Do not include any change in balances held by schools as they are not to be recorded in this note.

L: Carry-forward to 2014/15
For central expenditure, difference between final budgeted distribution of DSG (item H12) and actual expenditure (item I15), plus any local authority contribution (item K17).
For ISB, difference between final budgeted distribution (item H13) and amount actually deployed to schools (item J16), plus any local authority contribution (item K18).
Total is carry-forward on central expenditure (item L20) plus carry-forward on ISB (item L21) plus/ minus any carry-forward to 2014/15 already agreed (item E5).

36. GRANT INCOME

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

	2013/14 £000's	2012/13 £000's
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	62,007	1,531
Preventing Homelessness	0	768
Early Intervention Grant	0	11,943
Education Services Grant	3,712	0
Council Tax Freeze Grant	1,119	2,789
Learning Disability & Health Reform Grant	0	5,937
Housing & Council Tax Benefit Subsidy Admin Grant	2,069	2,265
New Homes Bonus	5,673	2,969
Other Grants	2,526	681
Total Non Specific Revenue Grants	**77,106**	**28,883**
Revenue Grant Income Credited to Services		
Department for Education		
Dedicated Schools Grant (DSG)	145,533	148,213
Pupil Premium	5,357	4,232
Sixth Form & Adult Learning Grants	3,013	3,936
Department for Communities and Local Government:		
Troubled Families Grant	100	634
NNDR cost of collection	598	602
Department of Health		
Public Health Grant	15,281	0
Section 256 Agreement Funding	3,726	2,610
Arts Council		
Music Education Hub	331	257
Department for Work and Pensions:		
Housing & Council Tax Benefit Subsidy	147,825	169,030
Home Office:		
Asylum Funding	5,463	5,952
Other Grants	19,571	20,449
Total Grants Credited to Services	**346,798**	**355,915**
Total Revenue Grant Income	**423,904**	**384,798**

	2013/14 £000's	2012/13 £000's
Capital Grant Income credited to the Comprehensive Income and Expenditure Statement		
Disabled Facilities Grant	1,627	1,763
Sports England Grant	25	0
Education Funding Agency	32,208	19,846
Transport for London	4,121	2,098
West London Housing Grant	75	132
HRA Pipeline Grant	103	0
Outer London Fund	1,955	450
DH Community Capacity	560	532
EA Capital Waste Grant	250	0
DCLG Food Collection Grant	260	0
DECC Fund	100	0
DH Dementia Friendly Grant	94	0
Environment Agency Mitigation Work	175	0
Total Capital Grant Income	**41,553**	**24,821**
Schools Capital Contributions	1,509	1,622
S106 Contributions	8,228	2,492
Other Capital Contributions	381	88
Total Capital Grants and Contributions Received	**51,671**	**29,023**

Of the capital grant income applied to the Comprehensive income and expenditure account within Taxation and Non Specific Grant income £41,494k was used to fund the capital programme, and £59k has been transferred to the Capital Grants Unapplied Reserve for future use.

In 2014/15 some of the grant income above credited to Taxation and Non specific Income was used to fund Revenue Funded Capital under Statue (REFCUS) assets where the expenditure has been charged to the relevant service lines. Expenditure on REFCUS assets amounted to £11,298k and funding came from various sources as well as grant income.

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:

	2013/14 £000's	2012/13 £000's
Capital Grant & Contribution Receipts in Advance		
EFA Capital Grants	1,360	749
HRA Pipeline Grant	0	301
Waste Grant	0	370
S106	8,926	13,458
Other	6	102
Total Grants Received in Advance	**10,292**	**14,980**

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.

	2013/14 £000's	2012/13 £000's
Opening Capital Financing Requirement	408,955	416,958
Capital investment		
Property, Plant and Equipment	79,617	42,060
Intangible Assets	271	137
Revenue Expenditure Funded from Capital Under Statute	11,298	6,785
Sources of finance		
Capital receipts	(8,922)	(7,457)
Government grants and other contributions	(71,485)	(34,618)
Sums set aside from revenue:		
Direct revenue contributions	(1,999)	(2,694)
Minimum Revenue Provision (MRP) / Loans Fund Principal	(14,555)	(11,820)
Other Revenue Provision	(267)	(396)
Closing Capital Financing Requirement	**402,913**	**408,955**
Explanation of movements in year		
(Decrease)/Increase in underlying need to borrow :		
- unsupported by Government financial assistance	(8,779)	(9,003)
(Decrease)/Increase in Capital Financing Requirement	**(6,042)**	**(8,003)**

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 2013/14 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.

The future payments relating to both finance and operating leases held by the Council are made up of the following amounts:

Finance Leases -Lessee

Plant, Property and Equipment	**Finance Lease Liabilities**		**Minimum Lease Payments**	
Outstanding obligations on 31 March	**2013/14 £000's**	**2012/13 £000's**	**2013/14 £000's**	**2012/13 £000's**
Within 1 year (held in current liabilities)	260	263	1,139	1,205
2 - 5 years	1,010	1,021	3,778	4,097
More than 5 years	1,201	1,452	2,513	3,333
Total costs payable in future years	2,211	2,473	6,291	7,430
Total future lease payments	**2,471**	**2,736**	**7,430**	**8,635**

Operating Leases - Lessee

Plant, Property and Equipment	**Operating Lease**	
Outstanding obligations on 31 March	**2013/14 £000's**	**2012/13 £000's**
Within 1 year	253	329
2 - 5 years	278	526
More than 5 years	0	5
Total future lease payments	**531**	**860**

Operating Lease obligations have been updated to include commitments held by Hillingdon maintained Schools as well as those held by the Council. Operating lease expenditure of £342k (£313k 12/13) is included within Cost of Services in the Comprehensive Income and Expenditure Statement.

Operating Leases - Lessor

The council leases out property under operating leases for the following purposes:

- for the provision of community services, such a sports facilities and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses

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

	Operating Lease	
Future Minimum Lease Payments:	**2013/14 £000's**	**2012/13 £000's**
Within 1 year	1,161	714
2 - 5 years	3,555	2,549
More than 5 years	10,145	10,232
Total future lease payments	**14,861**	**13,495**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

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 2013/14 was over £1,000k:

Northgate Information Solutions
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 August 2013 Johnson Workplace Management Ltd were acquired by Bellrock Facilities Management who are now responsible for the management of the contract. In 2013/14 the Council paid principal of £249k, interest of £868k and service charges of £2,307k. Current forecasts of future payments, assuming satisfactory performance over the remaining 10 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 (2014/15)	2,470	245	806	3,521
2 - 5 years	11,666	942	2,506	15,114
More than 5 years	19,323	986	1,125	21,434
Total	**33,459**	**2,173**	**4,437**	**40,069**

Barnhill Community High School transferred to academy status resulting in the removal of the property from the Council's asset register, however the liability will remain in place until it is extinguished in 2023/24. The Council will have no responsibility after this date.

The charge for the current year was £249k matching the principal repayment. The outstanding liability of the capital value at 31 March 2014 is £2,173k, of this £245k is due within a year and therefore included in creditors and the remaining £1,928k is shown as a deferred liability.

40. CONTINGENT LIABILITIES AND ASSETS

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 two potential breaches 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 £200k. The Council will defend any claims.

41. EVENTS AFTER THE BALANCE SHEET DATE

As a result of the schools expansion capital programme, three of the Council's school buildings have since been demolished to make way for new school buildings on the sites. At the 31st March 2014, all three schools were still operational and were held on the Council's balance sheet at a carrying value of £3.1million after accelerated depreciated was applied to reflect the reduced life of the buildings. The children were decanted out of the schools into new buildings on the sites between April and July. During the programme to provide extra schools places within the borough all Councils schools continued to remain open.

Following the approval of applications for academy status, three schools become academies during 2014/15, it is possible other schools will also covert within the financial year. Under academy status, existing Community schools would no longer form part of the Council's accounts and hence will result in significant movements in income, expenditure, schools reserves and current assets from those included in the 2013/14 Statement of Accounts. These schools reported income and expenditure in 2013/14 of £13,489k and £13,167k respectively and held reserves and corresponding current assets of £1,059k at 31 March 2014. In addition the net book value of £41,521k relating to school buildings of the known transferring schools will be removed from the Council's long term assets for the 2014/15 accounts once their conversion is completed.

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 37).

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 2013/14 in respect of financial assets held by the Council are as detailed below:

Long term minimum: A- (Fitch); A3 (Moody's;) A- (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.

The table below summarises the amortised value of the Council's investment portfolio at 31 March 2014, and demonstrates that all investments were made in line with the Council's approved credit rating criterion.

Outstanding Investments as at 31 March 2014							
	Fitch Rating or lowest equivalent at time of Deposit	Fitch Rating or lowest equivalent 31 March 2014	Maturity of Investments				
			0-3 Months	3-6 Months	6-12 Months	Over 12 Months	Total
UK Banks & Building Societies			£000's	£000's	£000's	£000's	£000's
Bank of Scotland	A	A	10,504	0	0	0	10,504
Barclays	A	A	9,001	0	0	0	9,001
HSBC	AA-	AA-	10,905	0	0	0	10,905
Lloyds	A	A	500	500	0	0	1,000
Nationwide	A	A	5,001	0	0	0	5,001
Royal Bank of Scotland	A-	BB+	20	0	0	0	20
Standard Chartered	AA-	AA-	3,502	0	0	0	3,502
			39,433	**500**	**0**	**0**	**39,933**
Icelandic Banks							
Heritable Bank	A	In default/Credit Rating Withdrawn	0	0	145	0	145
			0	**0**	**145**	**0**	**145**
Government & Local Authorities							
Birmingham CC	AA+	AA+	5,001	0	0	0	5,001
Blaenau Gwent CBC	AA+	AA+	3,002	0	0	0	3,002
Lancashire CC	AA	AA	5,012	0	0	0	5,012
Mid Suffolk C	AA+	AA+	3,002	0	0	0	3,002
Redditch BC	AA+	AA+	3,002	0	0	0	3,002
Salford CC	AA+	AA+	0	0	8,001	0	8,001
Woking BC	A	A	0	2,000	0	0	2,000
Wolverhampton CC	AA+	AA+	0	0	0	7,001	7,001
			19,019	**2,000**	**8,001**	**7,001**	**36,021**
Money Market Funds							
All funds held explicit money market fund ratings of AAA, with at least one of the rating agencies			**25,508**	**0**	**0**	**0**	**25,508**
Total Investments			**83,960**	**2,500**	**8,146**	**7,001**	**101,607**

* Standard Chartered CD scheduled maturity date is 26 August 2014, however can be sold on the secondary market on a same day basis

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

Long Term		Money Market Funds
AAA	Highest credit quality	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.
AA	Very high credit quality	
A	High credit quality	
BBB	Good credit quality	
BB	Speculative	Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.
B	Highly speculative	
CCC	Default possibility	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.
CC	Default imminent	
D	Defaulted	

Aged Analysis of other Financial Instruments

Other Financial Instruments	Not Overdue	Past Due 1-3 Months	3-6 Months	6-12 Months	Over 12 Months	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Available for Sale	92	0	0	0	0	92
Total	92	0	0	0	0	92

Trade Debtors of £6,540k are accounted for inclusive of Provision for doubtful debt where there is a risk of non payments.

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.

	31 March 2014 PWLB	Market	Total	31 March 2013 PWLB	Market	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Nominal Value	288,227	48,000	**336,227**	298,504	48,000	**346,504**
Premium	(3,306)	0	**(3,306)**	(3,331)	0	**(3,331)**
Accrued Interest	810	617	**1,427**	897	616	**1,513**
Amortised Value	285,731	48,617	**334,348**	296,070	48,616	**344,686**

Liquidity Risk

Liquidity risk is the risk that cash will not be available when it is required. This can jeopardise the ability of the Council to carry out its daily functions or disrupt these from being carried out in the most cost effective manner. To prevent or minimise this risk, the Council has a comprehensive cash flow management 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	Actual % Debt Maturity 31 March 2014	31 March 2014 £000's	31 March 2013 £000's
Less than 1 year	25%	3.20%	10,705	11,791
Between 1 and less than 2 years	25%	3.67%	12,278	9,278
Between 2 and less than 5 years	50%	12.51%	41,833	36,833
Between 5 and less than 10 years	75%	27.42%	91,667	105,444
Between 10 and less than 20 years	100%	17.95%	60,000	54,000
Between 20 and less than 30 years	100%	13.33%	44,571	54,071
Between 30 and less than 40 years	100%	1.50%	5,000	0
Between 40 and less than 50 years	100%	6.07%	20,294	25,269
Over 50 years	100%	14.36%	48,000	48,000
Total			**334,348**	**344,686**

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	500
Increase in interest receivable on variable rate investments	(1,316)
Impact on Surplus or Deficit on the Provision of Services	**(816)**
Share of overall impact credited to the HRA	(150)
Decrease in fair value of fixed rate deposits (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(116)
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)	(24,769)

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 £92k 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: All the financial assets and liabilities are denominated in GBP and thus have no exposure to loss arising from movements in exchange rates.

Financial Liabilities

The majority of borrowing made by the Council is sourced from the PWLB. (As at 31 March 2014 £239,227k was at fixed rates and £49,000k 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 £11,000k, £13,000k and £14,000k respectively are scheduled for rate change options.

In order to minimise debt costs the Council did not take any new borrowing during 2013/14, instead utilising internal resources to finance its long term borrowing requirement. No debt was prematurely redeemed but naturally maturing debt of £10,278k reduced the loan portfolio during 2013/14.

Financial Assets

The Council had a weighted average balance of investments (excluding unpaid Icelandic deposits) for 2013/14 of £131,663k. 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. At year end there was a £7m long term deposit outstanding. The term remaining on all other deposits 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.

	31 March 2014 £000's	31 March 2013 £000's
Education trusts - providing academic prizes	4	4
Library trusts - purchase of library books	11	11
Total	**15**	**15**

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 four defined benefit pension schemes, which are two funds of the Local Government Pension Scheme (LGPS), the Teachers' Pension Scheme and the NHS Pension Scheme. Accounting for the Teachers' Pension Scheme and NHS scheme varies from that of the LGPS and is expanded upon further within this note.

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. Contribution rates are then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 2013/14 employer's contribution rate was 21.1% 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 2014/15 is 21.1% with any pension strain costs being directly attributable to the service area.

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

Defined Contribution Pension Schemes

Teachers pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme. This fund is administered by the Department for Education and provides teachers with defined benefits upon their retirement. The Council contributes towards the pensions by making payments to the fund based on a percentage of members' pensionable salaries. The employer's contribution rate for 2013/14 was 14.1% (14.1% in 2012/13). The total contribution to the fund by the Council in 2013/14 was £6,874k (£7,555k in 2012/13), of this amount £576k was outstanding at 31 March 2014 (£590k at 31 March 2013). Subject to academy transfers, contributions to the fund are expected to remain unchanged for 2014/15.

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 2013/14, 2012/13 or 2011/12, and £861k paid in respect of on-going payments in 2013/14 (£876k in 2012/13).

NHS pension Scheme

The Health and Social Care Act 2012, makes provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities. As a result of this transfer, the London Borough of Hillingdon is responsible for deduction of pension contributions, both employees and employers from transferred staff. These contributions are forwarded on directly to the National Health Service Pension Scheme. The National Health Service Pension Scheme is unfunded and administered by National Health Service Business Services Authority (NHSBSA). 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 pension cost charged to the accounts is the contribution rate set by the NHSBSA. In 2013/14 LB Hillingdon paid a total of £87,647 to the NHS Pension Scheme, representing 14% of pensionable pay. Contributions to the fund are expected to remain unchanged for 2014/15.

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**		**LPFA Pension Fund**		**Total**	
	31 March 2014 £000's	**31 March 2013 £000's**	**31 March 2014 £000's**	**31 March 2013 £000's**	**31 March 2014 £000's**	**31 March 2013 £000's**
Cost of Services:						
Service Cost	24,821	12,256	0	0	24,821	12,256
			0	0	0	0
			0	0	0	0
Total Net Cost Of Services	**24,821**	**12,256**	**0**	**0**	**24,821**	**12,256**
Financing and Investment and Expenditure						
Interest Cost on Defined Benefit Obligation	45,971	42,560	71	251	46,042	42,811
Interest Income and Return on Plan Assets	(29,359)	(27,893)	(83)	(248)	(29,442)	(28,141)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**16,612**	**14,667**	**(12)**	**3**	**16,600**	**14,670**
Amounts to be met from Government Grants and Local Taxation						
Movement on pension reserve	**41,433**	**26,923**	**(12)**	**3**	**41,421**	**26,926**
Actual amount charged against council tax for pensions in the year						
Employer's contributions payable to scheme	22,506	18,890	0	0	22,506	18,890
Administration Costs			(4)	(4)	(4)	(4)
Contributions in respect of unfunded benefits	2,267	2,310	5	6	2,272	2,316
	24,773	**21,200**	**1**	**2**	**24,774**	**21,202**

In addition the Comprehensive Income and Expenditure Statement included an actuarial gain of £7,969k in 2013/14 (£54,339k loss in 2012/13). The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement since 2004/05 is £324,861k.

The Council expects to make payments of £22,652k (£20,733 in 2013/14) in respect of contributions to the LBH Pension Fund during the financial year 2014/15.

46. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2014 £000's	31 March 2013 £000's	31 March 2014 £000's	31 March 2013 £000's	31 March 2014 £000's	31 March 2013 £000's
Opening Benefit Obligation	1,026,344	895,278	5,763	5,749	1,032,107	901,027
Current Service Cost	25,812	18,305	0	0	25,812	18,305
Interest on defined liability	45,971	42,560	71	251	46,042	42,811
Contributions by Members	6,857	6,280	0	0	6,857	6,280
Remeasurement (gains) and losses:						
Actuarial gains/losses arising from changes in demographic assumptions	12,127	0	(81)	0	12,046	0
Actuarial gains/losses arising from changes in financial assumptions	(17,253)	106,477	(822)	371	(18,075)	106,848
Other	(9,208)	(1,400)	929	0	(8,279)	(1,400)
Past Service Cost including Curtailments	533	652	0	0	533	652
Liabilities Extinguished on Settlements	(2,110)	(9,113)	0	0	(2,110)	(9,113)
Estimated Unfunded Benefits Paid	(2,267)	(2,310)	(5)	(6)	(2,272)	(2,316)
Estimated Benefits Paid	(35,012)	(30,385)	(601)	(602)	(35,613)	(30,987)
Closing Defined Benefit Obligation	**1,051,794**	**1,026,344**	**5,254**	**5,763**	**1,057,048**	**1,032,107**

Reconciliation of fair value of scheme assets

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2014 £000's	31 March 2013 £000's	31 March 2014 £000's	31 March 2013 £000's	31 March 2014 £000's	31 March 2013 £000's
Opening Fair Value of Employer Assets	656,243	584,868	2,602	2,960	658,845	587,828
Interest Income on Plan Assets	29,359	27,893	83	248	29,442	28,141
Contributions by Members	6,857	6,280	0	0	6,857	6,280
Contributions by the Employer	22,506	18,890	0	0	22,506	18,890
Contributions in respect of Unfunded Benefits	2,267	2,310	5	6	2,272	2,316
Remeasurement (gains) and losses:						
The return on plan assets, excluding the amount in the net interest expense	(6,764)	51,109	425	0	(6,339)	51,109
Assets Distributed on Settlements	(586)	(2,412)	0	0	(586)	(2,412)
Administration Expenses	0	0	(4)	(4)	(4)	(4)
Estimated Unfunded Benefits Paid	(2,267)	(2,310)	0	0	(2,267)	(2,310)
Estimated Benefits Paid	(35,012)	(30,385)	(606)	(608)	(35,618)	(30,993)
Closing Fair Value of Employer Assets	**672,603**	**656,243**	**2,505**	**2,602**	**675,108**	**658,845**

For the LBH the return on scheme assets is estimated based on the actual fund returns and index returns where necessary . The LPFA is determined by setting the expected return equal to the discount rate.

Notes to Main Financial Statements

Pension Scheme assets comprised

		LBH Pension Fund				LPFA Pension Fund				Total	
		Quoted Prices in Active Markets 13/14 £000's	Prices not in Active Markets 13/14 £000's	Quoted Prices in Active Markets 12/13 £000's	Prices not in Active Markets 12/13 £000's	Quoted Prices in Active Markets 13/14 £000's	Prices not in Active Markets 13/14 £000's	Quoted Prices in Active Markets 12/13 £000's	Prices not in Active Markets 12/13 £000's	31 March 2014 £000's	31 March 2013 £000's
Equity Instruments	**Consumer**	26,921	0	37,236	0	263	0	264	0	27,184	37,500
	Manufacturing	34,606	0	34,428	0	86	0	89	0	34,692	34,517
	Energy & Utilities	31,865	0	30,958	0	39	0	39	0	31,904	30,997
	Financial Institutions	41,927	0	43,943	0	94	0	99	0	42,021	44,042
	Health & Care	9,591	0	17,426	0	0	0	0	0	9,591	17,426
	Information Technology	8,374	0	9,245	0	60	0	55	0	8,434	9,300
	Other	13,183	0	13,062	0	122	0	119	0	13,305	13,181
Debt Securities	UK Government	28,143	0	35,949	0	0	0	0	0	28,143	35,949
	Other	5,884	0	15,085	0	0	0	0	0	5,884	15,085
Private Equity	All	0	34,566	0	38,591	0	170	0	204	34,736	38,795
Real Estate		0	46,758	0	45,552	0	66	0	97	46,824	45,649
Investment Funds & Unit Trusts	Equities	244,398	0	188,517	0	31	2	27	2	244,431	188,546
	Bonds	83,011	0	87,127	0	270	306	221	297	83,587	87,645
	Hedge Funds	0	0	0	731	4	13	4	42	17	777
	Commodities	0	1,635	0	3,832	0	0	0	0	1,635	3,832
	Infrastructure	0	5,009	0	7,781	7	81	7	86	5,097	7,874
	Other	0	22,561	0	15,519	62	501	72	465	23,124	16,056
Derivatives		16,579	1,552	4,952	(78)	0	8	1	(8)	18,139	4,867
Liability Driven Investments		0	0	0	0	0	154	0	255	154	255
Target Returns		0	0	0	0	82	0	85	0	82	85
Commodities		0	0	0	0	20	7	23	6	27	29
Cash & Cash Equivalents		16,040.0	0	26,387.0	0	57	0	51	0	16,097	26,438
		560,522	**112,081**	**544,315**	**111,928**	**1,197**	**1,308**	**1,156**	**1,446**	**675,108**	**658,845**

Pensions Assets and Liabilities recognised in the Balance Sheet

	2013/14 £000's	2012/13 £000's	2011/12 £000's	2010/11 £000's	2009/10 £000's
Present value of liabilities:					
LBH	(1,051,794)	(1,026,344)	(895,278)	(820,944)	(994,245)
LPFA	(5,254)	(5,763)	(5,749)	(5,946)	(6,158)
Fair Value of Assets:					
LBH	672,603	656,243	584,868	575,064	561,122
LPFA	2,505	2,602	2,960	3,380	3,268
Deficit in the scheme:					
LBH	(379,191)	(370,101)	(310,410)	(245,880)	(433,123)
LPFA	(2,749)	(3,161)	(2,789)	(2,566)	(2,890)
Total	**(381,940)**	**(373,262)**	**(313,199)**	**(248,446)**	**(436,013)**

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,057m is offset by the scheme assets of £675m to give the net pension liability of £382m 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 2013. The appointed actuary for LBH is Hymans Robertson LLP and for LPFA is Barnett Waddingham.

	LBH Pension Fund		LPFA Pension Fund	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
Financial Assumptions: (% p.a.)				
Pension Increase Rate	2.8%	2.8%	2.4%	2.2%
Salary Increase Rate	3.6%	5.1%	4.2%	3.9%
Expected Return on Assets		4.5%		4.3%
Discount Rate	4.3%	4.5%	3.6%	1.3%
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	22.7	20.8	22.1	21.1
- Women	24.7	24.1	25.1	24.0
Longevity at 65 for future pensioners:				
- Men	24.3	22.3	24.4	23.0
- Women	26.9	25.7	27.3	25.9
Take-up of option to convert annual pension to tax free lump sum pre-April 2008	65%	50%	65%	50%
Take-up of option to convert annual pension to tax free lump sum post-April 2008	85%	75%	85%	75%

Sensitivity Analysis

The estimation of the defined benefit obligation is sensitive to principal actuarial assumptions used to measure the scheme. The sensitivity analyses below have been based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes all other assumptions remain constant. For example the assumptions in longevity assume that life expectancy increases or decreases. The estimations on sensitivity analysis have followed the accounting policies of the scheme. The methods and types of estimations in sensitivity analysis have not changed from those in the previous period.

	LBH Pension Fund		LPFA Pension Fund	
Changes in Assumptions as at 31 March 2014	**Increase to Employer Liability**	**£000's Increase to Employer Liability**	**Increase to Employer Liability**	**Increase to Employer Liability**
0.5% Decrease in Real Discount Rate	9%	93,294	4%	225
1 Year Increase in Member Life Expectancy	3%	31,554	3%	178
0.5% Increase in the Salary Increase Rate	2%	22,681	0%	0
0.5% Increase in the Pension Increase Rate	7%	69,981	4%	230

Scheme and Impact on the Authorities cash flows

The LBH Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Council. Policy is determined in accordance with the Pension Fund Regulations. The principle risks to the council in relation to the scheme are the longevity assumptions, statutory changes to the scheme, inflation and performance of the funds investment assets. These risks are mitigated to an extent by the statutory requirements to charge amounts required by statute as described in the accounting policies note to the General Fund and Housing Revenue Account.

The Objectives of the LBH LGPS Pension fund are to keep employer's contributions at as a constant a rate as possible. The Council's pension fund undergoes a triennial valuation to set the contribution rates of the all the employers in the scheme to achieve a funding level of 100% over the next 25 years. A new contribution rate has been set over the last triennial valuation period to cover contribution rates of the council for three years from Aril 2014, so this should minimise disruption in cash flow impacts of the Council.

The weighted average duration of the defined benefit obligation for scheme members is 17.2 years as established in the triennial valuation dated 31 March 2013.

Further information about the LBH pension Fund can be seen in the Pension Fund accounts and in the Pension Fund annual report.

Other Financial Statements

The Housing Revenue Account (page 93)

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

The Collection Fund Account (page 97)

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 100)

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	31 March 2014 £000's	31 March 2013 £000's
Expenditure			
Repairs and maintenance		10,160	16,548
Supervision and management		15,670	14,223
Rents, rates, taxes & other charges		37	24
Increase in provision for bad debts		587	97
Housing Revenue Account Subsidy payable		0	(31)
Debt management costs		0	195
Depreciation and Impairment of non current assets	*3*	9,492	9,002
Reversal of previous impairment		(37,946)	(11,813)
		(2,000)	**28,245**
Income			
Gross dwelling rents		(55,264)	(54,260)
Gross non dwelling rents		(1,064)	(1,849)
Charges for services and facilities		(3,455)	(3,398)
Contributions towards expenditure		(1,506)	(1,421)
		(61,289)	**(60,928)**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		(63,289)	(32,683)
HRA Services share of Corporate and Democratic Core		722	643
Net Cost of HRA services		**(62,567)**	**(32,040)**
(Gain) on sale of HRA non current assets		(5,572)	(3,056)
Other HRA income		(7)	0
Interest payable and similar charges		7,281	7,383
HRA investment income		(266)	(115)
Capital Grant Income		(103)	(120)
(Surplus)/Deficit for the year on HRA services		**(61,234)**	**(27,948)**

Paul Whaymand

Corporate Director of Finance
29 September 2014

Movement on the HRA Balance

	2013/14 £000's	2012/13 £000's
HRA Balance Brought forward	(19,089)	(13,412)
(Surplus)/Deficit for the year on HRA services	(61,234)	(27,948)
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	5,580	3,055
Capital Grant Income	103	120
Premium on early redemption of HRA debt	35	44
HRA share of contributions to or from the Pension Reserve	(96)	202
Revaluation of Non Current Assets	37,946	11,813
Provision for repayment of debt	9,854	6,752
Net Increase before transfer to reserves	**(7,812)**	**(5,962)**
Transfer to Major Repairs Reserve	4,750	0
Released from Earmarked Reserves	(669)	285
Increase in year on HRA	(3,731)	(5,677)
Balance on HRA at the end of the current reporting period	**(22,820)**	**(19,089)**
HRA Balances		
Major Repairs Reserves	(11,379)	(1,123)
HRA Share of Earmarked Reserves	(46)	(715)
Total HRA Balances	**(34,245)**	**(20,927)**

Notes to Housing Revenue Account

1. HOUSING STOCK

The Council was responsible at 31st March 2014 for managing dwellings.

The stock was as follows:

	Total Properties 31 March 2014	Total Properties 31 March 2013
1 Bed Properties	3,621	3,646
2 Bed Properties	3,616	3,659
3 Bed Properties	2,799	2,838
4 Bed plus Properties	242	234
Total	**10,278**	**10,377**

2. VALUE OF HRA ASSETS

	Net Book Value 31 March 2014 £000's	Net Book Value 31 March 2013 £000's
Operational Assets		
Council dwellings	531,531	505,882
Other land & buildings	834	18,626
Vehicle, plant & equipment	4,990	2,963
Intangible Asset	11	0
Non-Operational Assets		
Investment Properties	70	70
Total	**537,436**	**527,541**

The vacant possession value of dwellings within the authority's HRA as at 31 March 2014 was £2,191m, this differs from the balance sheet value of £532m which is based on the economic use value of social housing. The difference of £1,659m between these two figures shows the economic cost of providing housing at social rents over 30 year cycle compared to open market rents.

3. DEPRECIATION

Depreciation charged in year to the HRA

	Depreciation 2013/14 £000's	Depreciation 2012/13 £000's
Operational Assets		
Council dwellings	(8,875)	(8,537)
Other land & buildings	(405)	(430)
Vehicle, plant & equipment	(212)	(35)
Total	**(9,492)**	**(9,002)**

4. CAPITAL EXPENDITURE

Capital Expenditure on HRA council dwellings during 2013/14 totalled £4.088m.This was financed by:

	31 March 2014 £000's	31 March 2013 £000's
Revenue contribution	3,986	4,379
Capital receipts	0	743
Other contributions	103	120
	4,089	**5,242**

Capital receipts from the sale of HRA properties during 2013/14 totalled £10.8m of which £1m was paid to Central Government under Pooling arrangements, £7.5m retained for 'one for one' replacement scheme of the Government, £1m was allowed towards the repayment of housing self financing debt with £1.3m attributable to other financing.

5. RENT ARREARS

At 31 March 2014 the gross HRA rent arrears amounted to £3,544k (£3,966k in 2012/13) of which £3,497k (£3,873k in 2012/13) relates to dwellings and £47k (£93k in 2012/13) to commercial rent.

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2014 was £2,623k (£2,424k in 2012/13). In the year, £318k of debts were written off.

7. MAJOR REPAIRS RESERVE

HRA resource accounting requires the maintenance of a Major Repairs Reserve (MRR) and holds depreciation charged to the HRA and revenue contribution to capital expenditure of HRA. The movements on this reserve are shown below.

	2013/14 £000's	2012/13 £000's
Balance as at 1 April	1,123	0
Depreciation transferred to reserve	9,492	9,002
Transfer to MRR	4,750	0
Capital programme funding	(3,986)	(4,379)
Repayment of debt	0	(3,500)
	11,379	**1,123**

The £11.4m held in this reserve will be used to finance capital expenditure on dwellings.

8. CONTRIBUTIONS TO PENSION RESERVE

The cost of employer's pension contributions in the HRA Income and Expenditure is reported in-line with IAS 19, which requires the current service cost, rather than the actual employer's contribution, be recognised. The HRA cost for 2013/14 was up by £96.3k.

Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for the Council, as a billing authority, to maintain a separate Collection. This statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non Domestic Rates.

Council Tax	**Notes**	**31 March 2014 £000's**	**31 March 2013 £000's**
Council Tax Income		(127,018)	(122,580)
Transfer from General Fund in respect of Council Tax		0	(21,992)
Contribution towards previous years' estimated Council Tax (Surplus) / Deficit	1	606	1,666
Write-offs Uncollectable Council Tax Debt		194	155
Write-back Uncollectable Council Tax Debt		(354)	(147)
Provision for Doubtful Council Tax Debts		773	(387)
London Borough of Hillingdon Council Tax Precept	1	97,321	111,556
Greater London Authority Council Tax Precept	1	26,496	30,744
Council Tax (Surplus) / Deficit for the Year		**(1,982)**	**(985)**
Opening Council Tax (Surplus) / Deficit Balance		(3,687)	(2,702)
Council Tax (Surplus) / Deficit for the Year		(1,982)	(985)
		(5,669)	**(3,687)**

From 1 April 2013 Council Tax Benefit was abolished and replaced by the locally funded Council Tax Support Scheme, in 2012/13 the transfer into the Collection Fund in respect of this benefit totalled £21,992k. Sums payable to preceptors has also decreased as a result of this change.

National Non-Domestic Rates (NNDR) & Business Rate Supplement (BRS)	**Notes**	**31 March 2014 £000's**	**31 March 2013 £000's**
National Non-Domestic Rates Income		(336,269)	(323,329)
Business Rate Supplement Income		(12,901)	(12,440)
Contribution towards previous years' estimated NNDR (Surplus) / Deficit		0	0
Write-offs Uncollectable NNDR Debt		2,627	2,502
Write-back Uncollectable NNDR Debt		(517)	(30)
Provision for Doubtful NNDR Debts		(393)	(1,943)
Provision for Backdated Appeal Losses	3	4,295	0
London Borough of Hillingdon Share NNDR Income	2	99,397	0
Greater London Authority Share NNDR Income	2	66,265	0
Central Government Share NNDR Income	2	165,662	0
Transitional Payment Protection Receivable		(349)	0
Payment to National Pool (2012/13 Only)	2	0	322,202
Payment to Greater London Authority in respect of BRS Income		12,879	12,411
NNDR Cost of Collection Allowance		598	598
BRS Cost of Collection Allowance		22	29
NNDR (Surplus) / Deficit for the Year		**1,316**	0
Opening NNDR (Surplus) / Deficit Balance		0	0
NNDR (Surplus) / Deficit for the Year		1,316	0
Brought Forward NNDR (Surplus) / Deficit Balance		**1,316**	**0**

With the introduction of the Business Rate Retention system from 1 April 2013, the single payment into the national pool has been abolished and income distributed between the Council, Greater London Authority and Central Government.

Collection Fund Account

1. Calculation of the Council Tax Base and 2013/14 Council Tax Revenues

The Council Tax Base is based upon the number of dwellings within the borough, analysed by valuation band and adjusted for reductions in expected tax yield arising from discounts, exemptions and the Council Tax Support Scheme. The Council Tax Base is set annually in advance of budget setting, with the 2013/14 base agreed by full Council on 16 January 2013. Prior to 2012/13 the Council Tax Base included those properties in receipt of Council Tax Benefit, accounting for the significant reduction in the base between years.

Band	Estimated Number of Properties	Discounts & Exemptions	Council Tax Support Scheme	Net Estimated Number of Properties	Band D Equivalent Ratio	Band D Equivalent 2013/14	Band D Equivalent 2012/13
A	811	(135)	(203)	473	6/9	315	439
B	5,394	(908)	(1,396)	3,090	7/9	2,403	3,411
C	22,339	(2,742)	(4,503)	15,094	8/9	13,417	16,940
D	43,381	(2,942)	(6,164)	34,275	9/9	34,275	40,235
E	17,354	(1,059)	(1,185)	15,110	11/9	18,468	19,855
F	9,200	(483)	(276)	8,441	13/9	12,193	12,401
G	4,264	(183)	(70)	4,011	15/9	6,685	6,834
H	370	(12)	(5)	353	18/9	706	748
Total	**103,113**	**(8,464)**	**(13,802)**	**80,847**		**88,462**	**100,863**
					Adjustment for Non-collection	(1,769)	(1,311)
					Ministry of Defence Contribution	753	684
					Council Tax Base	**87,446**	**100,236**
					London Borough of Hillingdon Band D Council Tax (£)	1,113	1,113
					Greater London Authority Band D Council Tax (£)	303	307
					Total Band D Council Tax (£)	**1,416**	**1,420**
					Demand on Collection Fund (£'000)	**123,817**	**142,300**

Annual precepts levied upon the Collection Fund Account in respect of Council Tax by the Council and Greater London Authority are derived from the Council Tax Base and the Band D Council Tax charge approved for the financial year. The following table analyses all Council Tax activity within the Collection Fund between the major preceptors, with the Council's own activity reflected in the main statement of accounts.

	Balance 31 March 2013 £000's	2013/14 Precept £000's	Release of Prior Year Estimated Surplus £000's	2013/14 Council Tax Revenues £000's	2013/14 Surplus £000's	Balance 31 March 2014 £000's
London Borough of Hillingdon	(2,853)	97,321	480	(99,355)	(1,554)	(4,407)
Greater London Authority	(834)	26,496	126	(27,050)	(428)	(1,262)
Grand Total	**(3,687)**	**123,817**	**606**	**(126,405)**	**(1,982)**	**(5,669)**

2. National Non-Domestic Rating Income & Business Rate Retention System

National Non-Domestic Rates are levied on the basis of the Valuation Office Agency's assessment of the Rateable Value of a non-domestic property. As at 31 March 2014 the aggregate Rateable Value across the 8,151 hereditaments within the borough totalled £775,652k, with rates payable determined by the National Non-Domestic multiplier which is set annually by Central Government. For 2013/14 the standard multiplier was 47.1p in the pound and for small businesses 46.2p in the pound.

Prior to 2013/14 Non-Domestic Rates Income was collected on an agency basis before being pooled nationally. The introduction of the Business Rate Retention System from 1 April 2013 results in locally raised income being shared between the Council (30%), the Greater London Authority (20%) and Central Government (50%) as detailed in the table below. The income for the Council's General Fund is detailed in note 5 to the main statement of accounts.

	Balance 31 March 2013 £000's	2013/14 Budgeted Share of Income £000's	Release of Prior Year Estimated Surplus £000's	2013/14 Non-Domestic Rates Revenues £000's	2013/14 Deficit £000's	Balance 31 March 2014 £000's
London Borough of Hillingdon	0	99,397	0	(99,010)	387	387
Greater London Authority	0	66,265	0	(65,998)	267	267
Central Government	0	165,662	0	(165,000)	662	662
Grand Total	**0**	**331,324**	**0**	**(330,008)**	**1,316**	**1,316**

3. Provision for losses on Non-Domestic Rating Income due to back-dated appeals

Non-Domestic Ratepayers are able to challenge the Valuation Office Agency's assessment of the Rateable Value for their property, which if successful will result in a reduction in future payments and in some cases a refund of previously levied rates. 1,134 such appeals relating to 975 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2014. Given the inherent uncertainty around the financial impact of such appeals, a provision of £4,295k has been established on the basis of past experience of appeals. Prior to 2013/14 no such provision was held as the financial impact of any such losses were managed by Central Government, from 2013/14 onwards the cost of this provision is split in line with the shares of income noted above.

Pension Fund Accounts and Net Asset Statement

	Notes	31 March 2014 £000's	31 March 2013 £000's
Contributions	*4*	35,099	31,871
Transfers In	*5*	750	284
Less: Benefits	*6*	(34,748)	(31,424)
Less: Leavers	*7*	(2,890)	(1,957)
Less: Administrative expenses	*8*	(610)	(589)
Net additions from dealings with members		**(2,399)**	**(1,815)**
Investment income	*9*	15,546	14,054
Changes in market value of investments	*10*	34,113	61,904
Taxes on income		(7)	(19)
Investment management expenses	*12*	(3,769)	(3,922)
Net return on investments		**45,883**	**72,017**
Net Increase in the fund during the year		**43,484**	**70,202**
Net Assets at start of year		**683,052**	**612,850**
Net Assets at end of year		**726,536**	**683,052**

		31 March 2014 £000's	31 March 2013 £000's
Investment Assets	*10*	725,110	682,984
Investment Liabilities	*11*	(649)	(3,432)
Current Assets	*13*	2,802	4,358
Current Liabilities	*14*	(727)	(858)
TOTAL NET ASSETS		**726,536**	**683,052**

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 Pension Fund Annual Report and these accounts should be read in conjunction with this.

Paul Whaymand
Corporate Director of Finance
29 September 2014

Pension Fund Accounts and Net Asset Statement

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 2013/14 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 1 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 1 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
Mitie Cleaning
Mitie FM
Stag Security Services

Scheduled Bodies:

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

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2014 there were 7,524 active employees contributing to the fund, with 6,003 in receipt of benefit and 6,311 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2014	31 March 2013
Number of employers with active members	33	32
Number of employees in scheme		
London Borough of Hillingdon	6,002	5,225
Other employers	1,522	988
Total	**7,524**	**6,213**
Number of Pensioners		
London Borough of Hillingdon	5,505	5,047
Other employers	498	451
Total	**6,003**	**5,498**
Deferred pensioners		
London Borough of Hillingdon	4,980	4,671
Other employers	1,331	1,212
Total	**6,311**	**5,883**

The pension fund investments are managed externally by fund managers: Adams Street Partners, Barings Global Asset Management, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investment, 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 the Pensions 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 2013/14:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr David Simmonds
Cllr Raymond Graham
Cllr Paul Harmsworth
Cllr Janet Duncan
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)
Mr John Holroyd (Pensioner/Deferred 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 2013/14 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 2014 was £37,146k (£39,617k at 31 March 2013).

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 2014 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 £37,146k. There is a risk that this investment may be under- or overstated in the accounts.

4. CONTRIBUTIONS

	31 March 2014 £000's	Restated 31 March 2013 £000's
Employers		
Normal	21,098	20,054
Deficit funding	5,160	3,673
Members		
Normal	8,133	7,920
Additional contributions	708	224
	35,099	**31,871**

Deficit Funding:- At the actuarial valuation on 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%.

Employers Normal and Deficit Funding has been restated from the published accounts to reflect a change in calculation methodology. The impact of the restatement was that, a) Deficit Funding was overstated by £3m and Normal contributions was understated by same amount. b) The overall net effect was nil.

NOTE:- At the latest actuarial valuation on 31 March 2013 the fund was 72% funded, with the remaining 28% deficit to be recovered over a period of 25 years with a common contribution rate of 28.7%. This is further detailed in Note 18 and is effective from 01 April 2014.

Schedule of contributions by body	31 March 2014 £000's	31 March 2013 £000's
Employers		
LB Hillingdon	20,733	19,118
Scheduled Bodies	5,250	4,286
Admitted Bodies	275	323
Members		
LB Hillingdon	6,983	6,639
Scheduled Bodies	1,765	1,400
Admitted Bodies	93	105
	35,099	**31,871**

5. TRANSFERS IN

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers in from other schemes	750	284

6. BENEFITS

	31 March 2014 £000's	31 March 2013 £000's
Pensions	(28,114)	(26,818)
Commutations and lump sum retirement	(6,105)	(4,496)
Lump sum death benefits	(529)	(110)
	(34,748)	**(31,424)**

Schedule of benefits by employer	31 March 2014 £000's	31 March 2013 £000's
LB Hillingdon	(34,205)	(30,950)
Scheduled Bodies	(450)	(380)
Admitted Bodies	(93)	(94)
	(34,748)	**(31,424)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers out to other schemes	2,890	1,957
	2,890	**1,957**

8. ADMINISTRATIVE EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration and processing	525	545
Audit fee	18	21
Actuarial fee	67	23
	610	**589**

9. INVESTMENT INCOME

	31 March 2014 £000's	31 March 2013 £000's
Dividends from equities	6,668	6,662
Income from fixed interest Securities	40	0
Income from index-linked securities	334	396
Income from pooled investment vehicles	1,818	1,988
Interest on cash deposits	157	118
Other (for example from stock lending or underwriting)	6,529	4,890
	15,546	**14,054**

10. INVESTMENT ASSETS

	Value 1 April 2013 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2014 £000's
Equities	193,554	180,724	(218,069)	(8,151)	148,058
Index-linked securities	42,174	35,215	(32,170)	(9,856)	35,363
Pooled investment vehicles	415,149	85,467	(28,229)	49,798	522,185
	650,877	**301,406**	**(278,468)**	**31,791**	**705,606**
Other investment balances	3,048			2,542	1,131
Fund managers' cash	29,059			(220)	18,373
Total Investment Assets	**682,984**			**34,113**	**725,110**

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 £539k (£357k in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2014 £000's	Market Value 31 March 2013 £000's
Adams Street Partners	22,459	23,366
Barings Global Asset Management	63,046	0
JP Morgan Asset Management	77,397	74,981
Kempen International Investments	77,356	46,884
LGT Capital Partners	17,257	18,215
M&G Investments	25,912	16,351
Macquarie Infrastructure	5,858	8,536
Newton Asset Management	23,618	22,819
Ruffer LLP	84,447	131,368
State Street Global Advisors	143,802	142,038
UBS Global Asset Management (Equities	115,829	135,737
UBS Global Asset Management (Property	54,368	48,574
UBS TAA	12,873	0
Other*	239	10,683
Total	**724,461**	**679,552**

* 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	14,206	14,060	146	13/01/2014	14/04/2014
Northern Trust JPY - GBP	1,675	1,679	(4)	17/01/2014	14/04/2014
Northern Trust JPY - GBP	3,381	3,441	(60)	24/01/2014	14/04/2014
Northern Trust JPY - GBP	1,655	1,664	(9)	05/03/2014	14/04/2014
Northern Trust JPY - GBP	1,755	1,779	(24)	17/03/2014	14/04/2014
Northern Trust GBP - EUR	23,781	23,661	120	06/02/2014	13/05/2014
Northern Trust GBP - USD	7,701	7,598	103	11/02/2014	15/05/2014
Northern Trust GBP - EUR	1,808	1,792	16	10/03/2014	13/06/2014
Total unrealised gains	**55,962**	**55,674**	**288**		

As at 31 March 2014 eight forward foreign exchange contracts were in place for £55,674k with unrealised gain of £288k. 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 2014 £000's	31 March 2013 £000's
Equities		
UK quoted	121,335	147,385
Overseas quoted	26,723	46,169
	148,058	**193,554**
Index Linked Securities		
UK Public Sector quoted	14,006	21,428
Overseas Public Sector Quoted	21,357	20,746
	35,363	**42,174**
Pooled Investment Vehicles		
UK Managed funds - other	364,199	260,800
UK Unit Trusts - property	50,427	46,465
Overseas Unit Trusts - other	70,413	68,267
Private Equity	37,146	39,617
	522,185	**415,149**
Other Investment balances		
Forward foreign exchange unrealised gain	288	0
Amount due from brokers	0	1,615
Outstanding dividend entitlements and recoverable withholding tax	843	1,433
	1,131	**3,048**
Cash deposits		
Sterling	18,373	29,059
	18,373	**29,059**
	725,110	**682,984**

NB: 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 information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2014 was £5,035k and as at 31 March 2013 £5,298k. 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 2014 £000's	31 March 2013 £000's
Amount outstanding to brokers	(649)	(3,351)
Forward foreign exchange unrealised loss	0	(81)
	(649)	**(3,432)**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration, management and custody	(3,704)	(3,796)
Performance measurement services	(10)	(12)
Other advisory fees	(55)	(114)
	(3,769)	**(3,922)**

13. CURRENT ASSETS

	31 March 2014 £000's	31 March 2013 £000's
Employers' contributions due	197	157
Employees' contributions due	65	56
Debtor: London Borough of Hillingdon	266	215
Debtor: Other Entities	7	4
Cash balances	2,267	3,926
	2,802	**4,358**

NB: The current assets all relate to amounts due from local government bodies with the exception of cash balances which is held with bodies external to government.

14. CURRENT LIABILITIES

	31 March 2014 £000's	31 March 2013 £000's
Creditor: Other Entities	(721)	(849)
Creditor: London Borough of Hillingdon	(6)	(9)
	(727)	**(858)**

NB: The total of £721k other entities is due to bodies external to government, namely investment managers.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fixed Interest Securities	35,363	42,174
Equities	148,058	193,554
Pooled Investments	429,343	321,011
Pooled Property Investments	50,427	46,465
Private Equity/Infrastructure	42,415	47,673
Derivative Contracts	288	0
Cash	18,373	29,059
Debtors	843	3,048
	725,110	682,984
Financial Liabilities		
Derivative Contracts	0	(81)
Creditors	(649)	(3,351)
	(649)	(3,432)
	724,461	**679,552**

b) Net Gains and Losses on Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fair Value through profit and loss	33,366	61,985
Financial Liabilities		
Fair Value through profit and loss	288	(81)
	33,654	**61,904**

c) Fair Value of Financial Instruments and liabilities

Financial Assets	31 March 2014 £000's Fair Value	31 March 2014 £000's Carrying Value	31 March 2013 £000's Fair Value	31 March 2013 £000's Carrying Value
Fair Value through profit and loss	705,606	705,606	650,877	650,877
Loans and receivables	19,504	19,504	32,107	32,107
Total Financial assets	**725,110**	**725,110**	**682,984**	**682,984**
Financial Liabilities				
Fair Value through profit and loss	(649)	(649)	(3,432)	(3,432)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(649)**	**(649)**	(3,432)	(3,432)

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2014	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	586,941	50,427	68,238	705,606
Loans and Receivables	12,316	3,940	3,248	19,504
Total Financial Assets	**599,257**	**54,367**	**71,486**	**725,110**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(649)	0	0	(649)
Total Financial Liabilities	**(649)**	**0**	**0**	**(649)**
Net Financial Assets	**598,608**	**54,367**	**71,486**	**724,461**

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	540,671	46,465	63,741	650,877
Loans and Receivables	27,270	2,109	2,728	32,107
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**

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee (ISC) have undertaken a review of the valuation processes for the Private Equity funds managed by Adams Street Partners and LGT Partners on behalf of the London Borough of Hillingdon Pension Fund and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation processes are 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 2014/15 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	11.73%
Overseas quoted equities	9.97%
UK Public Sector quoted Index-Linked Securities	6.73%
Overseas Public Sector quoted Index-Linked Securities	6.73%
Corporate Bonds	4.11%
UK Managed funds - other	11.73%
UK Unit Trusts - property	2.38%
Overseas Unit Trusts - other	9.97%
Private Equity	5.41%

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 2014 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Cash and Cash equivalents	18,373	0.00	18,373	18,373
Investment Assets				
UK quoted equities	121,335	11.73	135,568	107,102
Overseas quoted equities	26,723	9.97	29,387	24,059
UK Public Sector quoted Index-Linked Securities	14,006	6.73	14,949	13,063
Overseas Public Sector quoted Index-Linked Securities	21,357	6.73	22,794	19,920
UK Managed funds - Equities	155,020	11.73	173,204	136,836
UK Managed funds - Bonds	68,407	4.11	71,219	65,595
UK Unit Trusts - property	50,427	2.38	51,627	49,227
Overseas Unit Trusts - Equities	136,622	9.97	150,243	123,001
Overseas Unit Trusts - Bonds	69,294	4.11	72,142	66,446
Private Equity/Infrastructure	42,415	5.41	44,710	40,120
Net Derivative assets	288	0.00	288	288
Investment income due	843	0.00	843	843
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(649)	0.00	(649)	(649)
Total Assets Available to pay benefits	**724,461**		**784,698**	**664,225**

Asset type	Value as at 31 March 2013 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
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	49,913	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**		**739,224**	**620,419**

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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2014 £000's	31 March 2013 £000's
Cash equivalents	0	2,488
Cash	18,373	26,571
Fixed Interest Securities	173,064	168,117
Total	**191,437**	**197,176**

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 31 March 2014	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash Equivalents	0	0	0
Cash	18,373	184	(184)
Fixed Interest Securities	173,064	1,730	(1,730)
Total change in assets available	**191,437**	**1,914**	**(1,914)**

Asset Type	Carrying amount as 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	26,571	266	(266)
Fixed Interest Securities	168,117	1,681	(1,681)
Total change in assets available	**197,176**	**1,972**	**(1,972)**

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 2014 the Fund had a 100% Euro 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 2014 and as at the previous period ending 31 March 2013.

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value 31 March 2014	Asset value 31 March 2013
	£000's	£000's
Overseas quoted Securities	26,723	46,169
Overseas Corporate Bonds	69,294	72,200
Overseas Index-linked Bonds	21,357	20,746
Overseas managed funds	136,622	94,622
Private Equity/Infrastructure	42,415	47,673
	296,411	**281,410**

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 4.32%, based on the data provided by WM. A 4.32% 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 4.32% 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 31 March 2014	Change in the net assets available to pay benefits	
		+4.32%	-4.32%
	£000's	£000's	£000's
Overseas quoted Securities	26,723	27,877	25,569
Overseas Corporate Bonds	69,294	72,288	66,300
Overseas Index-linked Bonds	21,357	22,280	20,434
Overseas managed funds	136,622	142,524	130,720
Private Equity/Infrastructure	42,415	44,247	40,583
	296,411	**309,216**	**283,606**

Currency exposure by asset type

	Asset value 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**

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 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 2014 was £2,267k (31 March 2013: £16,046k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2014 £000's	Rating	Balances as at 31 March 2013 £000's
Money market funds				
Northern Trust Global Sterling Fund A	AAAm	200	AAAm	10,832
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	0	AAAm	2,488
Bank current accounts				
Natwest (Capita)	A-	949	A-	1,169
HSBC Plc	AA-	1,118	AA-	1,557
Total		2,267		16,046

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 (£2,267k). 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 2014 these assets totalled £586,941k, with a further £18,373k 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 2013. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 72% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2013 was £683,052k. The value of the deficit at that date was £266,000k.

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 28.7% for the period of 1 April 2014 to 31 March 2017.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 2.50%

Funding Basis Discount Rate - 4.60%

Pay Increases - 3.30%

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 2014 % P.a.**	**31 March 2013 % P.a.**
Inflation /Pensions Increase Rate	2.8%	2.8%
*Salary Increase Rate	3.6%	5.1%
Discount Rate	4.3%	4.5%

*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 2014 by Hymans Robertson LLP with the following results:

Description	**31 March 2014 £000's**	**31 March 2013 £000's**
Present Value of Promised Retirement Benefits	1,102,000	1,066,000
Assets	726,536	683,052
Deficit	375,464	382,948

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.

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 were five members of the pension fund committee who were 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 31 March 2014 £000's	Accrued pension 31 March 2013 £000's
Corporate Director of Finance	1,128	1,107
Deputy Director - Strategic Finance	672	622

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 2014, securities worth £17,302k were on loan by Northern Trust from our portfolio and collateral worth £18,715k was held within the pool including Hillingdon. In the same period, a net income of £36k 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 2013/14.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2014 totalled £61,506k (31 March 2013: £45,175k).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure and secondary property 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

AEW UK Investment Ltd was appointed on 02 April, 2014 to manage about £15 million of the fund's assets in secondary property allocations. This was part of the fund's strive to increase returns and consequently improve funding position. On the same day, a further £15 million was committed to the M&G Debt Opportunities Fund II in addition to the previous £30 million already committed to two existing M&G funds. Funding for the cumulative £30 million allocation to AEW and M&G Debt Opportunities Fund II are to be derived from divestment from JP Morgan Asset Management Fund currently valued at £77 million. Due to the nature of the two new investments, the funds will be drawn-down by the two fund managers when required. As such, there is no need for transition management, as the JP Morgan fund is traded daily with a four day notice period for cash redemptions.

London Borough of Hillingdon
Annual Governance Statement 2013-14

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 2014 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. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions. Cabinet meetings are open to the public and media to attend and report on.

4 Part 2, articles 6 and 8 (including Part 4,E) set out how the Council's non-executive decisions by Members are taken. **Policy Overview and Scrutiny Committees** undertake regular monitoring of services, performance and the budget and an annual programme of major Member-led service reviews involving witness testimony aimed at influencing executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained Elected Councillors, in accordance with the Council's high ethical standards. A new Major Applications Planning Committee established in 2013 has strengthened the way the Council determines major developments and commercial / business applications.

5 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. Within this, each Directorate has individual Schemes of Delegations, setting out how Directors' responsibilities are sub-delegated. Following organisational restructuring, the scheme of delegations for Adult Social Care and Children and Young Peoples Services are in the process of being updated.

6 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.

7 The Council, as opposed to adopting a Code of Corporate Governance ensures that Hillingdon's governance structure, decision making process and areas of responsibility are covered in the Council's Constitution and schemes of delegation.

8 **A Member training programme** is devised for each municipal year. Training on the new Code of Conduct took place in the Autumn of 2012, delivered by the Borough Solicitor and Head of Democratic Services and further training will be delivered to Members following the local elections in May 2014. Complaints about alleged breaches of the Code are 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 an induction and training programme for Members along with specific training on scrutiny, planning and

licensing rules.

9 **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.

10 **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.

11 **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. A recent Internal Audit review in this area identified some areas requiring improvements relating to the process surrounding the recording of whistle-blowing allegations to ensure the right officers are promptly notified and sufficient records are maintained.

12 **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).

13 **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.

14 **The Business Improvement Delivery (BID)** programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates. Through the programme, savings of £17.1 million were delivered in 2013-14 taking total savings over the last four years to over £70 million. The BID programme delivery and expenditure is overseen by the Leader of the Council, and the Deputy Chief Executive and Corporate Director of Residents Services.

15 **The Medium Term Financial Forecast (MTFF)** process is the system of service, financial and annual budget planning. This runs from the preceding March 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.

16 **Hillingdon Partners** aims to bring together the local public, private, voluntary and community sector organisations to improve the quality of life for all those who live in, work in and visit

Hillingdon. The Partnership works to promote the interests of Hillingdon beyond the borough's boundaries with external organisations, regional bodies and central government. The Partnership has agreed 10 priority areas for the focus of its work, with actions to address local priorities delivered through five theme groups.

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. Following a redesign of the JSNA in 2011, further work has been undertaken to maintain the content through 2013. 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 Independently Chaired Audit Committee** operates to oversee the financial reporting, provide scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities 2005. Internal audit carried a review of the effectiveness of the Audit Committee in 2013/14 and identified some inconsistencies between the current arrangements and the CIPFA recommended best practice.

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. 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. 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. During 2013/14 Internal Audit highlighted a number of areas for further improvement.

- **A Corporate Risk Management Group** (CRMG), chaired by the Corporate Director of Finance, 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 reported to 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 will form part of the induction programme for key new staff.

21 The Council acknowledges that there is a need for robust and effective risk management processes and procedures that will help to mitigate against the potential increases in **insurance costs** as a result of the hardening of the insurance market.

22 **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.

23 A Council-wide officer group, the **Hillingdon Information Assurance Group** (HIAG), chaired by the Senior Information Risk Owner on behalf of the Corporate Management team, meets every two months to review progress on the agreed information governance work plan. Policies, procedures and guidelines for staff are updated regularly, mandatory data protection training has been rolled out to all staff, briefings have been delivered to Elected Members and where identified, learning from cases has been implemented.

24 The London Borough of Hillingdon has **an Anti-Fraud and Anti-Corruption Strategy** approved by Cabinet 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. Following an Internal Audit review of the Council's Corporate Anti-Fraud and Anti-Corruption arrangements it was identified, along with other areas of concern, that the strategy and some of the supporting policies needed updating in light of changes in the Council's organisational structure (see 5.12).

25 **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.

26 The London Borough of Hillingdon **monitors legislative changes** consider implications and opportunities and ensure that the authority is substantially compliant with laws and regulations. The Policy Team leads on briefing the Corporate Management Team on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review Member and Cabinet decisions for legal compliance.

27 **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.

28 The **Performance and Development Appraisal (PADA)** process requires all officers and senior managers, to record employee's key objectives and tasks, set targets for when these must be delivered and identify 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.

29 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

30 **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.

31 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 2014 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 Finance scheme of Delegations. As a key member of the Corporate Management Team leadership, his role is to act as and exercise the functions of the "Chief Finance Officer" meaning the officer designated under section 151 of the Local Government Act 1972. As such he is actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.

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 reported regularly during the year to both the Corporate Management Team and the Audit Committee and has provided a reasonable level of assurance on the internal control environment in 2013-14.

5 The internal control assurance statement template was updated for the 2013-14 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 2013-14. 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 £35.9 million by 31 March 2013.

7 The London Borough of Hillingdon has a clear commitment to a capable and fit for purpose procurement function. Working to a Category Management approach, 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. It is recognised that through the Category Management approach, contact management and monitoring has improved. Relationships have also improved between Procurement, Legal Services and Service areas.

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 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. Following historical weaknesses in the monitoring and control of some construction projects, new processes and procedures, including 'Gateway Sign Off's' have been implemented across all Asset Management functions, including Housing and Facilities Management. Further work is underway to bring together all property, construction and maintenance functions in a consistent and coherent way.

All internal control issues reported in the 2012-13 AGS have been resolved, except that:

2. Significant progress has been made through the Tenancy Sustainment and Housing BID programmes in reviewing and reshaping Housing Services. Further work is underway to enhance operational processes and procedures to reflect new ways of working, ensure effective contract management and create a strong corporate, joined up approach. Closer working relationships between Housing and other corporate services areas, for example Procurement, are ensuring that issues, once identified, are addressed and resolved in a more timely manner.

Following a review of the effectiveness of the system of internal control, the following governance issues have been identified in 2013-14:

3. A lack of direct Local Authority control over the recruitment process for school staff means that assurance in this area is significantly lacking. This has given some cause for concern during 2013-14. Internal Audit are working on a themed audit to identify ways to improve control and governance. Recommendations will be picked up through the Local Authority Designated Officer offering support to schools through their safeguarding work.

4. Following an Internal Audit Review in 2013-14, a lack of understanding amongst staff about the importance of declaring financial and non-financial interests was highlighted. There are key service areas that are more at risk of conflicting interests for example where a contract or supplier relationship is in place. A review is being completed of a number of employee related codes and guidance in the constitution as recommended by Audit. These include the guidance on declaring interests, gifts and hospitality and also Member/ Officer protocol and Officer Code of Conduct.

5. In November and December 2013 Ofsted conducted an inspection of services for children in need of help and protection, children looked after and care leavers. The Services were judged by Ofsted as 'require improving'.

The inspection found many strengths including the visible and committed leadership from the Leader of the Council, the Deputy Leader of the Council and senior officers to transform services; recognition that the new ways of working being implemented was the right model; the council is working well with partners to keep children safe; a strong commitment to improve the lives of children looked after; a good adoption service; and effective support for children who leave care.

The council needs to ensure consistency in practice, including assessments, care planning and reviews; establish strong management oversight and performance management of case work; and embed a sustainable approach to improvement, including the recruitment and retention of a high calibre workforce.

In response to the inspection findings, the Director of Children and Young People's services has established an action plan to achieve a 'good' Ofsted grade by addressing the 11 issues identified by Ofsted. Lead officers have been identified for all areas, and progress and targets are monitored by the Director every two weeks. Performance reports and the findings from practice audits are reviewed to measure what difference the action plan is making. The action plan and progress has been reported to the Leader of the Council and Ofsted.

6. Following an Internal Audit review which was published in May 2014, a number of control issues were identified with regards the data reporting and accuracy of housing rent arrears during 2013-14. Significant delays were also highlighted in the setting up of some rent accounts. Management action is in place to address the issues and Internal Audit are following up on its implementation.

7. An Internal Audit Assurance Report for Looked After Children Placed out of Borough highlighted some issues in the areas of management of care plans, specifically:

- The timeliness of approving plans and scanning documents into Civica
- The review of exception reports in Protocol ICS

Both these issues have been resolved by the Service Teams working closer with ICT and the Performance and Intelligence team and improvements in management practices.

8. Effective information governance remains a high priority for the local authority, however there have been some Data Protection breaches during 2013-14, which have been quickly identified and addressed in line with expected procedures. During 2014/15 all staff will be undertaking refresher data protection training to ensure standards in information governance remain high and key policies and guidelines will be reviewed.

9. An incident occurred in the Payments Team, whereby a member of the team used the bank details provided on the AP02 payment form rather than independently verifying the payees bank details. This meant that two payments to a landlord were issued to an incorrect payee. The Council recovered the money in full but a full review of the process was undertaken with Strategic Finance and more stringent controls have now been implemented including a new AP02 form.

10. The legislation outlining the responsibility for provision of post 19 education places for students with Learning Disabilities changed during 2012-13 with responsibility passing from the Education Funding Agency to Local Authorities. A stage 3 complaint during 2013-14 highlighted a need for greater clarity around Hillingdon’s process and control for dealing with the changes. A policy is now in place and responsibility lies within the all-age disability pathway programme.

11. The need to continually review and transform services to drive improvements and efficiencies continues under the government's austerity measures. Hillingdon's successful BID programme has delivered significant savings to date and will be applied further over coming years. There is a need therefore to constantly review and update policies and procedures to take account of changes, for example in the areas of roles and responsibilities, scheme of delegations, succession plans and structure charts.

12. An Internal Audit Assurance Report on the Council's Corporate Anti-Fraud and Anti-Corruption arrangements identified a number of areas requiring improvement, detailed in paragraphs 3.11 and 3.24. Positive action has been proposed by senior management and progress is under way to strengthen the Council's arrangements in this area.

Fran Beasley
Chief Executive
10 September 2014

Cllr Ray Puddifoot MBE
Leader of the Council
10 September 2014

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.

CREDIT RISK - Risk that other parties might fail to pay amounts due to the council

CURRENT ASSET - An asset held, which will be consumed or cease to have value within the next financial year; examples are stocks and debtors.

CURRENT LIABILITY - An amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

CURRENT SERVICE COST - The increase in the present value of Pension Fund Liabilities expected to arise from current year service.

DEBTORS / RECEIVABLES - Amounts owed to the 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.

LIQUIDITY RISK - The risk that the council might not have funds available to meet its commitments to make payments.

MARKET RISK - The risk that the council will loss out financially as a result in market factors such as interest rates or stock market movements.

MINIMUM REVENUE PROVISION - (MRP) - The minimum amount, which must be charged each year to 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.

YIELD - The amount of cash (in percent terms) of the return on investing activities

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 2013/14 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

To note the auditor's findings and to approve the Annual Report of the Pension Fund.

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 2014.

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 23 September 2014.

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:

- Significant audit risks
- Accounting and internal controls
- Consideration of Fraud

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 an adjustment made to the split between normal and deficit contributions, as the split has been based in incorrect information.

8. In relation to accounting and internal control systems, Deloitte have made one recommendation and that relates to the misstatement mentioned above. The recommendation was to develop a process which confirms the appropriate split with the latest actuary valuation. This process is now in place to ensure this error does not reoccur.

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 Pension Fund

Report to the Pension Committee and the Audit Committee for the year ended 31 March 2014 Pension Fund Audit

the Distinctive audit

19 August 2014

Contents

The big picture

The Big Picture

We have pleasure in setting out in this document our report to the Pension Committee and Audit Committee of the London Borough of Hillingdon Pension Fund for the year ended 31 March 2014 for discussion at the meeting scheduled for 23 September 2014. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2014.

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.

Audit Scope

The scope of our audit is unchanged from the previous period and from the scope set out in our Planning Report dated 27 February 2014.

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the financial statements which are prepared under CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").
- Report to "those charged with governance" on certain additional matters, including any adjusted and unadjusted errors identified by our audit, our independence and any other issues we consider should be brought to their attention.

Significant representations

A copy of the representation letter to be signed on behalf of the Pension Committee and Audit Committee has been included in Appendix 1 of this report. There are no new representations to highlight to those included for the 2013 audit.

Independence

We have identified no matters which would affect our independence as auditor. Our reporting requirements in respect of independence matters, including fees, are covered in Appendix 4.

"I am delighted to present our final report on the findings from our 2013/14 audit."

Heather Bygrave, Audit Partner

A reminder of our audit plan:

- Materiality: £7.3m (2012/13: £7.5m).
- Threshold for reporting misstatements: £0.36m (2012/13: £0.38m).
- Significant risks over contributions, benefits, investments and management override of controls.

The Big Picture (continued)

Status of the audit

We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan.

This report does not include any post balance sheet events from the date of issue of the report on 19 August 2014.

We have substantially completed our remaining audit work 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.

Significant audit risks

This section explains the nature of the significant risks we have identified, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and disclosure matters within the financial statements.

1. Completeness and accuracy of contributions

Significant audit risk

Nature of risk

Unlike the position 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.

Impact on the financial statements and our audit challenge

Errors in processing contributions can lead to issues such as deducting incorrect amounts from active members' payroll, which can be costly to rectify and result in reputational damage.

Work completed to address the significant risk

We have performed the following testing to address the significant risks around contributions:

- reviewed the design and implementation of controls present in the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly;
- we performed sample tests of details 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 contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level.

We note the following from our testing:

- It was noted that an incorrect allocation of the contributions between employer normal contributions and deficit contributions was disclosed in the fund account for both the current and prior year. The employer normal contribution is capped for 12/13 and 13/14 at 15.9% and contributions made over and above this amount are classed as deficit contribution. The London Borough of Hillingdon also has an additional 1% of employer normal contribution to cover early retirement costs. We have discussed this with the Fund's Actuary to confirm the calculation.
- As such £80k has been posted as an adjustment to re-allocate deficit funding from employer normal contributions for the current year. A similar adjustment has been reflected in the prior year which has led to a restatement of £3m being posted as an adjustment to re-allocate to deficit funding from employer normal contributions.
- All other testing was completed with satisfactory results.

Deloitte view

We have formed a satisfactory conclusion in this area based on the results from the procedures performed.

2. Valuation of investments

Significant audit risk

Nature of risk

The Fund makes some use of investments in unquoted investments vehicles, such as private equity funds.

The value of unquoted private equity vehicles represents 5% (2013: 6%) of the assets of the Fund as a whole, totalling £37.1m (2013: £39.6m). The majority of the investments held by the Fund are in investments which have a quoted value £598.6m (2013: £564.5m) or are derived from quoted values £88.8m (2013: £75.4m);

Market volatility raises questions about how to value private equity funds. 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.

In addition derivative financial instruments were identified as a risk due to the complexities in the valuations, however the scheme has only £288,000 investment asset relating to these products in the current year.

Impact on the financial statements and our audit challenge

Incorrect valuations of investments can lead to misstatements in the financial statements impacting investment decisions and future recovery plans.

Audit procedures completed to address the focus area

The following tests were performed to address the significant risks:

- 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 reconciled the total value of the investments held by the Fund as reported in the investment report from the custodian, 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 engaged our internal financial instrument experts to ensure our testing approach was appropriate given the Fund's specific investment strategy and portfolio;
- 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 by comparing the latest audited accounts of the investment (and its subsequent cash movements if the audited accounts are not same year end as the Fund) to ensure there are no differences to those in the Fund's financial statements; and
- 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.

Deloitte view

No issues were identified during the completion the testing.

We confirm there are no matters we wish to bring to the attention of the Committee.

2. Valuation of investments (continued)

Significant audit risk

Audit procedures completed to address the focus area (continued)

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 2014 relates to the December 2013 valuations. The valuations as at March 2014 are not provided until July 2014 by Adams Street. For the current year, management waited for the updated valuations by Adam Street and reflected the March 2014 valuations in the financial statements. This resulted in an increase in the value of these investments by £171k which has been reflected in the final financial statements. We received confirmations of these valuations as part of our audit procedures.

In addition it was noted that the audited accounts for the LGT Capital Partner funds again contained modified opinions. The scheme has £17.3m (2013: £18.2m) 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. We gained a further understanding of the valuation process used and noted that this was in line with 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 (ISC) have undertaken a review of the valuation processes for the Private Equity funds managed by Adams Street Partners and LGT Partners on behalf of the London Borough of Hillingdon Pension Fund and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation processes are 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.

We also note that, whilst not an adjustment, there are pricing differences totalling £680,000 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.

3. Accuracy of benefit calculations

Significant audit risk

Nature of risk

Changes 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 which are in addition to the annual increases required by the 1997 Regulation and Pension (Increases) Act 1971.

The risk noted was that benefits payable could be inaccurately recorded and that unauthorised payments could be made to non-existent members.

Impact on the financial statements and our audit challenge

Incorrect benefit calculations or making payments to members who are not eligible can lead to misstatements in the financial statements, financial loss, pensioner's being wrongly paid and reputational damage.

Work completed to address the focus area

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 that controls were in force during the year under review;
- we obtained a schedule of benefits paid and selected a sample of benefits for detailed testing. The sample was tested through agreement to supporting documentation and review of the calculation, by reference to the qualifying service, Fund rules and benefit choices made by the member; and
- we developed an expectation based on the prior year balance, adjusted for changes in membership numbers and pension increases to analytically review the pension benefits paid in the year.

Deloitte view

We have formed a satisfactory conclusion in this area based on the results from the procedures performed. There are no matters to bring to the attention of the Committee.

4. Management override of controls

Presumed significant audit risk

Nature of risk

In accordance with ISA 240 (UK and Ireland) management override is always a significant risk. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Work completed to address the significant risk

Our audit work included:

- we reviewed the controls around the financial reporting process, including segregation of duties, existence of reporting manuals, reviews and processing and approval of journal entries;
- 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;
- we have made enquiries of those charged with governance as part of our planning and detailed audit processes; and
- we reviewed and challenged the financial statements and management judgements against the SORP, LGPS and applicable UK pension regulations.

Deloitte view

There are no matters to bring to the attention of the Committee.

We have not identified any significant judgements or estimates used by management and there is no indication of significant bias.

Insight - Internal control and risk management

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the Pension Committee & Audit Committee.

Accounting and internal controls

We highlight one update from a prior period control observation

We are required to provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and other risks arising from the entity's business model and the effectiveness of related internal controls.

Observation

As observed in the prior year, 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. We enquired with management on how this has updated for the current year. We obtained correspondence between management and the actuary as to how this split should have been calculated. We reconfirmed with the actuary direct that the calculation was in line with the latest actuarial valuation and recalculated the split. Whilst there is no issue with the total amount being paid, an adjustment was posted to re-allocate £80k of contributions between normal and deficit in the current year and £3m in the prior year following confirmation of the calculation with the Actuary.

Recommendation

We recommend a process be implemented that confirms the appropriate allocation with the latest actuary valuation with the Fund Actuary when the deficit contributions are being calculated.

Management response

Management agree with this recommendation and confirm that a process will be developed during the autumn as part of our annual review of the closing process.

Consideration of fraud

Consideration of fraud

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

ISA (UK and Ireland) 240 – 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us to document an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks. It also requires us to presume there is a risk of fraud in respect of revenue recognition; however, considering the nature of the Fund and the revenue streams (mainly contributions and investment income) we have rebutted this risk.

We have made enquiries of management and others within the Fund as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Fund. In addition, we are required to discuss the following with the Committee:

1. Whether the Committee have knowledge of any fraud, alleged or suspected fraud
2. The role that the Committee exercise in oversight of the:
   - assessment of the risks of fraud and
   - design and implementation of internal controls to prevent and detect fraud
3. The Committees' assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. Whether the Committee has disclosed to us all information in relation to any fraud, alleged or suspected fraud

Representations from the Committee in this area are included in the draft letter of representation included in Appendix 1 of this report.

Management override of controls

In addition to the procedures above we are required to design and perform audit procedures to respond to the risk of management's override of controls, which included:

- understanding and evaluating the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, we tested the appropriateness of a sample of such entries and adjustments.
- a review of accounting estimates for bias that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management. We also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.
- obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Fund and its environment.

Responsibility Statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Pension & Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Any internal control observations; and
- Insights we may have identified from our audit.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated 27 February 2014.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

19 August 2014

This report has been prepared for the Pension Committee and the 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.

Appendices

Appendix 1: Draft representation letter

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3TF

Our Ref: ***HAB/GYW/2014*** ***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 2014 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 2013/14, the financial transactions of the Pension Fund during the year ended 31 March 2014, and the amount and disposition of the Fund's asset and liabilities as at 31 March 2014, 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 Pension Fund 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. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We 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.

5. 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.

6. 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.

Appendix 1: Draft representation letter (continued)

7. 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.

8. 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 the Code of Audit Practice on Local Authority Accounting in the United Kingdom in 2013/14: based on International Financial Reporting Standards or other regulations.

9. 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.

10. You have been informed of all changes to the Fund rules during the year and up to the current date.

11. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

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

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

14. There have been no events subsequent to 31 March 2014 which require adjustment of or disclosure in the financial statements or notes thereto.

15. 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.

16. The pension Fund accounts and related notes are free from material misstatements, including omissions.

17. 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.

18. The Fund has satisfactory title to all assets.

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

Appendix 1: Draft representation letter (continued)

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

21. 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.

22. 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.

23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2014 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 Pension Fund

Appendix 2: Audit adjustments
Unadjusted misstatements detail

Uncorrected misstatements

We report all individual identified uncorrected misstatements in excess of £360,000 (2013: £380,000) for the financial statements:

	Credit/ (charge) to current year fund account £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in prior year net assets £'000	Increase/ (decrease) in contributions £'000
Uncorrected misstatements				
None noted				

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable those charged with governance to evaluate the impact of those matters on the financial statements. There were no disclosure deficiencies identified to bring to the attention of the Committee.

Appendix 3: Fraud: responsibilities and representations

Required representations

We have asked the Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you that affects the Fund.

Audit work performed

In our planning we identified management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management.
In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Pension and Audit committee on the process for identifying, evaluating and managing the system of internal financial control.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Appendix 4: Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Fees	Our fee for the audit of the 2014 accounts was £21,000 plus disbursements and VAT (2013: £21,000). In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to London Borough of Hillingdon Pension Fund was £2,874.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Fund's policy for the supply of non-audit services or of any apparent breach of that policy. To confirm we have not performed any non-audit services in the year or previous year. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships between us and the audited entity, its senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its senior management and its affiliates that we consider may reasonably be thought to bear on our objectivity and independence and the related safeguards that have been put in place. We can confirm that we are not aware of any such relationships.

Pension Fund
Annual Report & Accounts
for the year to 31 March 2014

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CONTENTS

PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2014

Administering Authority: London Borough of Hillingdon

Pension Fund Committee Members as at 31 March 2014:
Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Paul Harmsworth
Cllr Raymond Graham
Cllr David Simmonds
Cllr Janet Duncan
John Holroyd(Pensioner/Deferred Member Rep)
Andrew Scott (Active Member Rep)

Corporate Director of Finance: Paul Whaymand

Strategic Investment Consultant: Hymans Robertson LLP

Independent Investment Adviser: Scott Jamieson

Fund Managers:
Adam Street Partners
Barings Asset Management
JP Morgan Asset management
Kempen International Investments
LGT Capital Partners
Macquarie Investment
M&G Investments (Direct Investment)
Newton Investment Management
Ruffer LLP
State Street Global Advisors
UBS Global Asset Management

Actuary: Hymans Robertson LLP

Administration: Capita Employee Benefits

Legal Services: Raj Alagh, Borough Solicitor LBH

Auditor: Deloitte LLP

Banker: HSBC Bank Plc
Natwest Plc

Custodian for Fund Assets: Northern Trust Company

AVC Provider: Prudential Assurance Company

Officer Support:
Nancy le Roux, Deputy Director - Strategic Finance
Ken Chisholm, Corporate Pensions Manager
Tunde Adekoya, Pension Fund Accountant

2. Management Report

(a) Introduction

London Borough of Hillingdon is the administering authority for the London Borough of Hillingdon Pension Fund, which is part of the Local Government Pension Scheme (LGPS). All aspects of the Fund's management and administration, including investment matters are overseen by the Pensions Committee.

The day to day management of the investment of the funds is undertaken by independent Fund managers. The Pensions Administration of the scheme is performed by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon.

During the year Pensions Committee meet formally on four occasions and the Investment sub-committee also meet four times per year between main committee meetings and on an ad hoc basis as required.

b) Membership

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Membership of the LGPS is not compulsory, although employees are automatically admitted to the Fund unless they elect otherwise. Over the last few years total membership of the Fund has grown as shown in the table below. There has been a large increase in the number of active scheme members in the last year, which is due to the L B Hillingdon and other scheme employers undergoing auto-enrolment.

5 Year Analysis of Fund Membership

Membership type	2009/10	2010/11	2011/12	2012/13	2013/14	5 year movement
Active	6,235	6,039	5,948	6,213	7,524	+20.67%
Pensioner	4,991	5,187	5,378	5,498	6,003	+20.28%
Deferred	4,772	4,890	5,492	5,883	6,311	+32.25%
Total Membership	**15,988**	**16,116**	**16,818**	**17,594**	**19,838**	**+24.08%**

Early Retirement: The total number of scheme members who retired on the grounds of redundancy or efficiency of the service is given below, together with the number of scheme members who retired on the grounds of permanent ill health. The figures are as at 31 March of each year.

Type of Retirement	2009/10	2010/11	2011/12	2012/13	2013/14
Redundancy or Efficiency	21	26	65	23	50
Ill Health	15	13	12	6	3
Total	**36**	**39**	**77**	**29**	**53**

The age and membership profile as at 31 March 2014 is shown below-

Age Band	Active	Deferred	Pensioner/Dependent	Total
0 - 5	0	0	1	1
6 – 10	0	0	0	0
11 – 15	0	0	19	19
16 – 20	123	6	21	150
21 – 25	353	176	13	542
26 – 30	521	434	0	955
31 – 35	690	583	1	1,274
36 – 40	789	655	2	1,446
41 – 45	1,090	927	15	2,032
46 – 50	1,372	1,224	35	2,631
51 – 55	1,234	1,197	93	2,524
56 – 60	841	871	312	2,024
61 – 65	386	175	1,112	1,673
66 – 70	107	47	1,380	1,534
71 – 75	18	10	966	994
76 – 80	0	6	884	890
81 – 85	0	0	660	660
86 – 90	0	0	335	335
91 – 95	0	0	131	131
96 – 100	0	0	20	20
Over 100	0	0	3	3
Total	**7,524**	**6,311**	**6,003**	**19,838**

(c) Key Performance Data

All LGPS Funds measure performance against key industry performance indicators. Targets are set and agreed at the start of each year. Pensions Committee receive a quarterly report on performance which addresses any concerns in relation to performance. The table below details CEB's performance against target for the year to 31 March 2014.

Performance Indicator	Hillingdon Target	2012/13 Performance %	2013/14 Performance %
Letter detailing transfer in quote	10 days	98.81	87.18
Letter detailing transfer out quote	10 days	99.31	78.38
Process refund & issue payment	5 days	97.22	81.64
Letter notifying estimate of benefit	10 days	97.85	80.07
Letter notifying actual benefit	5 days	95.21	78.14
Letter acknowledging death	5 days	99.48	82.77
Letter notifying amount of dependant's benefit	5 days	100.00	50.50
Calculate & notify deferred benefits	10 days	95.65	78.70

(d) Employer Contributions

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer rate of contributions is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total contributions paid by each Employer in 2013/14 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Barnhill Community School	297,877.77	23.40
Belmore Primary School	137,074.11	22.80
Bishop Ramsey School	172,984.05	26.30
Bishopshalt School	230,273.35	29.60
Charville Academy	148,436.27	34.50
Coteford Junior School	187,442.26	27.40
Cranford Park School	210,748.07	28.00
Douay Martyrs School	193,365.12	30.30
Eden Academy	560,338.02	25.10
Genuine Dining Ltd	40,820.00	21.00
Greenwich Leisure	83,784.40	16.80
Guru Nanak Academy	292,011.18	21.20
Harefield Academy	141,111.70	19.00
Haydon School	283,708.07	22.20
Heathrow Travel care	19,896.25	18.90
Hewens Academy	188,396.67	24.50
Hillingdon & Ealing Citizens Advice	37,397.22	19.10 + £12,000.00
LBDS Frays Academy	190,552.73	24.80
London Housing Consortium	98,975.11	21.00
Mitie Cleaning	25,205.72	21.00
Mitie Facilities Management	66,616.08	21.00
Nanaksar Primary School	14,738.48	15.30
Northwood School	79,160.68	21.70
Queensmead School	130,919.62	24.30
Stag Security Services	1,537.32	20.60
Stockley Academy	169,413.94	19.40
Swakeleys Academy	136,174.83	24.00
Uxbridge College	792,071.13	17.80
Uxbridge High School	181,248.55	21.50
Vyners Academy	180,161.17	28.70
Willows Academy	43,060.08	27.20
Wood End Park School	204,784.43	24.50
Total	**5,540,284.38**	

(e) Impact of Contributions received and Benefits paid on cash flow

Total contributions and transfers In received during the year were £35.8m, an increase of £3.6m over 2012/13, this was primarily due to the increased number of scheme members, and the number of transfers In received. The total benefits and transfers out, in 2013/14 amounted to £37.6m, an increase of £4.2m on last year. The overall deficit between income and expenditure was £2.4m, an increase of £0.6m over 2012/13.

(f) Administrative expenses

Administration expenses increased over the year by £21k due to the additional actuarial costs associated with the triennial valuation as at 31 March 2013.

3. Risk Management

As part of the governance arrangements of the Pension Fund, it is a requirement to recognise and monitor the key risks facing the Pension Fund. These risks fall under several categories – financial, demographic, regulatory, and administrative and governance risks.

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated monthly and reported to Pension Committee on an exception basis. A brief narrative description of each risk is set out below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement in Section F of this report.

Key Risk 1 – Financial Risks - a team of experienced officers and advisors support the Pensions' Committee who ensure the monitoring of all financial risks for impact. The financial risks cover all aspects of the Fund's investment strategy, the impact of changes on the returns on investments, the impact of active manager performance, and the impact of pay and price inflation. Currently only the risk of the Fund's investment returns failing to match arising liabilities is reported corporately to the Council.

Key Risk 2 – Demographic Risks - The risk of pensioners living longer is the key risk in this area. Active monitoring of retirement patterns allow additional employer contributions to be requested if required.

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the Fund; however, Hillingdon fully participates in consultation exercises where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and future changes to the officer support to the Fund will help further mitigate these risks.

PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT COMMENTARY FOR THE YEAR TO 31 MARCH 2014

Equity markets in the UK, Euro zone and North America performed strongly over the year, albeit with some unsettled periods when share prices fell. Investor confidence was supported, in the main, by record low short-term interest rates.

In late May 2013, there was a distinct, if short lived, change in the prevailing bullish market sentiment, when the US central bank hinted it might begin scaling back its programme of asset purchases. Signs of a potential credit crunch in China, reduced forecasts for economic growth in the Euro zone and an uncertain outlook in the UK added to the sense of unease. Equity markets responded with sharp falls, particularly in Asia Pacific and Emerging markets. In the UK, Europe and US, there was some recovery over the summer of 2013, as central banks sought to re-assure investors and to restore confidence.

In December 2013, and after much speculation, the US central bank commenced the scaling back of its monthly asset buying program. This is likely to be phased out entirely during 2014 but official guidance indicates no rise in interest rates until there is clear evidence of sustainable economic growth. In contrast to US policy, the European central bank provided further monetary easing through two cuts in short-term interest rates; one in May 2013, from 0.75% to 0.50%, and a second in November 2013, to 0.25%, as inflation in the Euro zone dipped below 1% p.a.

In the March 2014 budget, branded as a budget for ‘savers’, the Chancellor of the Exchequer announced an increase in the threshold for tax free savings and greater flexibility in the operation of defined contribution pension plans. At the same time, the Office for Budget Responsibility revised its forecast for UK economic growth in 2014, from 2.4% to 2.7%. On this basis, the economy will surpass its pre-crisis peak later this year. Despite the more optimistic tone of published economic data, a number of commentators expressed concerns over the strength and breadth of the recovery and whether it is sufficient to resolve problems of a more structural nature. Consequently, further austerity measures remain on the agenda.

Key events over the 12 month period were:

Global Economy

- Forecasts of UK economic growth for 2014 & 2015 were revised upwards by the Office for Budget Responsibility;
- Short-term interest rates were unchanged in UK and US and reduced, in two stages, from 0.75% to 0.25%, in the Euro zone;
- The Euro zone emerged from recession after four consecutive quarter of economic contraction but growth remained very subdued;
- The European Commission allowed some member states to slow the pace of austerity measures. In the UK, the government’s deficit reduction plans remained on course;
- UK inflation (CPI) fell to a four year low of 1.7% (v. target of 2%) in February 2014;
- Euro zone inflation fell to 0.5% in March 2014 (the lowest rate since November 2009);
- Japan reported a record trade deficit in 2013, as a weak Yen pushed up the cost of imports.

Equities

- The best performing sectors relative to the 'All World' Index were Technology (+8.1%) and Health Care (+7.6%); the worst were Basic Materials (-9.8%) and Consumer Goods (-5.2%);
- Barclays Bank announced a £5bn rights issue (and a £2bn bond issue) to meet new capital requirements (July 2013);
- Vodafone sold its 45% stake in Verizon for $130bn (September 2013).
- The UK government announced plan to sell further shares in Lloyds Banking Group, to bring its holding down to 25% (March 2014).

Bonds

- UK government bonds yields rose (prices fell), reflecting optimism about the economic outlook;
- Corporate bonds outperformed their government counterparts by a comfortable margin;
- Argentinian devaluation in January 2014 caused sharp fluctuations in other emerging market currencies.

Linda Selman May 2014, for and on behalf of Hymans Robertson LLP

INVESTMENT STRATEGY

The setting and maintenance of the Fund's investment strategy is undertaken through the work of the Investment Sub Committee. The main consideration when devising an investment strategy for the Fund is recognising that the objective of the Fund is to pay benefits to members and their dependents, both now and in the future. These benefits, which form the liabilities of the Fund, are very long term in nature. For that reason, a reasonably high proportion of assets are invested in growth assets such as equities and property which are expected to deliver higher investment returns over the longer term.

During 2013/14 several changes to the Fund's asset allocation were agreed and implemented:

- Transition of assets totalling £61m from both UBS Equities and Ruffer portfolios was implemented in April 2013 to fund the new Barings Dynamic Asset Allocation strategy, as decided by the Pensions Committee in March 2013.

- Following a review of the Fund's asset allocation and style risk profile, committee decided to reduce the Fund's exposure to UK Equities and lock-in some gains from the outperformance of the UBS Equities portfolio through 2013/14 and to increase exposure to Emerging markets where the Fund was underweight. As a result £29m was disinvested from the UBS Equity Portfolio and the same amount was invested in the Kempen Global Higher Dividend Fund.

- The Fund concluded arrangements to action the final part of commitment to Infrastructure investments by committing $10m to the Macquarie Infrastructure Programme III (MIP III), the North American offering to fully diversify investments in infrastructure as planned at its inception.

- A decision was taken to defund the JP Morgan Corporate Bonds portfolio for reasons associated with very low, though positive, returns achieved and the likely lack of offsetting performance on any decline in equities, although the movement of funds would only be made once new opportunities were identified and agreed.

- Subsequently a further £15m was committed to M&G as part of its' Debt Opportunities Fund II offering to exploit the lack of credit in the financial market and take advantage of the generous IRR offered by the new offering from M&G.

- Additionally, £15m was committed to secondary property through the AEW UK Core Property Fund, to further enhance the diversified nature of the Fund's assets. (Deployment of the divested funds from JP Morgan (£30m) will be on a draw-down basis when required by the fund managers to fund investment opportunities. In the interim, JP Morgan will continue to manage the remaining funds as originally agreed.)

The allocation of Fund assets among the managers' mandates as at 31 March 2014 was as follows:

Manager	UK equity %	Overseas equity %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					2.93	
Barings	2.10	6.60				
JP Morgan			10.69			
Kempen	1.41	9.26				
LGT					2.18	
M&G						3.56
Macquarie						0.73
Newton	0.32	2.94				
Ruffer	2.12	4.64	3.92			0.16
State Street	8.70	7.20	3.96			
UBS Equities	15.34			0.01		
UBS Property				6.97		
UBS TAA			1.77			
Total	**29.99**	**30.64**	**20.34**	**6.98**	**5.11**	**4.45**

(A cash holding of 2.49% is not included in the above table.)

FUND MANAGERS

State Street
State Street manages Fund assets on a passive basis. Its aim is to capture benchmark returns by replicating the indices backing the assets included in its mandate and during the year it has achieved this goal consistently.

UBS (UK equities)
UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2014 was conducive to their investment style and contributed to their outperforming the benchmark from one year, three years, and five years and since inception categories.

UBS Property
The property mandate managed by UBS changed a number of years ago. Previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a Fund of Funds arrangement with the assets managed in several pooled property Funds managed by several managers, but with UBS responsible for selecting the pooled funds. Following the successful restructure of the UBS Triton part of the Property portfolio, performances have been relatively better even though still behind benchmark in all categories.

Private equity
Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 5.1% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of the Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several Funds launched in different years in order to provide time diversification.

Ruffer
Ruffers is an Absolute Return manager and have delivered on their brief by preserving capital and delivering growth with returns in excess of the benchmark over one year and since inception.

Macquarie
The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with an allocation to a fund focused in India already in place. The China fund has begun drawdown of commitments as well and is expected to increase in the coming year. The last part of infrastructure investments through Macquarie was formalised in April 2014, with the commitment of $10 million to Macquarie Infrastructure Programme III (MIP III), the North American fund and fully diversifying investments with Macquarie.

M&G
The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The Fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. During the financial year under review, commitments to M&G Funds were increased with an investment of a further £15 million in the Debt Opportunities Fund II. This Fund specifically targets distressed companies in which M&G already has vested interest and offer rescue packages at much discounted rates.

JP Morgan
JP Morgan mandate has been in place for just over 21/2 years and has been deemed to have performed below expectations by underperforming with a relative return of (0.30%) over one year. However, since inception, the portfolio outperformed the benchmark with a relative return of 1.02%.

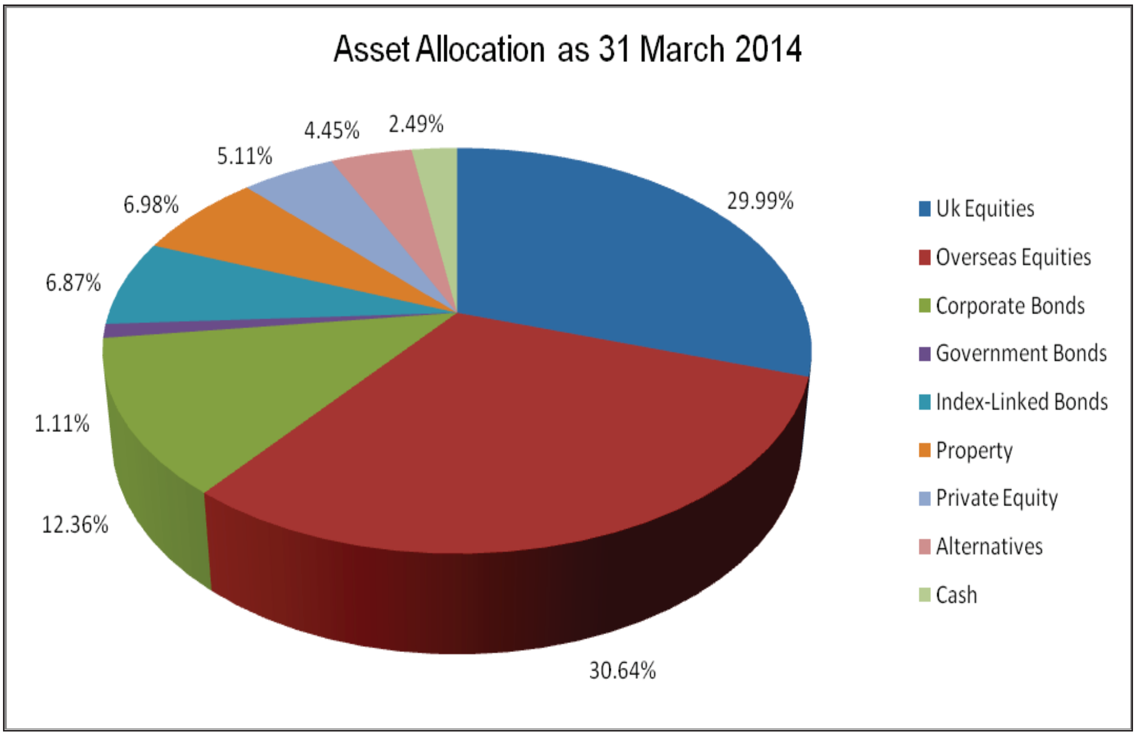
Newton
Newton was appointed in January 2013 to manage about £22 million of the Fund's assets with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of Pension Payable outstripping contributions from members. The Dividend stream from this investment will then be utilised to balance the payments from "member's dealings", without the need to liquidate any assets.

Kempen
Kempen's appointment was based on the same strategy employed with Newton, but has a slightly different style bias to the latter. Again, their strategy is predominantly geared towards income generation through high dividend payments with possible deficit in "members Dealings" payments/receipts redress the main motive for their appointment.

Barings
Barings were appointed in April 2013 as an absolute returns manager to reduce the style risk with a considerable amount of the Fund's assets under Ruffer. Again, though Barings are an absolute returns manager, their style bias does complement Ruffer rather than mirror its' style.

Fund Value and Asset allocation as at 31 March 2014

At 31 March 2014 the total value of the Pension Fund investment assets was £724,461k. The following diagram identifies the allocation, by asset class, as at 31 March 2014.



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a result of both market gains and revised asset allocation during the year.

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2014.

INVESTMENT MANAGER	31 March 2014		31 March 2013	
	£'000	%	£'000	%
Adams Street Partners	22,459	3.10	23,366	3.44
Barings Global Asset Management	63,046	8.70	-	-
JP Morgan Asset Management	77,397	10.68	74,981	11.03
Kempen International Investments	77,356	10.68	46,884	6.90
LGT Capital Partners	17,257	2.38	18,215	2.68
M&G Investments	25,912	3.58	16,351	2.41
Macquarie Infrastructure	5,858	0.81	8,536	1.26
Newton Asset Management	23,618	3.26	22,819	3.36
Ruffer LLP	84,447	11.66	131,368	19.33
State Street Global Advisors	143,802	19.85	142,038	20.90
UBS Global Asset Management	115,829	15.99	135,737	19.97
UBS Property	54,368	7.50	48,574	7.15
UBS TAA	12,873	1.78	-	-
Other*	239	0.03	10,683	1.57
Total	**724,461**	**100.00**	**679,552**	**100.00**

*Includes other transition assets, pending trades and recoverable tax.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), Schedule 1, sets out the legal requirements which apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance.

The largest five holdings in the Fund as at 31 March 2014 were:

Top 5 Holdings	Market Value 31 March 2014 £000s	Percentage of Fund Value
JP Morgan Strategic Bond Shares	77,397	10.68%
Kempen Int'l Funds	77,307	10.67%
SSgA Equity Index	63,114	8.71%
Baring Alpha Fund DAA	63,046	8.70%
BNY Mellon Newton Global Higher Income Fund	23,618	3.26%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value 31 March 2014 £000s	Percentage of Fund Value
BP	12,538	1.73%
Royal Dutch Shell	11,842	1.63%
Lloyds Banking Group	6,039	0.83%
Rio Tinto	5,978	0.83%
GlaxoSmithKline	5,958	0.82%
Barclays	4,765	0.66%
HSBC	4,277	0.59%
Vodafone Group	3,691	0.51%
3I Group	3,556	0.49%
BAE Systems	3,191	0.44%

Investment Performance

Over the year, on investment performance, there was an annual return of 6.78%. All but one Fund manager, Macquarie produced positive returns over the year. Relative performance between the underlying managers was however, quite negative with all but three outperforming their benchmarks. Total Fund out-performance was helped by positive relative returns by UBS, M&G and Ruffer, which offset the below par returns by the rest of the Fund's managers and contributed to the relative outperformance of the plan benchmark by 0.32%.

As a result of the Fund restructuring over the last few years a full complement of returns is not available for all managers. JP Morgan, Kempen and Newton are yet to accrue three years worth of performance returns, whilst Barings have only been appointed for just under a year of the period under review.

Performance	1 Year			3 Year			Since Inception		
Manager	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
JP Morgan	3.22	3.53	(0.30)	-	-	-	4.75	3.70	1.02
Kempen	0.76	11.21	(9.39)	-	-	-	5.75	16.52	(9.24)
Macquarie	(0.97)	3.53	(4.35)	(6.36)	3.74	(9.74)	(6.92)	3.75	(10.28)
M&G	5.41	4.54	0.84	5.65	4.74	0.86	5.03	4.75	(0.27)
Newton	3.50	8.88	(4.93)	-	-	-	10.11	13.58	(3.05)
Ruffer	0.68	0.52	0.16	5.52	0.75	4.74	5.83	0.74	5.05
SSgA	5.82	6.01	(0.17)	7.96	7.98	(0.02)	12.91	12.90	0.01
UBS	19.65	8.81	9.96	13.63	8.81	4.43	10.52	9.09	1.31
UBS (Property)	11.76	11.87	(0.10)	5.77	6.23	(0.44)	0.56	1.21	(0.64)
Total Portfolio	**6.78**	**6.44**	**0.32**	**7.52**	**6.68**	**0.79**	**6.78**	**6.73**	**0.05**

Over the financial year under review, the fund grew by 6.78% equating to 32 basis points ahead of the benchmark figure of 6.44%. For a 3 year period to 31 March 2014, the Fund has outperformed with a relative return of 0.79% pa. Also, since inception in September 1995 the returns come to 6.78% just 5 basis points better than the benchmark.

Performance	1 Year			3 Year			Since Inception		
Asset Class	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
UK Equity	16.44	8.81	7.63	12.24	8.81	3.43	3.85	8.41	(4.56)
Overseas Equity	3.12	6.21	(3.09)	3.96	6.64	(2.68)	5.68	6.64	(0.96)
Government Bonds	(15.50)	(2.56)	(12.94)	0.22	5.49	(5.27)	1.80	4.46	(2.66)
Corporate Bonds	1.28	1.55	(0.27)	7.89	7.35	0.54	10.97	8.78	2.19
Index Linked Gilts	(4.59)	(3.80)	(0.79)	6.36	7.79	(1.43)	6.79	8.02	(1.23)
Property	12.53	11.87	0.66	6.51	6.14	0.37	7.95	7.64	0.31
Total Portfolio	**6.78**	**6.44**	**0.32**	**7.52**	**6.68**	**0.79**	**6.78**	**6.73**	**0.05**

Custody

The Northern Trust Company acts as the global custodian of the Funds' assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled Funds, the underlying assets held by the relevant Funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements.

Responsible Investing

The Fund supports the principle of socially responsible investment within the requirements of the law and the need to give high priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Fund will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Pensions Committee, except on the basis of written information from other advisers.

Whilst the Pensions Committee maintain an awareness of socially responsible investment in the context of investment strategy, the Committee are committed to obtaining the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

It is the Fund's policy to be an active shareholder. Where the Pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Fund's policy is that that all proxies are to be voted where practically possible. Fund Managers' rights to vote on behalf of the Fund are subject to conforming to the overall guidance set out in the Statement of Investment Principles and the prevailing regulations. The Pension Committee may feel strongly concerning certain policies and may advise managers how to execute their votes. Fund manager voting and engagement in terms of Corporate Governance and Socially Responsible Investment are discussed with the Fund managers and reported to Committee on a quarterly basis. Further information regarding voting guidelines, responsible investment and compliance with Myners' principles are included within the Statement of Investment Principles.

The Council supports the Stewardship Code issued by the Financial Reporting Council. However in practice the Fund's policy is to apply the code through its Fund managers. In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

PART C – SCHEME ADMINISTRATION

SCHEME ADMINISTRATION REPORT

Overview

The Administration of the Local Government Pension Scheme (LGPS) was outsourced to Capita Employee Benefits (CEB) 1 April 2012. London Borough of Hillingdon joined a pan-London Framework Agreement for LGPS Administration lead by the London Borough of Hammersmith and Fulham. Currently there are 4 London Boroughs signed up to the framework. They are London Borough of Hammersmith and Fulham, London Borough of Brent, London Borough of Hillingdon and The Royal Borough of Kensington and Chelsea. The Framework covers the full range of administration services for both current, former employees and pensioners of the London Borough of Hillingdon Fund including:

- Administer the Local Government Pension Scheme on behalf of London Borough of Hillingdon as an Employing Authority in accordance with relevant legislation and Committee decisions.
- Administer the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions.
- Provide advice to scheme members and external scheme Employers on options available under the Council's Pension Scheme.
- Exploit information technology to improve service standards and efficiency.

The performance of CEB is reported quarterly to Pensions Committee and monitored on a daily basis by pension's officers of London Borough of Hillingdon.

CEB deals with contributing members of the LGPS with London Borough of Hillingdon, the main areas of work cover the collecting, and reconciling of pension of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits; and with pensioners in respect of payment of pensions, and calculations of retirements, re-employment, death benefits and redundancy and compensation benefits for non-teaching employees.

The pensions administration service at CEB can be contacted by telephoning 0208 972 6050 or by email to hillingdon.pensions@capita.co.uk. Information about the LGPS and Capita Employee Benefits can be found on Capita's website at www.mylgpspension.co.uk

The Council's Complaints procedure is available to any person who wishes to make a suggestion or complaint about the Service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Operations Manager at CEB and at stage two to the Corporate Pensions Manager or a Senior Officer of the Council not previously involved in the case.

Review of 2013/14

The latest available Government SF3 statistics (for 2012/13) indicate the cost per member for all English Authorities was £27.02 compared with an outer London average of £44.83 per scheme member. The cost in 2013/14 for the London Borough of Hillingdon was £30.74, (a decrease of £3.28 per member when compared with last year). Despite the continued increase in the number of scheme members, the administration costs have maintained a below average "cost per member" when compared to all outer London Boroughs.

Every 3 years all LGPS Funds must undergo a formal valuation. This exercise took place as at 31 March 2013. As part of the triennial valuation, employer contributions rates are agreed for the following 3 years.

During 2013/14 a communications exercise was undertaken to inform scheme members of the changes to the benefit structure as a result of the introduction of the new Local Government Pension Scheme 2013, operative from 1 April 2014. This involved communicating with all current scheme members and making them aware of the changes. A number of workplace seminars were arranged and in total over 800 scheme members attended at least one session. Together with the Council's Communications team, information was sent out in the form of emails and articles in the Council's in house publications to all staff to highlight the main scheme changes. The Council's Pensions Website also included details of the changes due, and links were inserted to give further in-depth information of scheme changes.

Occasionally disagreements between members and scheme administrators arise. When disagreements do occur we do all we can to try to resolve them informally and reach an agreement. Where this is not possible the scheme provides a formal way for disagreements to be resolved. The Local Government Pension Scheme Regulations set out how disputes must be handled, and on our website we include our Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are heard by the Director of Operations at CEB at stage 1. If a complainant still has a dispute this may then be referred at stage 2 to the Corporate Pensions Manager at London Borough of Hillingdon or a Senior Officer of the Council, who has no previous involvement with the case. After this a further referral is available to the Pensions Ombudsman. In the year 2013/14, there were 2 stage 1 appeals, neither of which progressed to stage 2. No cases have been referred to the Pensions Ombudsman.

PART D - ACTUARIAL REPORT

London Borough of Hillingdon Pension Fund Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB:** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £683 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £266 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.30%	0.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.7 years	24.7 years
Future Pensioners*	24.3 years	26.9 years

*Currently aged 45

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation. The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen FFA, Fellow of the Institute and Faculty of Actuaries,
For and on behalf of Hymans Robertson LLP
15 May 2014

PART E - Pension Fund Accounts and Net Asset Statement

	Notes	31 March 2014 £000's	31 March 2013 £000's
Contributions	*4*	35,099	31,871
Transfers In	*5*	750	284
Less: Benefits	*6*	(34,748)	(31,424)
Less: Leavers	*7*	(2,890)	(1,957)
Less: Administrative expenses	*8*	(610)	(589)
Net additions from dealings with members		**(2,399)**	**(1,815)**
Investment income	*9*	15,546	14,054
Changes in market value of investments	*10*	34,113	61,904
Taxes on income		(7)	(19)
Investment management expenses	*12*	(3,769)	(3,922)
Net return on investments		**45,883**	**72,017**
Net Increase in the fund during the year		**43,484**	**70,202**
Net Assets at start of year		**683,052**	**612,850**
Net Assets at end of year		**726,536**	**683,052**

		31 March 2014 £000's	31 March 2013 £000's
Investment Assets	*10*	725,110	682,984
Investment Liabilities	*11*	(649)	(3,432)
Current Assets	*13*	2,802	4,358
Current Liabilities	*14*	(727)	(858)
TOTAL NET ASSETS		**726,536**	**683,052**

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 Pension Fund Annual Report and these accounts should be read in conjunction with this.

Paul Whaymand
Corporate Director of Finance
29 September 2014

Pension Fund Accounts and Net Asset Statement

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 2013/14 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 1 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 1 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
Mitie Cleaning
Mitie FM
Stag Security Services

Scheduled Bodies:

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

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2014 there were 7,524 active employees contributing to the fund, with 6,003 in receipt of benefit and 6,311 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2014	31 March 2013
Number of employers with active members	33	32
Number of employees in scheme		
London Borough of Hillingdon	6,002	5,225
Other employers	1,522	988
Total	**7,524**	**6,213**
Number of Pensioners		
London Borough of Hillingdon	5,505	5,047
Other employers	498	451
Total	**6,003**	**5,498**
Deferred pensioners		
London Borough of Hillingdon	4,980	4,671
Other employers	1,331	1,212
Total	**6,311**	**5,883**

The pension fund investments are managed externally by fund managers: Adams Street Partners, Barings Global Asset Management, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investment, 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 the Pensions 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 2013/14:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr David Simmonds
Cllr Raymond Graham
Cllr Paul Harmsworth
Cllr Janet Duncan
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)
Mr John Holroyd (Pensioner/Deferred 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 2013/14 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 2014 was £37,146k (£39,617k at 31 March 2013).

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 2014 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 £37,146k. There is a risk that this investment may be under- or overstated in the accounts.

4. CONTRIBUTIONS

	31 March 2014 £000's	Restated 31 March 2013 £000's
Employers		
Normal	21,098	20,054
Deficit funding	5,160	3,673
Members		
Normal	8,133	7,920
Additional contributions	708	224
	35,099	**31,871**

Deficit Funding:- At the actuarial valuation on 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%.

Employers Normal and Deficit Funding has been restated from the published accounts to reflect a change in calculation methodology. The impact of the restatement was that, a) Deficit Funding was overstated by £3m and Normal contributions was understated by same amount. b) The overall net effect was nil.

NOTE:- At the latest actuarial valuation on 31 March 2013 the fund was 72% funded, with the remaining 28% deficit to be recovered over a period of 25 years with a common contribution rate of 28.7%. This is further detailed in Note 18 and is effective from 01 April 2014.

Schedule of contributions by body	31 March 2014 £000's	31 March 2013 £000's
Employers		
LB Hillingdon	20,733	19,118
Scheduled Bodies	5,250	4,286
Admitted Bodies	275	323
Members		
LB Hillingdon	6,983	6,639
Scheduled Bodies	1,765	1,400
Admitted Bodies	93	105
	35,099	**31,871**

5. TRANSFERS IN

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers in from other schemes	750	284

6. BENEFITS

	31 March 2014 £000's	31 March 2013 £000's
Pensions	(28,114)	(26,818)
Commutations and lump sum retirement	(6,105)	(4,496)
Lump sum death benefits	(529)	(110)
	(34,748)	**(31,424)**

	31 March 2014 £000's	31 March 2013 £000's
Schedule of benefits by employer		
LB Hillingdon	(34,205)	(30,950)
Scheduled Bodies	(450)	(380)
Admitted Bodies	(93)	(94)
	(34,748)	**(31,424)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers out to other schemes	2,890	1,957
	2,890	**1,957**

8. ADMINISTRATIVE EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration and processing	525	545
Audit fee	18	21
Actuarial fee	67	23
	610	**589**

9. INVESTMENT INCOME

	31 March 2014 £000's	31 March 2013 £000's
Dividends from equities	6,668	6,662
Income from fixed interest Securities	40	0
Income from index-linked securities	334	396
Income from pooled investment vehicles	1,818	1,988
Interest on cash deposits	157	118
Other (for example from stock lending or underwriting)	6,529	4,890
	15,546	**14,054**

10. INVESTMENT ASSETS

	Value 1 April 2013 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2014 £000's
Equities	193,554	180,724	(218,069)	(8,151)	148,058
Index-linked securities	42,174	35,215	(32,170)	(9,856)	35,363
Pooled investment vehicles	415,149	85,467	(28,229)	49,798	522,185
	650,877	**301,406**	**(278,468)**	**31,791**	**705,606**
Other investment balances	3,048			2,542	1,131
Fund managers' cash	29,059			(220)	18,373
Total Investment Assets	**682,984**			**34,113**	**725,110**

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 £539k (£357k in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Pension Fund Accounts and Net Asset Statement

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2014 £000's	Market Value 31 March 2013 £000's
Adams Street Partners	22,459	23,366
Barings Global Asset Management	63,046	0
JP Morgan Asset Management	77,397	74,981
Kempen International Investments	77,356	46,884
LGT Capital Partners	17,257	18,215
M&G Investments	25,912	16,351
Macquarie Infrastructure	5,858	8,536
Newton Asset Management	23,618	22,819
Ruffer LLP	84,447	131,368
State Street Global Advisors	143,802	142,038
UBS Global Asset Management (Equities	115,829	135,737
UBS Global Asset Management (Property	54,368	48,574
UBS TAA	12,873	0
Other*	239	10,683
Total	**724,461**	**679,552**

* 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	14,206	14,060	146	13/01/2014	14/04/2014
Northern Trust	JPY - GBP	1,675	1,679	(4)	17/01/2014	14/04/2014
Northern Trust	JPY - GBP	3,381	3,441	(60)	24/01/2014	14/04/2014
Northern Trust	JPY - GBP	1,655	1,664	(9)	05/03/2014	14/04/2014
Northern Trust	JPY - GBP	1,755	1,779	(24)	17/03/2014	14/04/2014
Northern Trust	GBP - EUR	23,781	23,661	120	06/02/2014	13/05/2014
Northern Trust	GBP - USD	7,701	7,598	103	11/02/2014	15/05/2014
Northern Trust	GBP - EUR	1,808	1,792	16	10/03/2014	13/06/2014
Total unrealised gains		**55,962**	**55,674**	**288**		

As at 31 March 2014 eight forward foreign exchange contracts were in place for £55,674k with unrealised gain of £288k. 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 2014 £000's	31 March 2013 £000's
Equities		
UK quoted	121,335	147,385
Overseas quoted	26,723	46,169
	148,058	**193,554**
Index Linked Securities		
UK Public Sector quoted	14,006	21,428
Overseas Public Sector Quoted	21,357	20,746
	35,363	**42,174**
Pooled Investment Vehicles		
UK Managed funds - other	364,199	260,800
UK Unit Trusts - property	50,427	46,465
Overseas Unit Trusts - other	70,413	68,267
Private Equity	37,146	39,617
	522,185	**415,149**
Other Investment balances		
Forward foreign exchange unrealised gain	288	0
Amount due from brokers	0	1,615
Outstanding dividend entitlements and recoverable withholding tax	843	1,433
	1,131	**3,048**
Cash deposits		
Sterling	18,373	29,059
	18,373	**29,059**
	725,110	**682,984**

NB: 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 information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2014 was £5,035k and as at 31 March 2013 £5,298k. 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 2014 £000's	31 March 2013 £000's
Amount outstanding to brokers	(649)	(3,351)
Forward foreign exchange unrealised loss	0	(81)
	(649)	**(3,432)**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration, management and custody	(3,704)	(3,796)
Performance measurement services	(10)	(12)
Other advisory fees	(55)	(114)
	(3,769)	**(3,922)**

13. CURRENT ASSETS

	31 March 2014 £000's	31 March 2013 £000's
Employers' contributions due	197	157
Employees' contributions due	65	56
Debtor: London Borough of Hillingdon	266	215
Debtor: Other Entities	7	4
Cash balances	2,267	3,926
	2,802	**4,358**

NB: The current assets all relate to amounts due from local government bodies with the exception of cash balances which is held with bodies external to government.

14. CURRENT LIABILITIES

	31 March 2014 £000's	31 March 2013 £000's
Creditor: Other Entities	(721)	(849)
Creditor: London Borough of Hillingdon	(6)	(9)
	(727)	**(858)**

NB: The total of £721k other entities is due to bodies external to government, namely investment managers.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fixed Interest Securities	35,363	42,174
Equities	148,058	193,554
Pooled Investments	429,343	321,011
Pooled Property Investments	50,427	46,465
Private Equity/Infrastructure	42,415	47,673
Derivative Contracts	288	0
Cash	18,373	29,059
Debtors	843	3,048
	725,110	682,984
Financial Liabilities		
Derivative Contracts	0	(81)
Creditors	(649)	(3,351)
	(649)	(3,432)
	724,461	**679,552**

b) Net Gains and Losses on Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fair Value through profit and loss	33,366	61,985
Financial Liabilities		
Fair Value through profit and loss	288	(81)
	33,654	**61,904**

c) Fair Value of Financial Instruments and liabilities

Financial Assets	31 March 2014 £000's Fair Value	31 March 2014 £000's Carrying Value	31 March 2013 £000's Fair Value	31 March 2013 £000's Carrying Value
Fair Value through profit and loss	705,606	705,606	650,877	650,877
Loans and receivables	19,504	19,504	32,107	32,107
Total Financial assets	**725,110**	**725,110**	**682,984**	**682,984**
Financial Liabilities				
Fair Value through profit and loss	(649)	(649)	(3,432)	(3,432)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(649)**	**(649)**	(3,432)	(3,432)

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2014	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	586,941	50,427	68,238	705,606
Loans and Receivables	12,316	3,940	3,248	19,504
Total Financial Assets	**599,257**	**54,367**	**71,486**	**725,110**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(649)	0	0	(649)
Total Financial Liabilities	**(649)**	**0**	**0**	**(649)**
Net Financial Assets	**598,608**	**54,367**	**71,486**	**724,461**

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	540,671	46,465	63,741	650,877
Loans and Receivables	27,270	2,109	2,728	32,107
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**

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee (ISC) have undertaken a review of the valuation processes for the Private Equity funds managed by Adams Street Partners and LGT Partners on behalf of the London Borough of Hillingdon Pension Fund and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation processes are 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 2014/15 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	11.73%
Overseas quoted equities	9.97%
UK Public Sector quoted Index-Linked Securities	6.73%
Overseas Public Sector quoted Index-Linked Securities	6.73%
Corporate Bonds	4.11%
UK Managed funds - other	11.73%
UK Unit Trusts - property	2.38%
Overseas Unit Trusts - other	9.97%
Private Equity	5.41%

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 2014 £000's**	**Percentage Change %**	**Value on Increase £000's**	**Value on Decrease £000's**
Cash and Cash equivalents	18,373	0.00	18,373	18,373
Investment Assets				
UK quoted equities	121,335	11.73	135,568	107,102
Overseas quoted equities	26,723	9.97	29,387	24,059
UK Public Sector quoted Index-Linked Securities	14,006	6.73	14,949	13,063
Overseas Public Sector quoted Index-Linked Securities	21,357	6.73	22,794	19,920
UK Managed funds - Equities	155,020	11.73	173,204	136,836
UK Managed funds - Bonds	68,407	4.11	71,219	65,595
UK Unit Trusts - property	50,427	2.38	51,627	49,227
Overseas Unit Trusts - Equities	136,622	9.97	150,243	123,001
Overseas Unit Trusts - Bonds	69,294	4.11	72,142	66,446
Private Equity/Infrastructure	42,415	5.41	44,710	40,120
Net Derivative assets	288	0.00	288	288
Investment income due	843	0.00	843	843
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(649)	0.00	(649)	(649)
Total Assets Available to pay benefits	**724,461**		**784,698**	**664,225**

Asset type	**Value as at 31 March 2013 £000's**	**Percentage Change %**	**Value on Increase £000's**	**Value on Decrease £000's**
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	49,913	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**		**739,224**	**620,419**

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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2014 £000's	31 March 2013 £000's
Cash equivalents	0	2,488
Cash	18,373	26,571
Fixed Interest Securities	173,064	168,117
Total	**191,437**	**197,176**

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 31 March 2014	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash Equivalents	0	0	0
Cash	18,373	184	(184)
Fixed Interest Securities	173,064	1,730	(1,730)
Total change in assets available	**191,437**	**1,914**	**(1,914)**

Asset Type	Carrying amount as 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	26,571	266	(266)
Fixed Interest Securities	168,117	1,681	(1,681)
Total change in assets available	**197,176**	**1,972**	**(1,972)**

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 2014 the Fund had a 100% Euro 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 2014 and as at the previous period ending 31 March 2013.

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value 31 March 2014	Asset value 31 March 2013
	£000's	£000's
Overseas quoted Securities	26,723	46,169
Overseas Corporate Bonds	69,294	72,200
Overseas Index-linked Bonds	21,357	20,746
Overseas managed funds	136,622	94,622
Private Equity/Infrastructure	42,415	47,673
	296,411	**281,410**

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 4.32%, based on the data provided by WM. A 4.32% 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 4.32% 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 31 March 2014	Change in the net assets available to pay benefits	
		+4.32%	-4.32%
	£000's	£000's	£000's
Overseas quoted Securities	26,723	27,877	25,569
Overseas Corporate Bonds	69,294	72,288	66,300
Overseas Index-linked Bonds	21,357	22,280	20,434
Overseas managed funds	136,622	142,524	130,720
Private Equity/Infrastructure	42,415	44,247	40,583
	296,411	**309,216**	**283,606**

Currency exposure by asset type

	Asset value 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**

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 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 2014 was £2,267k (31 March 2013: £16,046k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2014	Rating	Balances as at 31 March 2013
Money Market Funds		**£000's**		**£000's**
Northern Trust Global Sterling Fund A	AAAm	200	AAAm	10,832
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	0	AAAm	2,488
Bank current accounts				
Natwest (Capita)	A-	949	A-	1,169
HSBC Plc	AA-	1,118	AA-	1,557
Total		2,267		16,046

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 (£2,267k). 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 2014 these assets totalled £586,941k, with a further £18,373k 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 2013. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 72% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2013 was £683,052k. The value of the deficit at that date was £266,000k.

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 28.7% for the period of 1 April 2014 to 31 March 2017.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 2.50%
Funding Basis Discount Rate - 4.60%
Pay Increases - 3.30%

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 2014 % P.a.	31 March 2013 % P.a.
Inflation /Pensions Increase Rate	2.8%	2.8%
*Salary Increase Rate	3.6%	5.1%
Discount Rate	4.3%	4.5%

*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 2014 by Hymans Robertson LLP with the following results:

Description	31 March 2014 £000's	31 March 2013 £000's
Present Value of Promised Retirement Benefits	1,102,000	1,066,000
Assets	726,536	683,052
Deficit	375,464	382,948

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.

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 were five members of the pension fund committee who were 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 31 March 2014 £000's	Accrued pension 31 March 2013 £000's
Corporate Director of Finance	1,128	1,107
Deputy Director - Strategic Finance	672	622

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 2014, securities worth £17,302k were on loan by Northern Trust from our portfolio and collateral worth £18,715k was held within the pool including Hillingdon. In the same period, a net income of £36k 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 2013/14.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2014 totalled £61,506k (31 March 2013: £45,175k).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure and secondary property 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

AEW UK Investment Ltd was appointed on 02 April, 2014 to manage about £15 million of the fund's assets in secondary property allocations. This was part of the fund's strive to increase returns and consequently improve funding position. On the same day, a further £15 million was committed to the M&G Debt Opportunities Fund II in addition to the previous £30 million already committed to two existing M&G funds. Funding for the cumulative £30 million allocation to AEW and M&G Debt Opportunities Fund II are to be derived from divestment from JP Morgan Asset Management Fund currently valued at £77 million. Due to the nature of the two new investments, the funds will be drawn-down by the two fund managers when required. As such, there is no need for transition management, as the JP Morgan fund is traded daily with a four day notice period for cash redemptions.

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 (usually that officer is the Corporate Director of Finance);

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- To approve the statement of accounts.

2. The Corporate Director of Finance

The Corporate Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

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;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2014 and its income and expenditure for the year then ended.

Paul Whaymand

Corporate Director of Finance

29 September 2014

Pension Committee Certificate for the Approval of the Annual Report (excluding financial statements)

I confirm that this report was considered by the Pensions' Committee at its meeting In September 2014, and approved by the Chairman on 23 September 2014.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne

CHAIRMAN (PENSIONS COMMITTEE)

23 September 2014

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 23 September 2014.

Signed on behalf of the London Borough of Hillingdon

CHAIRMAN (AUDIT COMMITTEE)

23 September 2014

PART F - POLICY STATEMENTS

Details of the following Statements can be found on the London Borough of Hillingdon website, using the links provided below.

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2014. The statement is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Statement of Investment Principles

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2014, and has been added to the website. The latest SoIP can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Communication Policy Statement

The London Borough of Hillingdon Pension Fund's Communication Policy Statement was approved by Committee in March 2014. It can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Governance Policy Statement

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review, and statements are updated with amendments. The documents are available at: http://www.hillingdon.gov.uk/media.jsp?mediaid=6411&filetype=pdf

PART G - SCHEME BENEFITS

SCHEME BENEFITS

Introduction

The Local Government Pension Scheme (LGPS) is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information can be obtained from our pensions administrator Capita Employee Benefits, telephone 0208 972 6050 or email Hillingdon.pensions@capita.co.uk .Further general scheme information regarding the LGPS is available from the website: www.hillingdon.gov.uk

Normal Retirement Age

65 for both men and women (earlier voluntary retirement allowed from age 60 but benefits are reduced if minimum service conditions are not met).

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert within limits, pension to lump sum. Pension and lump sum are related to length of service and final pay.

Pension (Normal)

The calculation of pension is based on the average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any three consecutive years in the last 10 years. Pensions are calculated on a fraction of 1/80th for each year of membership of the scheme for service before 31 March 2008 and on 1/60th for service after 1 April 2008.

Pension (Ill Health)

The ill health pension is based on average pensionable pay for the last year of service and the split of 80ths and 60ths accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

First tier: If there is no reasonable prospect of obtaining gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.

Second Tier: If it is likely that the employee will not be to obtain gainful employment within three years of termination of employment or age 65 if earlier, the employee's LGPS service is enhanced by 25% of potential service to age 65.

Third Tier: If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement. There is an ill health review after benefits have been paid for eighteen months, and the benefits may be stopped, continued for a further maximum period of eighteen months or the level of ill health may be increased to Tier 2 from date of the review.

Lump Sum Retirement Grant

The lump sum retirement grant is based on the average pensionable pay for the last year of service and the total service in the scheme, with appropriate enhancement in respect of ill health. For service prior to 31 March 2008, lump sum retirement grant is calculated as 3/80ths for each year of service. For service after this date there is no automatic lump sum however pension can be converted to lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

Death Grant

(i) Death in Service
A lump sum death grant usually equal to three times pensionable pay would be payable to the member's spouse, or nominee.

(ii) Death after Retirement
A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period and the pensioner dies before age 75, a death grant is payable. **This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners prior to this date the guarantee is still five years.**

(iii) Death of a member with Preserved benefits
A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 31 March 2008) or 5 times for leavers after this date is payable to the member's spouse, or nominee.

Spouses, civil partners and nominated cohabiting partner's Pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on 1/160 of the member's final pay, for each year of service, at the date of death.

Only members of the scheme, who were active after 31 March 2008, will be able to nominate cohabiting partners.

The pension available to civil partners and nominated cohabiting partners is based on post April 1988 membership only.

Children's Pension

Each child under age 17, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

Partner with one child: Child's pension is 1/320th of member's service, multiplied by the final pay.

Partner with more than one child: Child's pension is 1/160th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares.

No partner and one child: Child's pension is 1/240th of the member's service, multiplied by the final pay.

No partner and more than one child: Child's pension is 1/120th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares

Pension Increases

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Consumer Price Index.

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Additional Voluntary Contributions

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0845 6070077.

REGULATIONS

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Authority (Discretionary Payments) Regulations 1996

PART H - AUDITORS' REPORT

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON PENSION FUND ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

This report is made solely to the members of London Borough of Hillingdon Pension Fund, as a body, 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 of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and the auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Hillingdon Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Hillingdon for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Heather Bygrave (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
St Albans, United Kingdom
29 September 2014

DELOITTE - DRAFT ANNUAL AUDIT LETTER

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 2014.

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 unqualified opinion on the Council's accounts for the year ended 31 March 2014.
2. The Local Government Pension Scheme Annual Report – it is planned to issue an unqualified opinion on the information in the Council's pension scheme annual report for the year ended 31 March 2014.
3. Value for Money conclusion – it is planned to issue an unmodified conclusion on the Council's arrangements for securing value for money during the year ended 31 March 2014.
4. Whole of Government Accounts – work is ongoing on the audit of the WGA and is expected to be completed by 4 October 2014.
5. Grants Certification – there will be a separate letter on grant certification issued to Audit Committee early in 2015.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

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London Borough of Hillingdon

Draft annual audit letter to the Members of the Council for the year ended 31 March 2014

10 September 2014

Contents

Delivering informed challenge
Providing intelligent insight
HILLINGDON
LONDON
Growing stakeholder confidence
Building trust in the profession

The big picture

We are required to issue an annual audit letter to the London Borough of Hillingdon (the “Council”) following completion of our audit procedures for the year ended 31 March 2014. The letter is to be published on the Council’s website.

This is a draft of the proposed annual letter, which will be issued when our work has been completed. We have issued this draft so the Committee can review the proposed structure and the anticipated conclusions that we will make.

The Council’s financial statements	Assuming the satisfactory completion of our remaining procedures, we intend to issue an unqualified opinion on the Council’s financial statements for the year ended 31 March 2014.
The Council’s local government pension scheme annual report	Assuming the satisfactory completion of our remaining procedures, we intend to issue an unqualified opinion on the Council’s pension scheme annual report for the year ended 31 March 2014.
Value for money conclusion	We intend to issue an unmodified conclusion on the Council’s arrangements for securing value for money for the year ended 31 March 2014.
Whole of Government Accounts return	We intend to meet the National Audit Office reporting deadline of 4 October 2014. Assuming satisfactory completion of our procedures, we intend to report that the consolidated return is consistent with our audited statutory accounts and we have no errors in excess of the reporting threshold 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 regarding compliance with aspects of the terms on which funds have been granted. Grant procedures are currently ongoing in accordance with the agreed timetable. We will issue a separate annual audit letter in respect of grants in early 2015, but at this stage there are no matters we wish to bring to your attention.

1. Purpose and responsibilities

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 published on the Council's website.

Responsibilities of the appointed auditor and the Council

Responsibilities of the appointed auditor

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.

Responsibilities of the Council

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.

As part of our procedures we have considered how the Council has fulfilled these responsibilities.

2. Financial reporting

Key issues arising from the audit of the Council's financial statements

We have issued a separate report to the Audit Committee for the year ended 31 March 2014, 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. A summary of the significant risks identified as part of our audit is included below:

Significant audit risk	Conclusion
Grant income recognition	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. Grant income was £475.6m for the year (2012/13 £413.8m). Our testing concluded that grant income recognition is appropriate.
Bad debt provision against sundry debt	This is an area of management judgement with the sundry debt balance comprising various types of debt, each with different methods for allocating a provision. The sundry debt balance was £25.2m with a provision of £13.4m. Our testing concluded that the provision is within a materially reasonable range, but at the slightly prudent end of that range.
Recording of capital spend	We identified this as a significant risk because of the size of capital spend in the financial year (£79.4m compared with £41.9m in 2012/13) and the judgmental area of classifying revenue and capital expenditure. Our testing did not identify any significant issues.
Management override of controls	We have not identified any material weaknesses in controls or any evidence of management override.

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 included some recommendations to assist with future financial control and reporting. The recommendations made in the current year were regarding fixed asset valuations.

Key issues arising from the audit of the Pension scheme annual report

We will report our findings on the audit of the Pension scheme in a separate report to the Audit Committee. No significant issues were identified in relation to the audit.

Key issues arising from the work performed on the Whole of Government Accounts return

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.

Based on satisfactory completion of remaining procedures we intend to report to the National Audit Office on the Whole of Government Accounts ahead of the 4 October deadline. We intend to report 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

Background

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”.

Specified criteria for auditors’ VFM conclusion	Focus of the criteria for 2014
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.

Audit work completed to address the significant risk

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

- the Council’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 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Procedures performed

In addition to the procedures specified above, specific information considered included the Head of Internal Audit annual report, cabinet and audit committee papers, and the draft annual governance statement, as well as the results of our own audit procedures and the year end outturn reported by the Council in the draft financial statements.

We concluded that there were no significant risks which required us to perform further work, and we propose to issue an unmodified value for money conclusion.

4. Purpose of our report and responsibility statement

What we report

- Our report is designed to help the Audit Committee and the Accounting Officer and Council discharge their governance duties.
- 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 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.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Officers or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you previously.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

10 September 2014

Appendix 1: Independence and fees

Independence confirmation	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.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	There are no other relationships with the Council and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

	Current year £'000	Prior year £'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 of money conclusion (**Note 2**)	211.5	207.1
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	232.5	**228.1**
Fees payable for the certification of grant claims	57.6	90.2
Total fees payable in respect of our role as Appointed Auditor	**290.1**	**318.3**
Non audit fees		
Deloitte Real Estate contract monitoring engagement (**Note 1**)	53.6	157.1

Note 1: Deloitte Real Estate has been monitoring the delivery of a building contract for the expansion of 6 primary schools. We have considered the potential independence risks, including any potential risk in respect of a 'self-review threat' or 'management threat'. We have concluded that this work does not compromise our independence as DRE is not exercising authority on behalf of the Council and not making any management decisions for the Council. Furthermore, the work is undertaken by a separate team to the audit team and we have not encountered the work of DRE in our capacity as external auditors when testing capital balances or through or value for money procedures. We have received approval from the Audit Commission to undertake this work. Note 27 to the draft financial statements discloses non-audit fees paid to Deloitte as £145k. This includes the £53.6k retained by Deloitte above for services performed, and £91.2k paid to sub-contractors.

Note 2: The fee of £211,500 includes a fee of £3,450 relating to additional procedures in respect of testing of Non-domestic rates following the removal of grant certification work covering this area in 2013/14.

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Internal Audit - Progress Report for Quarter 2 2014/15

Contact Officer: Muir Laurie
Telephone: 01895 556132

REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to the 2014/15 IA Plan and assurance in this respect during the quarter two period. It also provides an opportunity for the Head of IA to highlight to the Audit Committee any significant issues that they need be aware of that have arisen.

It also enables the Audit Committee to hold the Head of IA to account on delivery of the 2014/15 IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2014/15 Quarter 2 (1 July to 15 September 2014).

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

INFORMATION

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.

The new UK 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.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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INTERNAL AUDIT

Progress Report to Audit Committee 2014/15 Quarter 2

15 September 2014

HILLINGDON
LONDON

www.hillingdon.gov.uk

Contents

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1. Introduction

1.1 The Role of Internal Audit

1.1.1 Internal Audit (IA) provides an independent assurance 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.

1.1.2 The UK Public Sector IA Standards (PSIAS), 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.

1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

1.2.1 This report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all 2014/15 quarter two IA assurance and consultancy work covered during the period 1 July to 15 September 2014. It also provides an opportunity for the Head of Internal Audit (HIA) to highlight to CMT and the Audit Committee any significant issues arising from IA work, as well as any changes to the 2014/15 IA Plan since its approval in March 2014.

1.2.2 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 IA work on the 2014/15 IA Plan commenced on 2nd April and work has now been completed or is in progress for all quarter one and quarter two audits, with the exception of audits that have been deferred at the request of management. There have been several deferrals requested in quarter 2, most notably within the Children and Young People's Service, including the planned audit on the Ofsted Improvement Action Plan (refer to Appendix B). Whilst IA has the authority to insist on carrying these audits out in the original timeframe agreed by management/ the Audit Committee, we believe a more collaborative and supportive IA approach achieves a better overall outcome for the Council. As a result, we have agreed all requests for audits to be deferred and are actively seeking to bring forward other audits to ensure IA resource is effectively utilised throughout the year. This will help enable delivery of the IA Plan and the associated assurances to all key stakeholders.

2.2 During quarter two, the first audits utilising the new IA software (TeamMate) have been delivered. The software, when used correctly by IA staff, is noticeably increasing the effectiveness and efficiency of the IA process. The software will also help improve the monitoring, follow-up and tracking of IA recommendations by management. This is currently being piloted within the Finance directorate and is scheduled to go live across the Council in December 2014, once training has been provided to the relevant Council staff.

2.3 Also in this quarter, IA has completed the first tranche of risk based thematic school reviews. Our reflections on the new approach to IA coverage of Hillingdon schools is that it has generally been very well received by the schools we have visited, as well as the rest of the Hillingdon schools who we have shared the final report with. Highlighted at Appendix A, our review of Schools' recruitment procedures raised **23** recommendations (including **6 HIGH** risk recommendations), as well as **6 Notable Practices**. The findings from this work identified significant weaknesses in some Schools' recruitment procedures.

2.4 Linked to this, a major piece of work for IA over the last six months has been an assurance review at Chantry School. This audit has been recently finalised and as previously advised we have issued a **NO** assurance opinion. The School's governance arrangements were a major cause for concern during our testing and there was a significant failure by the previous Governing Body and Headteacher to manage the School's budget effectively. However, during the course of the audit the Interim Executive Board has driven forward major improvements in the School's governance arrangements including the financial control framework. Nevertheless, it is vitally important that the Council's relevant services continue to support Chantry School over the coming months, as it seeks to implement a new leadership team. Further details on this audit can be found in section 3 of this report (para ref 3.1.4).

2.5 The HIA does have some concern at the disproportionate amount of time IA continues to need to spend on Hillingdon schools, given the other significant risks the Council is exposed to. In response to this, IA will be proactively working with schools directly as well as the Council's range of Schools' services, to try and help develop a better level of consistency at Hillingdon schools in terms of the strength of their governance arrangements. It is against this backdrop that the IA service needs to continue to achieve efficiencies in the time taken to carry out audits. We also need to improve as a service at consistently delivering value added audits in a timely manner. However, the HIA is confident that once the new audit software is fully embedded it will increase efficiency in the service and further reduce slippage in the delivery of the IA Plan.

2.6 During this quarter we also finalised our 2013/14 assurance review of the Council's corporate Anti-fraud and Anti-corruption arrangements. This **LIMITED** assurance report was previously reported to CMT and the Audit Committee as part of the Quarter 1 IA Progress Report in July 2014. Further details of the IA work carried out in the quarter two period are included in section 3 of this report.

3. Analysis of Internal Audit Activity in 2014/15 Quarter 2

3.1 2014/15 Internal Audit Assurance Work

3.1.1 All of the IA assurance reviews carried out in the 2014/15 quarter two period are individually listed at Appendix A. It details the assurance levels achieved (in accordance with the assurance level definitions outlined at Appendix C) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at Appendix D).

3.1.2 Good progress has been made with the quarterly allocation of the IA Plan with **5%** at planning stage, **41%** at fieldwork/ testing stage and **54%** at reporting stage. IA performance in relation to timely delivery of the IA Plan has continued to **improve for the third quarter in a row**, although timely delivery of the 2014/15 IA Plan remains a challenge for the IA service and the Council.

3.1.3 Since the last Audit Committee meeting on 30 July 2014, **four** 2014/15 IA assurance reviews have been completed as final reports (**75%** of them in relation to schools) as highlighted in the table below:

Table 1 - 2014/15 IA Assurance audits finalised since the last Audit Committee

IA Ref.	IA Assurance Review	Assurance Opinion
A1	Schools - Recruitment Procedures	**REASONABLE** Assurance
A9	Schools - Budgetary Control	**REASONABLE** Assurance
A19	Software Licensing	**REASONABLE** Assurance
A36	Chantry School	**NO** Assurance

3.1.4 There were no 2014/15 **LIMITED** assurance opinions issued by IA this quarter, however there was one **NO** assurance opinion issued, which was in relation to **Chantry School**. This review has been a major piece of work for IA over the last 6 months, involving a huge amount of IA resource, working alongside the Interim Executive Board (IEB) of Chantry School.

3.1.5 As detailed at Appendix A, we issued the final report for this audit on 3 September 2014 and raised **26** recommendations including **15 HIGH** risk recommendations. As part of this review we found major control weaknesses surrounding the School's governance arrangements, financial management processes, personnel procedures (including recruitment) and ICT arrangements (including data security). However, CMT and the School's IEB have responded positively to the IA findings and the vast majority of the improvement action required has already been implemented. In fact, the IEB have made great strides in improving the School's governance arrangements and the direction of travel for the School is now very positive. Whilst an IA follow-up review of Chantry School is planned soon, it is important that the Council's Education service, Schools' Finance and Governors Support services continues to support the School over the coming months as it seeks to implement a new leadership team.

3.1.6 In addition, Appendix A highlights that as at 15 September 2014 there are an additional **16** IA assurance reviews in progress, **5** of which are at draft report stage. Whilst we are on track to complete all of these audits over the coming weeks, there remains a significant challenge ahead for the IA service and the Council to ensure timely completion of the 2014/15 IA Plan. The assurance level for each of these **16** reviews will be confirmed at final report stage and reported to CMT and the Audit Committee as part of the Quarter 3 IA Progress Report. The HIA will also provide an oral update to the Audit Committee at its meeting on 23 September 2014.

3.2 2014/15 Internal Audit Consultancy Work

3.2.1 IA continues to undertake a variety of consultancy work from the contingency allocation within the IA Plan. Any revisions to the planned programme of IA work are discussed by IA with the relevant senior managers. The consultancy coverage includes IA staff attending project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach is helping increase IA's knowledge of corporate developments which feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. There is also scope to ensure that any work IA carries out is more closely aligned to the transformation work which continues to be carried out across the Council.

3.2.2 During quarter two, IA was involved in a range of advisory work including active involvement in a number of the Council's working groups. Attached at Appendix A is the list of 2014/15 consultancy requests and advisory work carried out. As detailed at Appendix A, we also conducted **two** specific pieces of consultancy and **one** piece of grant verification work this quarter. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. Whilst the methodology of our consultancy work is still under development, as part of our advisory reports we do provide specific suggestions for senior management to consider. Table 2 below highlights the consultancy reviews finalised since the last Audit Committee meeting on 30 July 2014:

Table 2 - Consultancy work completed since the last Audit Committee

IA Ref.	Consultancy Review Area
C3	Standby Payments (IA Memo in progress)
C6	Ruislip High School
GC4	Troubled Families Grant (for Quarter 2)

3.2.3 As part of the Standby Payments review we provided advice to the Employee Relations Manager to help establish a robust control framework. The IA consultancy review of Ruislip High School was in relation to the School's ICT inventory processes and related controls. This piece of work has been well received by management at the school. As an Academy School, Ruislip High has been invoiced for the total IA time taken in relation to this piece of work.

3.3 Follow-up of Previous Internal Audit Recommendations

3.3.1 IA continues to monitor all **HIGH** and **MEDIUM** risk recommendations raised through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk IA recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. It will also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations.

3.3.2 The implementation of recommendations raised by IA continues to be monitored solely by one member of the IA team. Having this single point of contact for this area of work allows the rest of the IA team to focus on delivery of the IA Plan and also ensures that organisationally IA has a more consistent and streamlined approach to the process of following-up IA recommendations. This approach has achieved extremely positive results for the Council's overall control environment, with the vast majority of recommendations now promptly implemented by management.

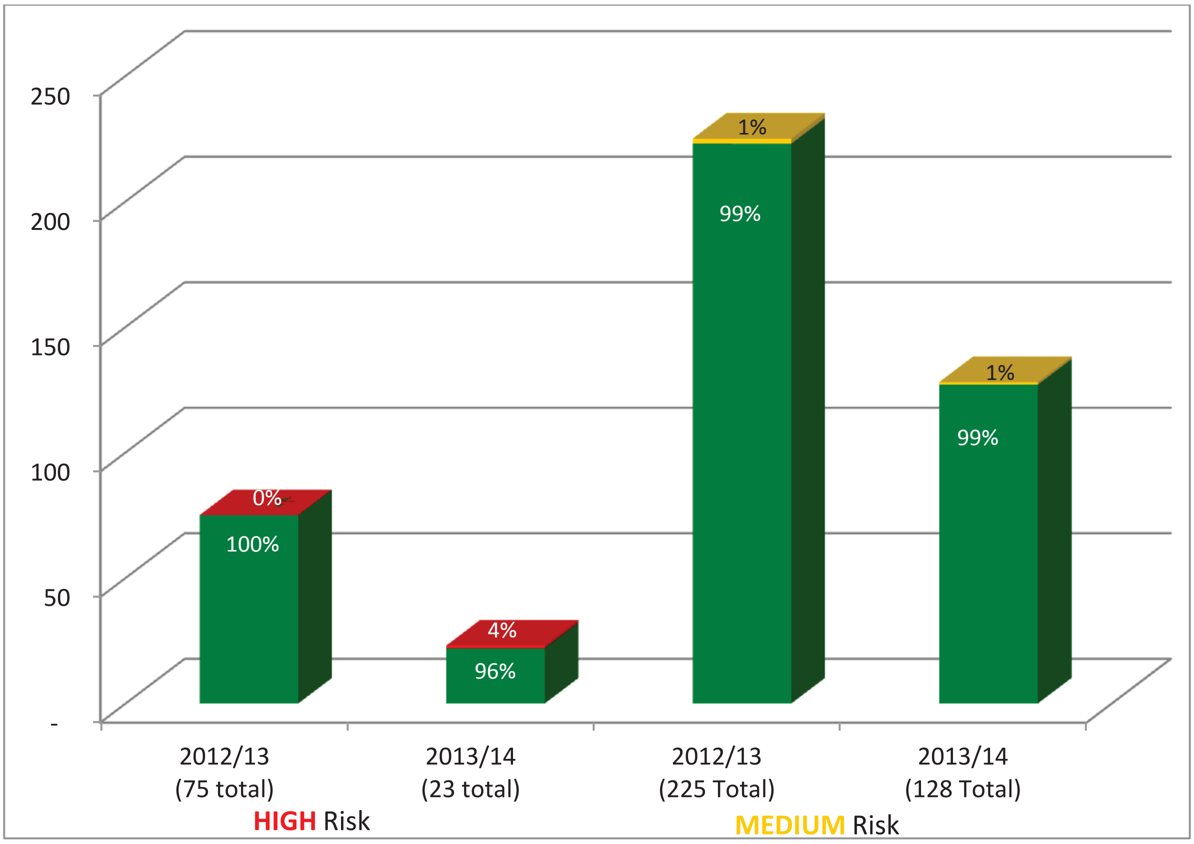
3.3.3 The focus of the quarter two IA work on follow-up has been on **all** the outstanding **HIGH** and **MEDIUM** risk recommendations due for implementation. Including some IA recommendations raised this quarter, there were **451** **HIGH** and **MEDIUM** risk IA recommendations that were due to have been implemented by 31 August 2014. The table below summarises the status of all **HIGH** and **MEDIUM** risk IA recommendations due for implementation:

Recommendation Status as at 31 August 2014	HIGH		MEDIUM		TOTAL
	12/13	13/14	12/13	13/14	
Total No. of IA recommendations raised that are due for implementation	75	23	223	127	**451**
No. of recommendations confirmed by management as implemented	75	22	221	126	**447**
No. of recommendations outstanding	0	1	2	1	**4**
% of recommendations outstanding	**0%**	**4%**	**1%**	**1%**	**1%**

3.3.4 Positive management action has been proposed to address all **150** of the 2013/14 **HIGH** & **MEDIUM** risk IA recommendations raised. One **MEDIUM** risk recommendation was risk accepted by management with no action proposed at present. This related to the current HR/Payroll system which is due to be replaced in 2015 and therefore management, whilst in agreement with the recommendation, deemed that further development of the current system would not be cost effective. However, IA agrees with the recommendation action proposed and this will be further considered as part of the new HR/Payroll system implementation.

3.3.5 Given that we are taking a risk based IA approach at the Council, it is also a positive outcome that less than **22%** of the total recommendations raised due for implementation were **HIGH** risk. In addition, only **1%** of **HIGH** risk recommendations and **1%** of **MEDIUM** risk recommendations remain outstanding as at 31 August 2014. The HIA believes this success is due to the more collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council.

3.3.6 **The bar chart below** highlights the results of our follow-up work on all the 2012/13 and 2013/14 outstanding **HIGH** and **MEDIUM** risk IA recommendations due for implementation as at 31 August 2014:



3.3.7 The IA software once fully embedded will further enhance the IA follow-up work through a dedicated follow-up module within the software. This is currently being piloted within the Finance directorate and is scheduled to go live across the Council in December 2014, once training has been provided to the relevant Council staff. This enhanced process will allow IA and Senior Management to more easily monitor the progress and status of all IA recommendations and management action plans established. The new process will also place greater responsibility on management, as owners of the risks, to provide progress updates on the recommendations.

3.3.8 Overall, the results of our follow-up work demonstrate a positive outcome for the Council regarding the management action taken in response to IA recommendations raised. Nevertheless, there is still more work for IA to do in terms of working with management to improve the timely implementation of management action to mitigate **HIGH** and **MEDIUM** risks.

3.4 Other Internal Audit Work in Quarter 2

3.4.1 During the quarter, IA has assisted the Corporate Fraud Investigation Manager (CFIM) with a fact finding investigation into the Council's previous gas compliance contractor. The CFIM's draft report for this investigation was recently issued and is currently being considered by the relevant Corporate Director.

3.4.2 Within this quarter we have also commenced work on delivering the IA Plan for West London Waste Authority (WLWA). The annual IA Plan for WLWA consists of approximately 30 days per year for the next 3 years. Winning this tender via a competitive bidding process is a positive step for IA which will provide additional revenue to the Council as well as significant experience to the IA team. We are confident that the delivery of these days, will not affect the quality of delivery of our core responsibilities to Hillingdon Council, CMT and the Audit Committee.

3.5 Internal Audit Performance

3.5.1 The new IA Key Performance Indicators (KPIs) previously agreed with CMT and the Audit Committee are more meaningful and will provide a significant challenge to IA as a service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our stakeholders. As at 15 September 2014, actual cumulative IA performance against the new KPIs is highlighted below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	**HIGH** risk IA recommendations where positive management action is proposed	98%	100%	**GREEN**
KPI 2	**MEDIUM** risk IA recommendations where positive management action is proposed	95%	100%	**GREEN**
KPI 3	**LOW** risk IA recommendations where positive management action is proposed	90%	97%	**GREEN**
KPI 4	**HIGH** risk IA recommendations where management action is taken within agreed timescale	90%	95%	**GREEN**
KPI 5	**MEDIUM** risk IA recommendations where management action is taken within agreed timescale	75%	94%	**GREEN**
KPI 6	Percentage of IA Plan delivered to **draft report** stage by 31 March	90%	88%	**AMBER**
KPI 7	Percentage of IA Plan delivered to **final report** stage by 31 March	80%	78%	**AMBER**
KPI 8	Percentage of draft reports issued as a final report within 15 working days	90%	100%	**GREEN**
KPI 9	Client Satisfaction Rating	80%	91%	**GREEN**
KPI 10	IA work fully compliant with the **PSIAS** and **IIA Code of Ethics**	100%	100%	**GREEN**

3.5.2 As at 15 September 2014, only four 2014/15 IA assurance reports have been issued as final reports and as a result it is relatively early days in terms of being able to fully report on actual performance against the new suite of IA KPIs. The slight delay in finalising a number of quarter one IA reports also explains why actual performance against IA KPI 6 and KPI 7 (as highlighted above) is not quite in line with the target set. However the HIA remains confident that all IA KPIs will be achieved for the 2014/15 year once the range of operational and strategic changes being implemented across the IA service become fully embedded.

3.5.3 We have also received a range of client comments on IA performance this quarter, an example of which is highlighted below:

<u>Chantry School</u>

- *"Muir and his team were totally professional throughout. The Audit gave the IEB and staff a very clear perspective on the changes in practice that were required, whilst recognising that the staff in place had done the best they could with little or no direction from the previous leadership team at the School. It was a pleasure working with them".*

4. Forward Look

4.1 Looking ahead to quarter three, four members of the IA team have recently left the Council, so IA is now in the process of a major recruitment drive. Whilst this process will generate significant cash savings for the Council, the key purpose of the IA restructure is to improve the skills mix across the team and increase the overall efficiency and effectiveness of the IA service.

4.2 Linked to this, an updated IA Strategy is currently being devised in consultation with a range of key stakeholders which will include the new Independent Chair of the Audit Committee. The IA Strategy will have a five-year time horizon and have a road map based on the Council's overall strategy, changing stakeholder expectations, regulatory requirements and the role of the other risk and assurance functions across the Council.

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

Muir Laurie ACCA, CMIIA
Head of Internal Audit

15 September 2014

APPENDIX A

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2014/15

Key:	
IA = Internal Audit	**NP** = Notable Practice
H = High Risk	**CFQ** = Client Feedback Questionnaire
M = Medium Risk	
L = Low Risk	**ToR** = Terms of Reference

2014/15 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 15 September 2014	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
A14	Software Licensing	Final report issued 30 July 2014	Reasonable	-	1	2	-	✓
A1	Schools - Recruitment Procedures	Final report issued 3 September 2014	Reasonable	6	17	-	6	In progress
A36	Chantry School	Final report issued 3 September 2014	No	15	7	4	-	✓
A9	Schools - Budgetary Control	Final report issued 5 September 2014	Reasonable	-	5	-	7	In progress
A16	Planning Applications - Community Infrastructure Levy	Draft report issued 29 August 2014						
A15	Members' Declarations of Interests	Draft report issued 15 September 2014						
A10	Business Continuity	Draft report issued 15 September 2014						
A7	Housing - Temporary Accommodation	Testing completed; draft report in progress						
A11	Performance Management	Testing completed; draft report in progress						
A13	Northgate - Contract Management	Testing completed; draft report in progress						
A24a	Learning Disability Residential Placements	Testing in progress						
A24b	Mental Health Residential Placements	Testing in progress						
Total Number of IA Recommendations Raised in 2014/15				**21**	**30**	**6**	**13**	
Total % of IA Recommendations Raised in 2014/15				**37**	**53**	**10**	**-**	

APPENDIX A (cont'd)

2014/15 IA Assurance Reviews (cont'd):

IA Ref.	IA Review Area	Status as at 15 September 2014	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
A18	Schools - Payroll Arrangements	ToR issued 10 July 2014; testing in progress						
A3	Health Contributions / CCG (Adult Services)	ToR issued 15 July 2014; testing in progress						
A19	Leisure Services - Contract Management	ToR issued 28 July 2014; testing in progress						
A5	IAS Data Quality (Adult Services)	ToR issued 13 August 2014; testing in progress						
A21	Data Protection and FoI	ToR issued 15 August 2014; testing in progress						
A20	Capita Income ICT System	ToR currently being drafted by Baker Tilly						
CF1	Payroll	ToR issued 15 September 2014; testing in progress						
CF2	Asset Register	ToR issued 15 September 2014; testing in progress						
			Total Number of IA Recommendations Raised in 2014/15	**21**	**30**	**6**	**13**	
			Total % of IA Recommendations Raised in 2014/15	**37**	**53**	**10**	**-**	

APPENDIX A (cont'd)

2014/15 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 15 September 2014
C1	Domestic Violence Homelessness Process	Final IA consultancy memo issued 11 April 2014
C2	Purchase Requisitions - Chargeable Reactive Maintenance Works under £250	Final IA consultancy memo issued 15 April 2014
C4	Cemeteries Process	Final IA consultancy memo issued 18 June 2014
C6	Ruislip High School	Final IA consultancy memo issued 5 August 2014
C3	Standby Payments	IA Consultancy Memo currently being drafted
C5	Planning Applications - prior approvals and low fee income generation	ToR issued 2 June 2014; fieldwork in progress
C7	Primary Care Contracts	ToR issued 8 August 2014; fieldwork in progress
C8	Hillingdon in Bloom Gift Vouchers content and terms and conditions	Verbal consultancy advice provided
C9	Charville Children's Home – security of key safes	Verbal consultancy advice provided

2014/15 IA Verification Reviews:

IA Ref.	IA Review Area	Status as at 15 September 2014
GC1	Troubled Families Grant – Quarter 1	IA memo issued 29 April 2014
GC2	Adoption Reform Grant	IA memo issued 27 May 2014
GC3	Housing Benefits Subsidy Grant	Testing in progress
GC4	Troubled Families Grant – Quarter 2	IA memo issued 5 August 2014

APPENDIX B

REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN

IA reviews added to the 2014/15 Operational IA Plan for Quarter 2

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
A24a	Mental Health Residential Placements	Assurance	Tony Zaman, Director of Adult Services	Further to a liaison meeting with the Director it was agreed to bring this review forward from Q3. Following initial discussions held regarding the planned review of Mental Health and Learning Disabilities Residential Placements (IA Ref. A24) it was established that whilst these areas overlap, it would be more beneficial to undertake individual audits.
A24b	Learning Disabilities Residential Placements	Assurance	Tony Zaman, Director of Adult Services	
A37	Planning Applications and Appeals for Major Projects	Assurance	James Rodger, Head of Planning, Green Spaces and Culture	As part of initial discussions on the planning application and appeals audit, we received a request to split this audit into three separate pieces of work, two assurance audits and one consultancy. This assurance piece (IA Ref. A37) will review the planning applications and appeals process for major projects.
C7	Primary Care Contracts	Consultancy	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Request received from the Interim Director of Public Health, following IA attendance at the Public Health Steering Group, to undertake a review of the process of developing primary care contracts.
C8	Hillingdon in Bloom gift voucher content, terms and conditions	Consultancy	Paul Richards, Green Spaces, Sport and Leisure Senior Manager	Advice sought on the content, terms and conditions of gift vouchers for Rural Activities Garden Centre in association with 'Hillingdon in Bloom' 2014.
GC3	Troubled Families Grant	Grant Claim Verification	Tony Zaman, Interim Director of Children & Young People's Service	The Council receives a payment by results grant from the Department for Communities and Local Government (DCLG) for each identified 'turned around' troubled family. IA checked that the Q2 grant claim was only made for families where there was sufficient evidence of improvement in the last six months as per the payment by results criteria.

APPENDIX B (cont'd)

REVISIONS TO THE 2014/15 INTERNAL AUDIT PLAN (cont'd)

IA reviews deferred from the 2014/15 Operational IA Plan:

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Original Timing	Scope / Rationale
A2	Health Contributions / CCG (C&YP Services)	Assurance	Tony Zaman, Interim Director of Children & Young People's Service	Quarter 1	At the request of the Director, this has now been deferred to Quarter 3 due to staffing and operational pressures.
A4	ICS Data Quality (C&YP Services)	Assurance	Tony Zaman, Interim Director of Children & Young People's Service	Quarter 1	At the request of the Director, this has now been deferred to Quarter 3 due to staffing and operational pressures.
A6	Ofsted Improvement Action Plan	Assurance	Tony Zaman, Interim Director of Children & Young People's Service	Quarter 1	At the request of the Director, this has now been deferred to Quarter 3 due to staffing and operational pressures.
A8	Corporate Construction	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 1	At the request of the Director this audit has been deferred to Quarter 4 to allow for the review to provide assurance that the control framework is effective following a period of change and restructure.
A12	Mortuary	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 1	At the request of the Civil Protection Manager this has been deferred to January 2015 due to continued staffing and operational pressures.
A17	Housing Repairs	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 2	At the request of the Director this audit has been deferred to Quarter 4 to allow for the review to provide assurance that the control framework is effective following a period of change and restructure.
A37	Planning Applications Appeals for Major Projects	Assurance	Jean Palmer, Deputy Chief Executive and Corporate Director of Residents Services	Quarter 2	At the request of the Head of Planning, Green Spaces and Culture we have deferred this audit until Quarter 4 due to two other IA reviews currently ongoing in the same service area.

APPENDIX C

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	IA 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 D

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	IA 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**.

WORK PROGRAMME 2014/15

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
30 July 2014 at 7.00pm	CR 5
23 September 2014	CR 4
16 December 2014	CR 3
17 March 2015	CR 3A

AUDIT COMMITTEE

2014/15 DRAFT Work Programme

30 July 2014	**Consolidated Fraud Investigation Report**	**Corporate Fraud Investigation Manager**
	Annual Internal Audit Report & Opinion Statement 2013/14	**Head of Internal Audit**
	Annual Review on the Effectiveness of Internal Audit	**Head of Internal Audit**
	Review of the Effectiveness of the Audit Committee	**Head of Internal Audit**
	Draft Annual Governance Statement	**Head of Policy**
	Head of Internal Audit Annual Assurance Statement	**Head of Internal Audit**
	Internal Audit Progress Report - Quarter 1 2014/15	**Head of Internal Audit**
	Audit Committee Annual Report to Council	**Head of Internal Audit**
	Audit Committee Work Programme	**Democratic Services Manager**

Meeting Date	**Item**	**Officer/member**
23 September 2014	**Approval of the 2013/14 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2014**	**Director of Finance/Deloitte**
	Deloitte Annual Audit Letter	**Director of Finance/Deloitte**
	External Audit Report to the Audit Committee on the 2013/14 audit of the Pension Fund Financial Statements	**Director of Finance/Deloitte**
	Internal Audit Progress Report Quarter 2 2014/15 and plan amendments	**Head of Internal Audit**
	Risk Management Quarter 1 Report – PART II	**Head of Performance and Improvement**
	Audit Committee Work Programme	**Democratic Services Manager**

16 December 2014	*** Private Meeting with Head of Internal Audit to take place before the meeting**	
	Internal Audit Strategy	**Head of Internal Audit**
	Internal Audit Progress Report Quarter 3 2014/15 and plan amendments	**Head of Internal Audit**
	Treasury Management Strategy and Investment Strategy 2015/16	**Director of Finance**
	Corporate Fraud Investigation Progress Report	**Corporate Fraud Investigation Manager**
	Deloitte Annual Grant Audit Letter	**Director of Finance/Deloitte**
	Corporate Fraud Team Work Plan	**Corporate Fraud Investigation Manager**
	Proposed 2014/15 Training and Development Plan for Audit Committee Members	**Head of Democratic Services**
	Audit Committee Work Programme	**Democratic Services Manager**

17 March 2015	*** Private meeting with the Council's External Auditors to take place before the meeting**	
	Internal Audit – Draft Internal Audit Plan	**Head of Internal Audit**
	Internal Audit Progress Report Quarter 4 2014/15 and plan amendments	**Head of Internal Audit**
	Internal Audit – Revised Internal Audit Charter	**Head of Internal Audit**
	Annual Governance Statement – Interim Report	**Head of Policy**
	Balances and Reserves Statement	**Director of Finance**
	Revisions to the Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17	**Director of Finance**

	Deloitte – 2014/15 Annual Audit Plan	**Director of Finance/Deloitte**
	Risk Management Report Part II	**Head of Performance and Improvement**
	Audit Committee Work Programme	**Democratic Services Manager**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Agenda Item 10

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