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Audit Committee

Date: **THURSDAY, 24 SEPTEMBER 2015**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 3 - 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

Rajiv P Vyas (Chairman)
Cllr Richard Lewis (Vice-Chairman)
Cllr Tony Eginton (Labour Lead)
Cllr Peter Davis
Cllr Susan O'Brien

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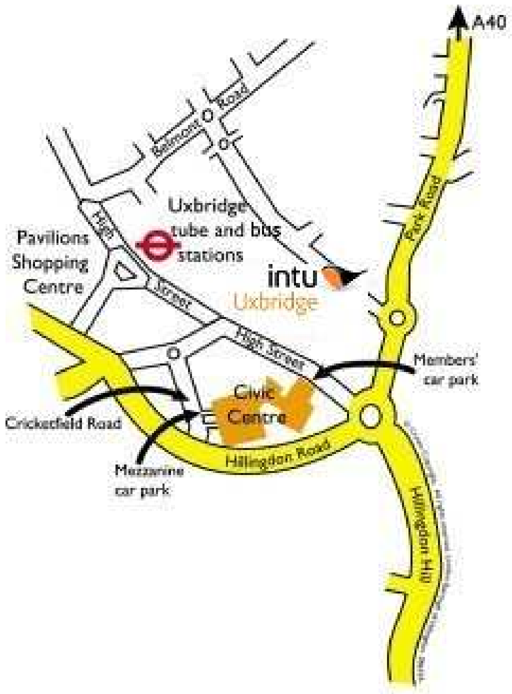

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Terms of Reference

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

3 Minutes of the meeting held on 2 July 2015 **(Pages 1-6)**

4 Approval of the 2014/15 Statement of Accounts and External Audit Report on the Audit for the Year Ended 31 March 2015 **(Pages 7-164)**

5 External Auditor Report on the Pension Fund Annual Report and Accounts **(Pages 165-190)**

6 Deloitte - Draft Annual Audit Letter **(Pages 191-202)**

7 Treasury Management and Risk Management - Training

Members to be provided with a short training session.

8 Corporate Fraud Team Progress Report **(Pages 203-214)**

9 Internal Audit Progress Report 2015/16 Quarter 2 & Operational Internal Audit Plan Quarter 3 **(Pages 215-238)**

10 Audit Committee Forward Programme **(Pages 239-242)**

PART II

11 Risk Management Report & Quarter 1 Corporate Risk Manager **(Pages 243-267)**

Minutes

Audit Committee
Thursday 2 July 2015
Meeting held at Committee Room 4- Civic Centre, High Street, Uxbridge UB8 1UW

HILLINGDON
LONDON

	Members Present: Rajiv Vyas (Independent Chairman), Councillors Peter Davis, Tony Eginton, Richard Lewis and Susan O'Brien. **Officers Present:** Kevin Byrne (Head of Policy and Partnerships), Sarah Hydrie (Principal Internal Auditor), Dan Kennedy (Head of Performance and Improvement), Muir Laurie (Head of Internal Audit), Elaine Portess (Principal Internal Auditor), Nancy Le Roux (Deputy Director of Strategic Finance), Paul Whaymand (Corporate Director of Finance), Martyn White (Senior Internal Audit Manager) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Jonathan Gooding (External Auditors - Deloitte).	
2.	**MINUTES OF THE MEETINGS HELD ON 17 MARCH AND 14 MAY 2015** Agreed as accurate records.	
3.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 13 - Risk Management Report.	
4.	**CORPORATE FRAUD INVESTIGATION TEAM PROGRESS REPORT APRIL 2015 TO MAY 2015** The Committee was provided with a report which provided details of the work undertaken by the Council's Corporate Fraud Investigation Manager. Reference was made to a range of activities which the team had been involved in which included:- • Social Housing fraud • Council Tax/Business Rates inspections • Single Person Discount (SPD) • Temporary Accommodation and Housing Needs Reception • Right to Buy investigations • Proceeds of Crime investigations • Housing Waiting List • Insurance Claims • Enhanced Recruitment Verification	**Action By:**

	• Blue Badge • Procurement fraud Reference was made to the Leader of the Council agreeing a Business Case to restructure the Corporate Fraud Investigation Team which came into effect from October 2014. The Committee was informed that the restructure had ensured a fully resourced Fraud Team to deliver the Council's aim to detect and prevent fraud through a zero tolerance approach and to take appropriate action against offenders. Particular reference was made to the work carried out in relation to Social Housing Fraud and the excellent joint working which took place within the Council and with outside agencies. The Chairman praised the information provided but asked that consideration be given to providing statistics from previous years to enable comparisons to be made. **RESOLVED –** **1. That the report be noted.**	**Garry Coote**
5.	**INTERNAL AUDIT - ANNUAL REPORT & OPINION STATEMENT 2014/15** The Committee was informed that the report provided the opportunity for the Head of IA to highlight to the Audit Committee any significant matters arising from the work of IA during 2014/15. The draft report had been considered by the Council's Corporate Management Team to allow comment by the officer body responsible for the Council's internal control, corporate governance and risk management arrangements. The Head of Internal Audit reported that despite a significant reduction in capacity, the Internal Audit Plan was 96% completed to draft report stage and there were only 3% of outstanding recommendations. Discussion took place on the key findings from the eight Internal Audit Reviews and Members asked that a report be submitted to the next meeting on progress made in relation to Corporate Construction, Housing Repairs & Planned Maintenance. The Committee noted that Internal Audit had identified that 6 out of 7 schools which had been sampled, had not complied with certain requirements relating to Schools governance. The Committee noted the significant internal control weaknesses which had been indentified and particular	**Muir Laurie**

	reference was made to the number of instances of non adherence to Council policies. Officers were asked to give consideration to developing a data base of all Council policies to ensure that these were kept up to date. The Committee was informed that Anthony Deane, Principal Internal Auditor had left the Authority. Members placed on record their appreciation for the good work he had carried out during his time at Hillingdon. **RESOLVED –** **1. That the Annual Internal Audit Report and Opinion Statement 2014/15 be noted.**	**Action By:**
6.	**INTERNAL AUDIT - EFFECTIVENESS OF INTERNAL AUDIT** The Principal Internal Auditor presented the report which provided the Committee with details of the review which had taken place into the effectiveness of the Internal Audit function. Overall the opinion had been given that there was reasonable assurance over the key risks to the achievement of objectives for the effectiveness of Internal Audit. It was noted that Internal Audit was compliant with 94.9% of the required questions contained within the best practise checklist. **RESOLVED –** **1. That the findings, recommendations and management actions contained in the report be noted.**	
7.	**INTERNAL AUDIT - EFFECTIVENESS OF THE AUDIT COMMITTEE** The Head of Internal Audit informed Members that the report provided independent, objective assurance to the Council over the Effectiveness of the Audit Committee and reviewed the following key areas of the Audit Committee: • Terms of Reference; • Independence and Membership; • Members' relevant experience, training and development; • Review of key Audit Committee documents including (but not limited to) Statement of Accounts and the Annual Internal Audit Report; and • Meeting agendas and minutes.	

	Reference was made to the management action plan and the Committee noted the two recommendations relating to an annual review of the Committee's Terms of Reference and the development of a Training and Development Plan. **RESOLVED –** **1. That the findings, recommendations and management actions contained in the report be noted.**	
8.	**INTERNAL AUDIT - PROGRESS REPORT FOR QUARTER 1 2015/16 (INCLUDING THE 2015/16 QUARTER 2 INTERNAL AUDIT PLAN)** The Head of Internal Audit presented the report which provided summary information on all Internal Audit work covered in relation to the 2015/16 Internal Audit Plan, together with assurance levels in respect of the quarter one period. Members were informed that since the last progress report, 22 assurance reviews had been completed to final report stage, 8 consultancy reviews had been finalised and 1 grant claim had been verified. Discussion took place on aspects of the Internal Audit activity and reference was made to the work which was being carried out into the grant claim quarterly verification work on the Troubled Families Grant. Members were informed that improvements had been made in this area. **RESOLVED –** **1. That the Internal Audit progress report for 2015/16 Quarter 1 be noted and approval be given to the Quarter 2 Internal Audit Plan for 2015/16.** **2. That the coverage, performance and results of the Internal Audit activity in Quarter 1 be noted.**	
9.	**SKILLS MATRIX AND TRAINING & DEVELOPMENT PROGRAMME FOR AUDIT COMMITTEE** Discussion took place and Members agreed that short training sessions should take place at every meeting of the Committee to enable the skills of all Members to be developed further. This training should also be offered to the named substitute Members. Reference was made to on-line training modules which could be used.	**Muir Laurie**

	RESOLVED – **1.That the information reported be noted.**	**Action By:**
10.	**DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2015-16** The Committee was informed that steady progress has been made to deliver the key components feeding into the draft AGS, which had included collecting cross-Council assurance statements and reflected progress in Internal Audit reviews of key processes. The Council was on schedule to publish the AGS alongside the Statement of Accounts in September 2015. Discussion took place on the identified significant governance issues and in particular the need for a stronger, school-led, school improvement approach in Hillingdon. The Committee was informed that there were currently 20 schools out of 97 (including Academy schools) which had been judged by Ofsted as "requiring improvement". The Committee was provided with assurance that the issues were being addressed. **RESOLVED –** **1. That the draft AGS be noted and that the Committee would be asked to adopt the AGS alongside the annual accounts at the Committee's next meeting in September 2015.**	
11	**WORK PROGRAMME 2015/16** Noted.	
12.	**RISK MANAGEMENT REPORT 2014/15** This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act). The report presented to Members the Corporate Risk Register till the end of March 2015 and also provided a summary of changes in risks on the Corporate Risk Register during the previous 12 months. Discussion took place on the report and officers were asked to	**Dan Kennedy**

	give consideration to a number of suggested risks which could be included in the Corporate Risk Register. The Chairman asked for information on the top ten risks for each Council directorate to be included in the next report to the Committee. **RESOLVED –** **1. That the Committee reviewed the Corporate Risk Register (as at the end of March 2015), as part of the Committee's role to independently assure the risk management arrangements in the Council.**	**Action By:** **Dan Kennedy**
	The meeting which commenced at 5.15pm, closed at 6.45pm **Next meeting: 24 September 2015 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.

Approval of the 2014/15 Statement of Accounts and External Audit Report on the Audit for the Year Ended 31 March 2015

Contact: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2014/15 Statement of Accounts. The report will be presented to Audit Committee on 24 September 2015 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 16 December 2014.

RECOMMENDATIONS

It is recommended that Audit Committee

1. **Approve the audited Statement of Accounts for 2014/15.**
2. **Considers the Auditors recommendations outlined in Internal Control Recommendations on page 14 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 30 June 2015, 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 2015 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 2014/15 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 no factual misstatements in the draft accounts. The report 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 a very strong year for the production of the accounts and another positive audit outcome.

ACCOUNTS SUMMARY

The accounts were restated from 2013/14 due to a change in accounting for schools assets which increased the opening Balance sheet by £62m due to the incorporation of Foundation school assets.

The Balance Sheet of the Council sets out the assets and liabilities at the end of the financial year and is a guide to the financial health of the Council. There was an overall decrease on the Balance sheet of £33m, mainly caused by a change in future liabilities for Pension obligations.

The Comprehensive Income and Expenditure shows a surplus of £52.1m 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 £5.4m and for the HRA £7.8m. Earmarked reserves also increased by £5.7m.

Post Balance Sheet Events

During August the council received an additional dividend payment in relation to the outstanding Heritable Iceland investment. This brings to total dividend paid to 98%. This dividend payment was in improvement in the amount recoverable reported in the Statement of accounts. Although this income would be an adjusting post balance sheet event it is immaterial so the accounts have not been adjusted to take account of the additional income. This will be accounted for by a credit in the 2015/16 Statement of Accounts.

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 for the year ended 31 March 2015

10 September 2015

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A reminder of our audit plan:

- Materiality set at £9.5m (2014: £10.1m)
- Threshold for reporting misstatements set at £473k (2014: £505k)
- Significant risks over recognition of grant income; recording of capital spend; and management override of controls.
- We have taken a mainly substantive audit approach in accordance with our audit plan.

We further identified significant risks in respect of the valuation of the Council's pension liability and the revaluation of it's properties due to the significant movement in their valuation; and accounting for schools as a result of the finalisation of the guidance since we issued our 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.

The big picture

Significant audit risk	Conclusion
Recognition of grant income	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider the appropriate treatment, and the associated judgement in relation to this. Grant income was £466.7m for the year (2013/14: £475.6m). Our testing concluded that grant income recognition is appropriate.
Recording of capital spend	We identified this as a significant risk because of the volume of capital spend in the financial year (£63.8m in 2014/15 and £81.2m in 2013/14) and the judgment involved in 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 have not identified any examples of inappropriate judgement being applied.
Valuation of the pension liability	The valuation of the Council's pension scheme liability is a significant audit risk due to the significant impact of the actuarial loss of £90.9m (2013/14: gain of £8.0m) and the judgement involved in assessing the value of future liabilities in relation to members. We considered the assumptions used to calculate the liability relating to the London Borough of Hillingdon Pension fund to fall within a reasonable range when compared to the Deloitte in-house benchmarks.
Revaluation of properties	In 2014/15 the Council revalued a range of assets including schools, garages, allotments and a number of other asset types. This has resulted in a £75.0m gain on revaluation. We concluded that the assumptions used were broadly reasonable but have identified a number of recommendations, more details of which are included on page 13.
Accounting for schools	The 2014/15 Code of Practice on Local Authority Accounting requires local authority maintained schools to be treated as entities for financial reporting purposes in accordance with International Financial Reporting Standard ("IFRS") 10 Consolidated Financial Statements. We considered the exercise management has undertaken to identify which schools should be capitalised, together with the accounting for the prior year restatement and have concluded that the Council has accounted for this correctly.

Other areas of responsibility	
Value for Money (VFM)	In our audit plan, issued in December 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 after our planning work was undertaken. This work did not identify any significant risks and so we anticipate issuing an unmodified 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 communicated with management minor 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 substantially complete and is summarised in a separate report presented to you. Grants certification procedures are ongoing and findings will be reported to you on completion of this work.

The big picture (continued)

Audit progress and areas to complete

- Our audit is largely complete. The following are the remaining areas we are required to complete to finalise the audit:
  - Update on the ongoing legal proceeding.
  - Completion of our grant certification procedures on the Housing Benefit (“BEN01”) return.
  - Completion of internal quality assurance procedures.
  - Receipt and review of the final version of Statement of Accounts.
  - Updating our review of events since 31 March 2015.
  - Receipt of signed management representation letter.

We are working to complete these outstanding audit matters and will update you in respect of any significant modifications to the findings or opinions contained in this report that arise on completion of these matters.

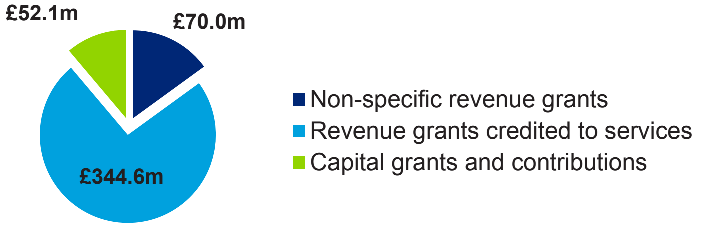
We note that the resolution of the open matters referred to above may warrant additional representations from the Council; if this is the case we will discuss these with you in advance of finalising the letter of representation.

Subject to satisfactory conclusion of the above matters, we expect to issue an unqualified opinion on the financial statements.

1. Grant income recognition

We consider the Council's revenue and capital grant recognition to be reasonable

	Income
2014/15 Actual	**£466.7m**
2013/14 Actual	**£475.6m**



Nature of risk

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

- the complex nature of accounting for grant income, as the basis for revenue recognition in the financial statements will depend on guidance associated with each individual grant, assessing whether any conditions have been met; and
- the volume and value of grants recognised by the Council year on year.

Total grant income recognised in the 2014/15 year is significant at £466.7m (2013/14: £475.6m).

Key judgement areas, their 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.

Deloitte view

The full amount of £7.2m outstanding in relation to the S106 agreement with regards to RAF Uxbridge site, has been disclosed as a long term debtor. The S106 agreement states the Council will receive a total sum of £8.6m for education contributions, of which £1.4m has already been received. The remaining £7.2m will be paid in equal proportions upon completion of every 200 dwellings, of which approximately 100 were completed at year end. On the basis the Council are not certain of whether a further 100 dwellings will be completed before the end of 2015/16, a prudent view has been taken and the full £7.2m has been disclosed as a long term debtor. This would appear reasonable and we are therefore satisfied with the disclosure of the full amount as a long term debtor.

Our testing did not identify any other issues.

2. Recording of capital spend

No significant issues were identified from our testing

	Capital expenditure
2014/15 Actual	**£74.7m**
2013/14 Actual	**£91.2m**

Nature of risk

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

- A forecast of significant capital spend for the 2014/15 year in comparison with previous years; and
- There being a management judgement on classification of expenditure as revenue or expenditure.

Key judgement areas, their 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.

Deloitte view

Our testing did not identify any significant issues with respect to the capitalisation of expenditure, specifically with respect to the improper capitalisation of revenue expenditure.

We note that the capital budget set in February 2014 of £119.8m was revised throughout the year on an ongoing basis to £92.8m, for planned variations including projects pushed back from 2013/14 (£3.7m), projects brought forward from 2015/16 (£8.7m), projects pushed back to 2015/16 (£44.1m) and new projects being identified (£1.8m). The council recorded a further underspend against this budget by the end of 2014/15 of over £20m. We are aware that this is not inconsistent with previous years and that it is normal practice for the council to revise the budget prior to the completion of the financial year, as budgets are set over 1 year in advance. The adequacy of the council's arrangements to accurately budget and forecast spend is a matter relevant to our value for money responsibilities, and a significant underspend on budget could be indicative of a weakness in those arrangements. We have discussed this matter with management and we understand that the reason for the underspend is firstly due to cost underspends of £9.6m and the phasing variances of £12.2m. Taking into consideration the explanations made by management, the fact that there is an underspend rather than an overspend, and that no other matters have come to our attention through our procedures that indicate a significant issue with respect to service delivery as a result of the underspend, we have concluded that this matter is not material to our value for money conclusion.

3. 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 valuation of both the Council's properties and its pension scheme liability and have discussed our approach and findings in this area on the followings 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 2015 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.).

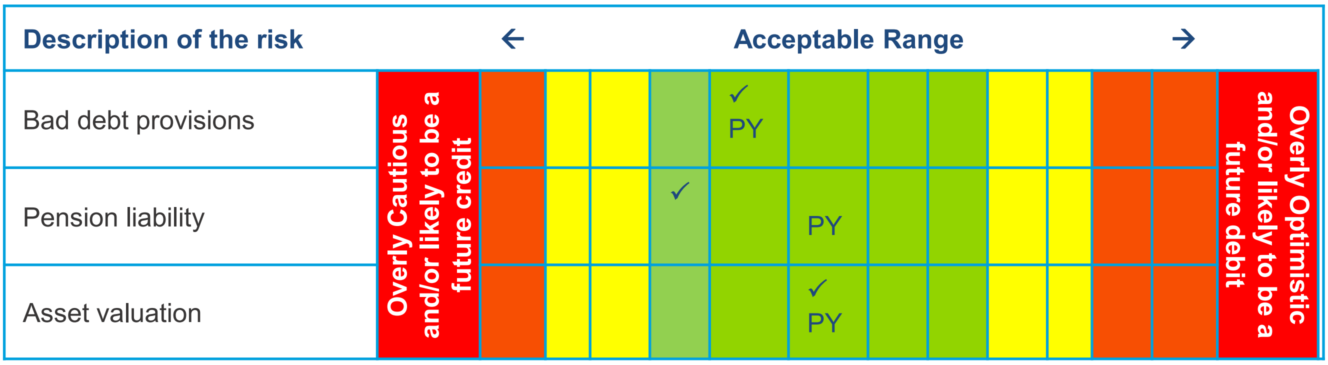
Our work focussed on the testing of journal entries made throughout the year and checking that entries had been properly authorised and reviewed, but also that they made clear business sense.

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.



✓ **Current Year Assessment** PY **Previous Year Assessment (if relevant)**

G	No issues noted	A	Adjustment identified	R	Material unresolved matter

Deloitte view

No significant issues were identified from testing.

4. Valuation of pension liability

No significant issues were identified from our testing

	Net pension liability	Actuarial loss/(gain) on pension assets and liabilities
2014/15 Actual	**£485.2m**	**£90.9m**
2013/14 Actual	**£381.9m**	**(£8.0m)**

Nature of risk

The pension liability is substantial and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions, which draw on market prices and other economic indices, can be volatile.

We did not identify pension accounting as an area of significant audit risk in our planning report as there is no impact on the general fund reserve from the accounting entries made under IFRS as these are all eliminated due to the difference between the statutory and funding basis of producing the statement of Accounts. However, as a result of the significant increase in the account balance, we have subsequently reclassified this risk from normal to significant.

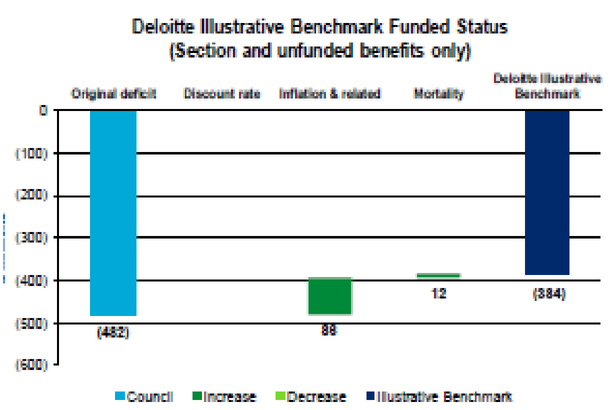
Key judgement areas, their impact on the financial statements and our audit challenge

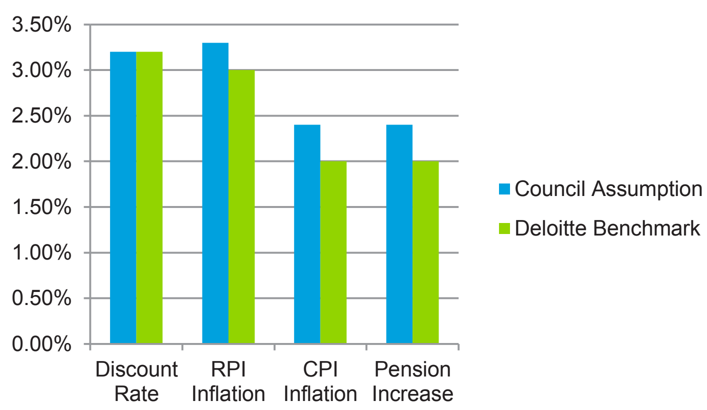
We considered the Council's arrangements, including the use of actuarial services to calculate the pension liability for the London Borough of Hillingdon Pension Fund ("LBH") of £482.1m (2013/14: £379.2m), to be reasonable. We engaged our own actuarial experts to assist in the review of the assumptions used to calculate the pension liability and the resulting accounting entries and disclosures. Our actuaries did not undertake a high level review of the assumptions used in calculating the London Pension Fund Authority Pension Fund ("LPFA") net pension liability due to the size of the liability being immaterial at £3.1m (2013/14: £2.7m).

We have performed consistency checks between the value of assets and membership data used in the actuarial report to the pension scheme financial statements.

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

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





4. Valuation of pension liability

No significant issues were identified from our testing

Deloitte view

No significant issues were identified from testing, with all assumptions used falling within our tolerable threshold. With the difference between the Council's disclosed deficit of £482m and the deficit using Deloitte's assumptions of £384m giving a difference of £98m, the Council are being more prudent in their valuation of the pension liability, with the difference being £89m in the prior year. This explains the movement in the pension liability valuation on the prudence scale on page 6.

We identified a significant difference between the assets per the Pension Fund accounts and the latest liability report. We concluded this difference was as a result of the shift in the number of members allocated to the Council with a 5% reduction in the number of members since the last formal valuation coinciding with a 4.3% reduction in the allocation of assets. The difference identified is not material and given the application of prudent assumptions above, results in a slightly less prudent valuation of the pension fund liability.

5. Revaluation of properties

No significant issues were identified from our testing

	Opening net book value of assets under scope of revaluation	Revaluation gain
2014/15 Actual	**£1,222m**	**£75.0m**
2013/14 Actual	**£1,195m**	**£25.4m**

Nature of risk

The Council's substantial portfolio of assets is subject to a rolling five year revaluation programme. In the 2014/15 year the Council undertook a detailed revaluation of assets with a carrying value of £786m, which equates to 64% of the £1.2bn carried in the balance sheet value of assets under the scope of revaluation at 31 March 2015. The assets subject to a detailed revaluation in 2014/15 included schools, garages and allotments. together with a number of other asset types.

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

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

We engaged our property specialists Deloitte Real Estate ("DRE") to review the assumptions and methodology used to value the different types of land and property. Overall we concluded that the valuation methods selected, and the way in which those methods were applied, were reasonable. However we have raised a number of management recommendations regarding the valuation process and consistency of methodology application, detailed further on page 13.

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

Deloitte view

No significant issues were identified from testing, with all assumptions used falling within our tolerable threshold.

6. Accounting for schools

No significant issues were identified from our testing

	Academies derecognised	Maintained schools capitalised
2014/15 Actual	**£68.6m***	**-**
2013/14 Actual	**£18.2m***	**£62.0m (restatement)****

* The derecognition of schools that have converted to academies results in a reduction in other land and buildings and a loss debited to the comprehensive income and expenditure statement.

** The capitalisation of maintained schools results in an increase in other land and buildings and an increase to capital adjustment account given it is a restatement.

Nature of risk

The 2015 Accounting Code requires local authority maintained schools (community, voluntary aided, voluntary controlled and foundation) to be treated as entities for financial reporting purposes in accordance with IFRS 10, and adapts the definition of single entity financial statements so that schools are consolidated into these statements.

This creates an area of judgement as both control and ownership are required in order to meet the capitalisation criteria of this standard. The application of this judgement, together with the accounting of the sizeable prior year restatement of £62.0m has resulted in this area being identified as a significant risk.

In addition to the treatment of maintained schools in the current year, every year the Council is required to derecognise the full value of any school that has converted to an academy during the course of the year. This area requires less judgement but year on year a material value of schools are converted.

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

We considered the Council's arrangements for identifying the schools that would require capitalisation, evidencing both control and ownership. We note that the Council has used the financial statements of the Church of England as well as receiving a letter from the Diocese of Westminster both of which confirms the school assets which are owned and controlled by the respective parties.

We have verified the status of all schools capitalised, and the schools that converted to academy status through to Edubase, the public portal of the Department of Education that lists all schools and academies.

We have tested the accounting for the prior year restatement and have not identified any issues with respect to how these have been brought onto balance sheet or their subsequent treatment.

Deloitte view

No significant issues were identified from testing.

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 2015
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 2014/15; 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 in December 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 raised in the prior year, control issues identified with regard to data reporting and accuracy of housing rent arrears and the need for a stronger, school-led, school improvement approach. All areas have been discussed within the Annual Governance Statement, and the extent of plans in place regarding the challenging future savings which the Council must realise in the medium term.

Value for Money (VfM) (continued)

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

The below table is a summary from the Medium Term Financial Forecast ("MTFF") presented to the Council in February 2015.

	2014/15 Unaudited £000	2015/16 MTFF £000	2016/17 MTFF £000	2017/18 MTFF £000	2018/19 MTFF £000	2019/20 MTFF £000
General Fund resources	212,188	203,592	198,861	194,404	191,597	190,903
General Fund spend	(207,664)	(203,592)	(198,861)	(194,404)	(191,597)	(190,903)
Surplus / (deficit)	4,524	-	-	-	-	-
Planned draw down on reserves	-	(5,000)	(4,000)	(3,000)	(2,000)	(1,000)
Savings requirement (cumulative)	12,802	9,907	26,182	42,440	53,223	63,352
Year on year savings requirement	12,802	9,907	16,275	16,258	10,783	10,129
Of which unallocated	-	-	11,715	13,622	8,726	9,941
Of which banked	14,864					
% achieved	90.1%					

Deloitte view

In respect of financial resilience, we have considered past years' performance, current year performance and post year-end performance in respect of financial planning and achievement of budgets.

- The Council has continued to contribute to reserves and is forecasting that it will draw down immaterial amounts over the next 5 years which given the size of the reserves does not represent a potential significant risk.
- The Council has been within its budget forecast (within immaterial variances) within recent years, achieving a £4.5m surplus in 2014/15 and over £6m in the previous 3 years, and is on track to do so again in 2015/16. We note that at Month 2 in 2015/16, current underspend against budget is £45k.
- We note that historical analysis shows the Council has achieved c87% of its identified cost savings target within the last 3 years (with additional savings being realised by bringing forward future year initiatives or identifying other savings elsewhere). At this level, any potential underachievement in the coming years does not pose a significant risk. The average savings achieved over the past 4 years has been £14m and with an average savings target of c£13m a year, there is an insignificant difference. Nothing has come to our attention throughout our testing which would indicate the Council has inadequate controls in place to accurately forecast and deliver against their cost improvement plan.
- The 2015/16 savings plan has been fully allocated and the Council are currently in the process of finalising savings initiatives for 2016/17 and beyond. We note of the savings plan detailed above for 2015/16, £1,761k has already been banked and a further £4,265k are on track for full delivery. The remaining amounts are in the early stage of implementation.
- We also note that the Council has a number of options available to them to achieve further savings, including but not limited to the raising of council tax and other services as well as cutting of future capital expenditure.

On completion of our risk assessment procedures 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.

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">We understand that the Council is looking to outsource the valuation of its assets in future years and, whilst we have concluded that the valuation is not materially misstated, we have identified a number of areas for improvement in the approach and evidence supporting the approach undertaken to value the Council's properties:
• Level of componentisation: Limited information regarding the level of componentisation is provided within the valuer’s report, with the threshold for componentisation being set at a high enough level that no assets fell within this threshold. We recommend the valuer considers the threshold for componentisation.
• Provision of fair values on an existing use value: No detail has been included in the main report on how the fair values have been derived. We recommend that further detail is included within the report on how these values have been calculated.
• Inspection process: No detail has been included in the main report regarding inspection of asset classes such as investment assets. We would recommend that further detail is included in the report regarding the inspection process, together with the impact any restricted inspection may have on conclusions.
• Provision of full inspection report: We were not provided with a full report but rather sections of the report, together with accompanying spreadsheets. We would recommend that future reports contain all information, including work carried out and assumptions made in arriving at the values reported.
• Taxation, acquisition and disposal costs: No allowance was made for taxation, acquisition and disposal costs. We recommend that the finance team satisfy themselves this is appropriate and that they have been informed by the valuer that reported values exclude such costs.
• Use of Modern Equivalent Asset basis: The valuation of land elements does not fully reflect MEA considerations with the sample of assets reviewed having smaller than MEA site areas. Furthermore it would appear the valuer’s MEA considerations did not directly relate to the consideration of building or site sizes or locations. We recommend that the valuer should further consider asset location and sizes with regard to MEA basis and give greater consider to obsolescence factors.
• Obsolescence factors: The methodology behind the consideration of obsolescence factors is not clear or consistent between assets. We recommend that the valuer clarifies the methodology used and considers the consistency of the approach taken.</td><td rowspan="3">A</td></tr>
<tr><td colspan="2">Management response
Management acknowledge the recommendations and will ensure they are incorporated in the new contract specification for the outsourced valuation services for implementation from the 2015/16 accounts</td></tr>
<tr><td>Timeframe: Michael Paterson – Interim Head of Estates and Tenancy Management</td><td>Owner: January 2016</td></tr>
</table>

Y Minor control recommendation   A Requires improvement   R Significant improvement required

Internal control observations (continued)

Update on prior year recommendations made

Description	Observation and Deloitte recommendation	Status
Fixed asset valuation	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.	●
	Management update on recommendations not yet implemented Management have confirmed that the Council continues to adopt the correct approach with respect to the MEA basis and that documentation review has been implemented during the course of the year.	

Key: Completed | Partially complete | Not yet completed

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 2015

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 and corrected misstatements

We only report to you uncorrected misstatements that are either qualitatively material or exceed the clearly trivial threshold of £473,000. We reported no such misstatements in excess of this threshold.

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 small number of disclosure amendments, we consider them to be minor in nature.

Appendix 2: Management representation letter

The draft management representation letter for the 2014/15 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/RLG/2015

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 2015 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 2015 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 Accounts and Audit Regulations 2010.

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 effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.

7. 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.

8. 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.

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

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

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

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

13. 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.

14. 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.

15. 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

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

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

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

19. 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.

20. 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.

21. 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.

22. 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

23. 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.

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

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

26. 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 2014/15

The table below details our audit fees and non-audit fees for the year ending 31 March 2015 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**)	210.6	210.6
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	231.6	**231.6**
Fees payable for the certification of grant claims	66.4	45.3
Total fees payable in respect of our role as Appointed Auditor	**298.0**	**276.9**
Non audit fees		
Deloitte Real Estate contract monitoring engagement (**Note 1**)	10.0	53.6

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 2: The fee of £210,600 includes a fee of £3,450 (2013/2014: £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.

London Borough of Hillingdon

Statement of Accounts
for the year to 31 March 2015

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London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2015

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1. Leader's Statement

Introduction by Councillor Ray Puddifoot, Leader of the Council

Welcome to the London Borough of Hillingdon's Statement of Accounts for 2014/15, which provide a financial view of the Council's delivery of services to residents during the year and outlines the Council's financial standing at 31 March 2015.

The Council has continued to protect frontline services during 2014/15 in the face of on-going reductions in government support and increased demand for those services from a growing population. Strong financial management has been keen in meeting this challenge, with £12.8m savings delivered through the Council's Business Improvement Delivery (BID) Programme, enabling resources to be invested in services valued by local residents.

The continued investment in services can be seen in the maintenance of weekly refuse and recycling collections, extended opening hours for the busiest of the Council's refurbished libraries, opening of Bessingby and Deane Park and Cowley bowls clubs and an on-going programme of investment in local highways, with 202 roads resurfaced in 2014/15. We continue to be recognised for our outstanding open spaces, remaining the local authority with the highest number of Green Flags in the UK, with six new awards bringing our total to 34.

Continued investment in the Council's flagship school building programme has seen a further 630 new places delivered for September 2015 and 180 on-track for completion in September 2016, ensuring that every child in the borough has a school place as close to their home as possible. This brings the total number of new school places delivered to 5,655, with projects now underway to provide capacity within local Secondary Schools - including the major works commencing this summer at Northwood School.

A new supported housing development for adults with learning disabilities, complex needs and mental health issues opened at Swan House in West Drayton in August 2014, followed by the Queens Walk Resource Centre in South Ruislip in September 2014. Both projects demonstrate the Council's commitment to investment in social care provision, supporting independent living for the most vulnerable residents in modern facilities with the latest technology to support their development and keep them healthy.

Sound financial management remains at the heart of the Council's work to retain excellent services for residents, with balances growing to £40.4m over the past year and providing a resource to support maintenance of services in the face of continuing government funding reductions. This has been achieved while continuing the Council Tax Freeze during 2014/15 and into 2015/16 for all residents and until 2018/19 for the over 65's.

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 2015. 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 125 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 £52.1 million (£60.9 million 2013/14) on the provision of services for 2014/15. Of this a deficit of £62.6 million relates to the General Fund and surplus of £114.7 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 Council's services. The statement splits the Council’s reserves into usable and unusable balances, and shows movement to and from them during the year. Usable reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable reserves are those balances over which the Council has no direct control, which arise from differences in accounting and statutory reporting requirements.

Usable reserves increased from £124.6 million in 2013/14 to £173.5 million in 2014/15. Within this movement there was an increase of £17.3 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 and a £13.4 million increase in the Major Repair reserve which can be used for capital works or paying debt relating to Council Dwellings. Unusable reserves decreased from £500.6 million in 2013/14 to £418.9 million in 2014/15 mainly due to the movement in valuation of the Council's pension fund liabilities.

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 2014/15 were £72.8 million within the General Fund. This adjusts the General Fund surplus in year to £10.1 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 which are reported in the separate Pension Fund accounts.

The total net worth of the Council in 2014/15 was £592.4 million (£625.1 million 2013/14) largely constituting long term assets valued at £1,318.9 million, net pension liabilities of £485.2 million and long term borrowing of £311.4 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 2015 the Council has £42.0 million General Fund balances and £27.8 million Earmarked Reserves held for specific purposes. Further details on earmarked reserves 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 an increase in cash and cash equivalents in 2014/15 of £31.5 million. This was made up of an increase in cash held of £1.6 million and an increase in cashable short term investments of £29.9 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 2014/15 on HRA services of £114.7 million (£61.2 million 2013/14). This includes a reversal of prior year impairment through valuations on Council Dwellings of £83.3 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 £7.8 million in 2014/15 (£3.7 million 2013/14).

Collection Fund Revenue Account

The Collection Fund is a separate account into which amounts raised from local taxation are paid through Council Tax and Business Rates, and from which payments are made to precepting authorities including the Council itself. An in-year deficit of £1.0 million is reported on Council Tax as a result of releasing £4.6 million of prior year surpluses to the Council and Greater London Authority, with a carried forward surplus of £4.7 million available for release to preceptors from 2015/16. An in-year deficit of £5.5 million is reported on Business Rates as a result of new properties at Heathrow Airport being brought into the rating list slower than anticipated at the time of budget setting. The share of Collection Fund activity relating to the Council is reflected in the main statement of accounts, with the remainder being treated as agency activity on behalf of the Greater London Authority and Central Government. 78.8% of Council Tax and 30% of Business Rates activity relates to the London Borough of Hillingdon.

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

Annual Governance Statement

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

Glossary of Terms

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

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 2014/15 and will continue well into the future. Councils are continuing to see Central Government funding decline; however Hillingdon was 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 Transformation) Programme. This enabled delivery of the required £16.5 million savings to balance the budget while driving improvement in service quality across the Council.

Within the statement of accounts the Council has had to restate the comparator year for accounting policy changes to those published in 2013/14. 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 change is in relation to accounting for schools assets. Foundation schools and Voluntary Aided schools have historically been excluded from Council owed assets as they are an entity in their own right. Change in Accounting standards have meant that group accounting requirements for maintained schools have been reviewed as to their consolidation in the Council's single entity accounts. As a result the Council has considered the ownership of these assets and has brought all foundation school assets onto the balance sheet. Voluntary aided school assets are owned by the church and are continued to be excluded. As a result the Council's net worth has increased by £61.6 million in the opening balance sheet position as at 31 March 2013 and minor adjustments have been made within the Comprehensive Income and Expenditure account and other notes; further details of the restatement changes can be seen on page 43 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 and the school assets become those of the academy rather than the Council. During 2014/15 six schools became academies and were removed from the Council's long term assets; as a result £68.6 million of assets have been written out of the Comprehensive Income and Expenditure as loss on disposal. To date in 2015/16 there are two maintained school that have transferred to academy status and currently one more due to transfer in the 2015/16 financial year; the assets of these schools will be removed in the 2015/16 Statement of Accounts.

2.3 Revenue Budget

The Council’s net revenue budget for 2014/15 totalled £212.2 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 and Business Rates.

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. Strong financial management, coupled with the ambitious BID Transformation programme, delivered an under spend of £4.5 million against budget at outturn. The outturn position for the General Fund revenue budget is set out below:

General Fund Services	**Budget £'000**	**Outturn £'000**	**Variance £'000**
Administration	9,478	9,292	(186)
Finance	13,141	12,738	(403)
Residents Services	59,912	58,788	(1,124)
Adult Social Care	64,228	63,446	(782)
Children & Young People's Services	25,649	26,142	493
Net Cost of Services	**172,408**	**170,406**	**(2,002)**
Contingencies & Priority Growth	26,744	26,246	(498)
Financing Costs	9,774	8,488	(1,286)
Levies & other corporate budgets	3,262	3,234	(28)
Exceptional Items	0	(710)	(710)
Total Net Expenditure	**212,188**	**207,664**	**(4,524)**
Budget Requirement	(212,188)	(212,188)	0
General Fund Surplus for 2014/15	**0**	**(4,524)**	**(4,524)**

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 27 to the accounts.

Achievement of the surplus in 2014/15 was in part due to financing costs in relation to delaying borrowing for the Council's capital programme, favourable outturn against General Contingency, a good performance in recovery of overpaid housing benefits, closure of Victoria road civic Amenity site and a number of posts across directorates being held open.

An in-year surplus of £7,710k was reported on the Housing Revenue Accounts (HRA) this was due to less spend on planned maintenance, release of uncommitted contingency and a release of provisions for property dilapidations in the year. A total of 191 properties were sold in 2014/15 as part of the Right to Buy Government scheme.

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 2015/16 and beyond.

Capital Investment

The Council's programme of capital investment for 2014/15 totalled £74.7 million (£91.2 million in 2013/14) and was funded from a range of sources. These included grants, contributions from revenue resources, proceeds from asset sales and prudential borrowing (details in note 37 to the accounts).

Investment during 2014/15 focused heavily on the Council's flagship programme of schools expansions to meet the increasing requirements of school places over the next few years.

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 remaining 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 0.57% (0.48% 2013/14), resulting in total investment income this year of £0.78 million.

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 3.01%. The portfolio was reduced by £9.28 million with debt that matured naturally leaving a balance at year end of £326.9 million. The total interest paid over the year totalled £10.0 million.

There was no movement in terms of the unpaid investments with Icelandic bank Heritable and the balance remained at £0.8 million. Throughout the year legal proceedings were ongoing between Heritable and its parent LBI (formally Landsbanki Islands) in respect of certain claims made by LBI in Heritable's administration. Both parties have now reached a settlement. Further steps now need to be taken to bring the settlement in to effect which aims to deliver the best outcome for creditors.

Looking Ahead

Looking forward the main challenge the Council faces financially is the development of further revenue savings of £9.9 million in 2015/16 on top of the £12.8 million delivered in 2014/15. The Council continues to operate within the constraints of the government deficit reduction programme and has seen a reduction of 37% (£58 million) in Central Government funding since 2010/11. In addition the Council is facing a broad range of demographic and service pressures impacting on finances which requires savings and efficiencies to protect services to residents. The Council's BID programme continues to drive the delivery of the required savings and good progress continues to be made.

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 2015/16, with a further freeze for the over 65's to 2018/19. The Council continues to achieve growth in the Council Tax base due to residential development in the borough, with expected growth in Council Tax revenues predicted in 2015/16.

With the introduction of the Business Rate Retention System from 2013/14 the Council benefits from sharing in economic development through retention of a proportion of growth in the Business Rates base; although limited to 15%. Strong growth in the Business Rate Base is projected for 2015/16, with the development of major sites across the Borough, which are expected to offset the underlying trend of falling rateable value seen since 2010.

From 2015/16 the Council will take on additional responsibilities within Adult Social Care as a result of the 2014 Care Act which introduces significant changes to Adult Social Care funding arrangements which include the introduction of a number of new duties that the Council will need to implement prior to 1 April 2016. The introduction of the Better Care Fund is expected to increase resources available to the Council to support a sustainable health and social care system, providing better quality care and improved outcomes for health.

For 2015/16 the Council's capital programme includes a number of major schemes including a new theatre at St Andrews Park, a borough museum and a new youth centre. The Council are continuing to expand the number of school places across the borough to meet demand and are investing in sports clubs to encourage activity in the boroughs older population. Town centre and car park improvements, highways investment and environmental and recreational initiatives will also be invested in over the programme.

Despite the funding risks, the Councils aims to incorporate these strains with minimal impact on the delivery of front line services via transformation of service delivery, continuing to 'put our residents first'. The Council will continue to maintain balances and reserves well in excess of the minimum recommended level through prudent financial management to enable significant flexibility. This will provide a significant buffer over the medium term as there is forecast to be significant further cuts in Central Government funding.

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 2014/15 (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 2015 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
September 2015

Audit Committee Certificate for the Approval of the Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 24 September 2015.

Signed on behalf of London Borough of Hillingdon
CHAIRMAN (AUDIT COMMITTEE)
24 September 2015

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 2015 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 2014/15.

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 2015 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 2014/15.

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 2015 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 2014/15.

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 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015*,* 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 2014, 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 2015.

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 2015.

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 2015

5. Statement of Accounting Policies

The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2014/15 financial year and its position as at the year-end of 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15 (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 assets are valued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a revaluation loss previously charged to a service)

Where decreases in value are identified, the revaluation loss is accounted for as follows:

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

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

A de minimis value of £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 only includes maintained schools in its asset register and only where it owns or controls the assets. Academies are external to Local authorities and are not included. The Council does not own or control Voluntary Aided school assets as they are owned by the Diocese or Church of England and the value of these assets are not included in the Council's balance sheet.

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 unless specific information exists for an asset:

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

Where an item of Property, Plant and Equipment has major components with useful lives different to the main asset, and the cost of that component is material (20% or £250k), the asset is split into component parts and depreciated separately. Where component assets are replaced, the carrying value of the asset is reviewed with an estimate made on the carrying amount of the old component being replaced to be written out.

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

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

Disposals: When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction expected within the following year, rather than through its continuing use, it is reclassified as an Asset Held for Sale. There must be a management decision that the asset will be sold and it must be actively marketed. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Net loss on disposal of non-current assets line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. 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 on the face of the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund or Housing Revenue Account Balance in the Movement in Reserves Statement.

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

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

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

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

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

2. Heritage Assets

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 Net loss on disposal of non-current assets line in the Comprehensive Income and Expenditure Statement.

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

4. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

5. Revenue Expenditure Funded from Capital Under Statute

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

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 Net loss on Disposal of non-current assets line in the Comprehensive Income and Expenditure Statement. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease 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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

REVENUE

8. Accruals of Income and Expenditure

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

- Revenue from 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 or from 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

There were no operations acquired or discontinued in the year to 31 March 2015.

In 2013/14 the Council acquired the operation of Public Health in the borough from 1 April 2013, where the function transferred from the NHS. This expanded 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 was 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.

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 has been one change in accounting policy in 2014/15 which has resulted in a prior period adjustment to the comparator year of the accounting statements. The prior period adjustment is in relation to accounting for Foundation schools assets; as a result of the change the Council has prepared a third balance sheet for these amendments. The changes from the restatement of the accounts are documented in on page 43 to the accounts.

12. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, flexi leave and non monetary benefits, where material, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. Any accrual made is required under statute to be reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Account when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

<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 earnings for current employees.
- Liabilities are discounted to their value at current prices.
- The pension fund assets attributable to the Council is included in the Balance Sheet at fair value:
    - Quoted securities – current bid price
    - Unquoted securities – professional estimate
    - Unitised securities – current bid price
    - Property – market value

- The change in the net pensions liability is analysed into the following components:
- Service cost comprising:
    - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of 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

The costs of overheads and support services are charged to those services that benefit from the supply or service in line with CIPFA recommended practice and the Service Reporting Code of Practice (SERCOP). The basis of allocation is aligned with relative usage. Allocations are not made in relation to Corporate and Democratic Core or Non-Distributed costs which are shown separately in the Comprehensive Income and Expenditure Statement.

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 non-current 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.

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

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 Collection Fund activity in the core financial statements are:

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

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

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 2015 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 £2.1m for every year that useful lives had 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 Council's balance sheet position by £13.1m.
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 has moved into the first year of phase 2 which commenced in April 2014 and runs until March 2019. The authority is required to purchase allowances, either prospectively or retrospectively and surrender them, 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 2015 for 2014/15). 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 2014/15 accounts were they to be applied.

- IFRS 13 Fair Value Measurement (May 2011)
- IFRIC 21 Levies
- Annual Improvements to IFRSs 2011–2013 Cycle
    - IFRS 1: Meaning of effective IFRSs;
    - IFRS 3: Scope exceptions for joint ventures;
    - IFRS 13: Scope of paragraph 52 (portfolio exception); and
    - IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property

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 35)

This statement shows the expenditure and the income relating to all the services provided by the Council and how the net cost of these services has been financed by local taxpayers and government grants.

Balance Sheet (page 36)

This sets out the assets and liabilities of the Council as at 31 March 2015, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 37)

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 39)

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

Comprehensive Income and Expenditure Statement

This statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. 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 2015			Restated ** 31 March 2014		
	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		10,605	(3,866)	6,739	9,585	(3,898)	5,687
Culture and Related Services		21,351	(3,291)	18,060	24,264	(3,178)	21,086
Environmental and Regulatory		30,895	(8,607)	22,288	37,373	(8,754)	28,619
Planning Services		9,805	(5,796)	4,009	5,324	(4,328)	996
Education and Children's Services		258,796	(174,209)	84,587	243,912	(179,572)	64,340
Highways and Transport Services		30,948	(10,674)	20,274	30,564	(9,104)	21,460
Local Authority Housing (HRA)		(49,591)	(63,288)	(112,879)	(2,001)	(61,289)	(63,290)
Other Housing Services		168,238	(155,998)	12,240	171,430	(156,172)	15,258
Adult Social Care		90,273	(20,014)	70,259	86,954	(18,877)	68,077
Public Health		13,725	(15,885)	(2,160)	13,332	(15,622)	(2,290)
Corporate and Democratic Core		7,833	(476)	7,357	8,399	(702)	7,697
Non-Distributed Costs		(1,010)	(426)	(1,436)	4,138	(3,786)	352
TOTAL COST OF SERVICES		591,868	(462,530)	**129,338**	633,274	(465,282)	**167,992**
Other Operating Expenditure	*4*	1,711	0	1,711	1,591	0	1,591
Net loss on disposal of non-current assets *		57,296	0	57,296	11,791	0	11,791
Net Financing and Investment Income and Expenditure	*5*	27,068	(1,109)	25,959	27,842	(1,131)	26,711
Taxation and Non-Specific Grant Income	*6*	0	(266,379)	(266,379)	0	(269,003)	(269,003)
Corporate Amount		86,075	(267,488)	**(181,413)**	41,224	(270,134)	**(228,910)**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES		**677,943**	**(730,018)**	**(52,075)**	**674,498**	**(735,416)**	**(60,918)**
(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets	*23*			(6,053)			1,288
Actuarial loss/(gain) on pension assets and liabilities	*46*			90,907			(7,969)
(Surplus)/Deficit on revaluation of available for sale financial assets	*23*			(23)			15
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				**32,756**			**(67,584)**

* Loss on disposal on non-current assets: The net loss on disposal of fixed assets is mainly attributable to the transfer of LEA maintained schools to academy status.

** Restatement - see note 3

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

	Note		Restated	Restated *
		31 March 2015 £000's	31 March 2014 £000's	31 March 2013 £000's
Property, Plant & Equipment	*7*	1,297,402	1,278,171	1,225,008
Heritage Assets	*10*	501	501	501
Intangible Assets	*11*	289	509	570
Investment Properties	*12*	5,731	5,717	5,806
Long Term Investments	*13*	7,510	7,093	1,732
Long Term Debtors	*16*	7,514	383	405
LONG TERM ASSETS		**1,318,947**	**1,292,374**	**1,234,022**
Inventories	*14*	355	345	255
Short Term Debtors	*15*	39,761	28,230	22,930
Short Term Investments	*13*	48,856	55,101	33,293
Cash and Cash Equivalents	*19*	80,499	48,954	71,972
Assets Held for Sale	*20*	3,585	1,911	11,539
Current Intangible Assets	*21*	605	0	0
CURRENT ASSETS		**173,661**	**134,541**	**139,989**
Short Term Provisions	*22*	(3,299)	(3,640)	(2,231)
Short Term Borrowing	*13*	(13,634)	(10,705)	(11,791)
Short Term Creditors	*17*	(69,695)	(62,388)	(69,698)
CURRENT LIABILITIES		**(86,628)**	**(76,733)**	**(83,720)**
Long Term Provisions	*22*	(2,144)	(3,985)	(5,149)
Deferred Credits		(49)	(81)	(87)
Long Term Borrowing	*13*	(311,392)	(323,643)	(332,895)
Long Term Creditors	*18*	(3,293)	(2,898)	(3,897)
Capital Grant Receipts in Advance	*36*	(9,595)	(10,292)	(14,980)
Deferred Liabilities	*38*	(1,953)	(2,211)	(2,473)
Net Liabilities Related to Defined Benefit Pension Schemes	*46*	(485,178)	(381,940)	(373,262)
LONG TERM LIABILITIES		**(813,604)**	**(725,050)**	**(732,743)**
NET ASSETS		**592,376**	**625,132**	**557,548**
Usable Reserves		173,461	124,581	99,502
Unusable Reserves	*23*	418,915	500,551	458,046
TOTAL RESERVES		**592,376**	**625,132**	**557,548**

Paul Whaymand
Corporate Director of Finance
September 2015

* Restatement -see note 3

Movement in Reserves Statement

This statement shows movement in the year on different reserves held by the Council, 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 Council'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 2014 Restated		**36,569**	**17,669**	**22,050**	**22,820**	**11,379**	**1,327**	**12,767**	**124,581**	**56,381**	**827,776**	**(355)**	**(381,940)**	**4,020**	**(5,362)**	**31**	**500,551**	**625,132**
Surplus/(Deficit) on provision of services		(62,668)	0	0	114,743	0	0	0	**52,075**	0	0	0	0	0	0	0	**0**	**52,075**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	**0**	6,053	0	0	(90,907)	0	0	23	**(84,831)**	**(84,831)**
Total Comprehensive Income and Expenditure		(62,668)	0	0	114,743	0	0	0	**52,075**	**6,053**	**0**	**0**	**(90,907)**	**0**	**0**	**23**	**(84,831)**	**(32,756)**
Adjustments between accounting basis & funding basis under regulations	1	72,796	0	0	(101,160)	7,521	385	17,263	**(3,195)**	**0**	**16,591**	**12**	**(12,331)**	**(2,397)**	**1,320**	**0**	**3,195**	**0**
Net increase/(decrease) before transfers to Earmarked Reserves		10,128	0	0	13,583	7,521	385	17,263	48,880	6,053	16,591	12	(103,238)	(2,397)	1,320	23	**(81,636)**	**(32,756)**
Transfers (from)/to Earmarked Reserves	2	(4,713)	(1,063)	5,729	(5,827)	5,874	0	0	**0**	**(3,433)**	**3,433**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increase/(Decrease) in Year		5,415	(1,063)	5,729	7,756	13,395	385	17,263	**48,880**	**2,620**	**20,024**	**12**	**(103,238)**	**(2,397)**	**1,320**	**23**	**(81,636)**	**(32,756)**
Balance at 31 March 2015		**41,984**	**16,606**	**27,779**	**30,576**	**24,774**	**1,712**	**30,030**	**173,461**	**59,001**	**847,800**	**(343)**	**(485,178)**	**1,623**	**(4,042)**	**54**	**418,915**	**592,376**

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 2013		**32,767**	**14,950**	**11,134**	**19,089**	**1,123**	**17,156**	**3,283**	**99,502**	**59,624**	**775,111**	**(367)**	**(373,262)**	**2,853**	**(5,959)**	**46**	**458,046**	**557,548**
Surplus/(Deficit) on provision of services		(316)	0	0	61,234	0	0	0	**60,918**	0	0	0	0	0	0	0	**0**	**60,918**
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 (restated)		(316)	0	0	61,234	0	0	0	**60,918**	(1,288)	0	0	7,969	0	0	(15)	**6,666**	**67,584**
Adjustments between accounting basis & funding basis under regulations (restated)	1	18,422	0	0	(53,422)	5,506	(15,829)	9,484	**(35,839)**	0	50,710	12	(16,647)	1,167	597	0	**35,839**	**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)	50,710	12	(8,678)	1,167	597	(15)	**42,505**	**67,584**
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)	52,665	12	(8,678)	1,167	597	(15)	**42,505**	**67,584**
																		0
Balance at 31 March 2014		**36,569**	**17,669**	**22,050**	**22,820**	**11,379**	**1,327**	**12,767**	**124,581**	**56,381**	**827,776**	**(355)**	**(381,940)**	**4,020**	**(5,362)**	**31**	**500,551**	**625,132**

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	2014/15 £000's	2013/14 £000's
Net (surplus) on the provision of services	*24*	(52,075)	(60,918)
Adjust net (surplus) on the provision of services for non cash movements	*24*	(67,328)	(50,530)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	*24*	70,275	56,609
Net cash flows from operating activities	*24*	(49,128)	(54,839)
Net cash flows from investing activities	*25*	1,244	52,894
Net cash flows from financing activities	*26*	16,339	24,963
(Increase)/Decrease in cash and cash equivalents		**(31,545)**	**23,018**
Cash and cash equivalents at the beginning of the reporting period		**(48,954)**	**(71,972)**
Cash and cash equivalents at the end of the reporting period		**(80,499)**	**(48,954)**

Notes to Main Financial Statements

1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the 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.

2014/15	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	(499)		(2)			(501)	501					501
Depreciation and impairment of non current assets	(40,288)	83,295	(9,816)			33,191	(33,191)					(33,191)
Statutory provision for the financing of capital investment	7,034	8,259				15,293	(15,293)					(15,293)
Revenue expenditure funded from capital under statute	(10,548)					(10,548)	10,548					10,548
Capital grants and contributions applied	52,071			(385)		51,686	(51,686)					(51,686)
Capital expenditure charged in year to the General Fund balance	454		2,297			2,751	(2,751)					(2,751)
Use of Capital Receipts Reserve to finance new capital expenditure					6,616	6,616	(6,616)					(6,616)
Amounts written off on disposal of non current assets	(67,616)	10,320			(24,960)	(82,256)	82,256					82,256
Finance Lease Principal	261					261	(261)					(261)
Gain/Loss Investment Property	98					98	(98)					(98)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,081)				1,081	0						0
Premiums and discounts	(10)	22				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	(32,389)	(2,325)				(34,714)			34,714			34,714
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	20,884	1,499				22,383			(22,383)			(22,383)
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	(2,397)					(2,397)				2,397		2,397
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	1,230	90				1,320					(1,320)	(1,320)
Total Adjustments	**(72,796)**	**101,160**	**(7,521)**	**(385)**	**(17,263)**	**3,195**	**(16,591)**	**(12)**	**12,331**	**2,397**	**(1,320)**	**(3,195)**

Notes to Main Financial Statements

1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the 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	(33,934)	37,946	(9,492)			(5,480)	5,480					5,480
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	(9,471)					(9,471)	9,471					9,471
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	**(18,422)**	**53,422**	**(5,506)**	**15,829**	**(9,484)**	**35,839**	**(50,710)**	**(12)**	**16,647**	**(1,167)**	**(597)**	**(35,839)**

2. EARMARKED RESERVE TRANSFERS

	31 March 2015 £000's	Transfers Out 2014/15 £000's	Transfers In 2014/15 £000's	31 March 2014 £000's	Restated Transfers Out 2013/14 £000's	Restated Transfers In 2013/14 £000's	31 March 2013 £000's
Earmarked Reserves:							
Grants Unapplied	6,005	(2,809)	2,327	6,487	(640)	4,261	2,866
Member Initiatives	11,135	(1,758)	4,576	8,317	(2,175)	8,359	2,133
Other Reserves	7,068	(2,647)	4,258	5,457	(2,028)	2,698	4,787
Public Health Reserve	2,453	0	1,169	1,284	(1,720)	3,004	0
Parking Revenue Account / New Roads & Street Works Reserve	633	0	174	459	(174)	0	633
Barnhill PFI	485	0	485	0	0	0	0
HRA - Earmarked Reserve	0	(46)	0	46	(669)	0	715
Total Earmarked Reserves	**27,779**	**(7,260)**	**12,989**	**22,050**	**(7,406)**	**18,322**	**11,134**

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 2015 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 reserve required under statute to earmark any accounting under spend on Public Health activities transferred into the Council from the National Health Service from 1 April 2013. Monies set aside include funds to meet outstanding commitments from 2014/15 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 29.

Barnhill PFI - Lifecycle cost fund for PFI school Barnhill Academy

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

Notes to Main Financial Statements

3. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICES AND ESTIMATES

Prior period adjustments have been made to the Councils 2014/15 published financial statements in relation to the following:

Accounting for Schools Non-Current Assets

In 2014/15 the CIPFA code of Practice incorporated new accounting standards on group accounts and consolidation which have resulted in a change in the consolidation of schools in the Local Authority accounts. All maintained schools as defined under the Schools and Standards Framework Act 1998 are considered to be entities controlled by the Council. As a result all income expenditure, assets and liabilities relating to maintained schools are consolidated in the Councils single entity financial statements.

An assessment has been undertaken to establish which school assets and liabilities need to be brought on balance sheet and has resulted in a restatement of accounts to represent the value of ten Foundation school land and buildings. Voluntary Aided schools have remained off balance sheet as in prior years as the assets are owned and controlled by the Diocese of Westminster and the Church of England. Income, expenditure and current assets for all maintained schools have historically been included in the statements so there is no restatement in this respect. Academies are not maintained schools and continue to be excluded from the Councils Accounts. The Council's Core Statements and relevant notes have been restated to reflect these changes.

Restatement of Comprehensive Income and Expenditure Statement

	Net Expenditure 2013/14		
	Published 2013/14 £000's	**Restatement £000's**	**Restated 2013/14 £000's**
EXPENDITURE ON SERVICES			
Education and Children's Services	64,979	(639)	64,340
TOTAL COST OF SERVICES	**168,631**	**(639)**	**167,992**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	**(60,279)**	**(639)**	**(60,918)**
EXPENDITURE	**(66,945)**	**(639)**	**(67,584)**

Restatement of Balance Sheet

	Published 31 March 2014 £000's	**Restatement £000's**	**Restated 31 March 2014 £000's**
Property, Plant & Equipment	1,215,961	62,210	1,278,171
LONG TERM ASSETS	**1,230,164**	**62,210**	**1,292,374**
NET ASSETS	**562,922**	**62,210**	**625,132**
Usable Reserves	124,581		124,581
Unusable Reserves	438,341	62,210	500,551
TOTAL RESERVES	**562,922**	**62,210**	**625,132**

Notes to Main Financial Statements

3. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICES AND ESTIMATES

Restatement of Movement in Reserves Statement

	General Fund Balance 2013/14		
	Published 2013/14 £000's	Restatement £000's	Restated 2013/14 £000's
Opening Balance	32,767		32,767
Surplus on provision of services	(955)	639	(316)
Other Comprehensive Income and Expenditure	0		0
Adjustments between accounting basis & funding basis	19,061	(639)	18,422
Transfers to/from Reserves	(14,304)		(14,304)
Total Reserve Balances	**36,569**	**0**	**36,569**

	Capital Adjustment Account 2013/14		
	Published 2013/14 £000's	Restatement £000's	Restated 2013/14 £000's
Opening Balance	713,540	61,571	775,111
Surplus on provision of services	0		0
Other Comprehensive Income and Expenditure	0		0
Adjustments between accounting basis & funding basis	50,071	639	50,710
Transfers to/from Reserves	1,955		1,955
Total Reserve Balances	**765,566**	**62,210**	**827,776**

Restatement of Cash Flow Statement

	Published 2013/14 £000's	Restatement £000's	Restated 2013/14 £000's
Net (surplus) on the provision of services	(60,279)	(639)	(60,918)
Adjust net surplus on the provision of services for non cash movements	(51,169)	639	(50,530)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	56,609		56,609
Net cash flows from operating activities	(54,839)	0	(54,839)
Net cash flows from investing activities	52,894		52,894
Net cash flows from financing activities	24,963		24,963
Decrease in cash and cash equivalents	**23,018**	**0**	**23,018**
Cash and cash equivalents at the beginning of the reporting period	**(71,972)**		**(71,972)**
Cash and cash equivalents at the end of the reporting period	**(48,954)**	**0**	**(48,954)**

Notes to Main Financial Statements

4. OTHER OPERATING EXPENDITURE

	2014/15 £000's	2013/14 £000's
Payments to Government Housing Capital Receipts Pool	1,081	953
Precepts and Levies	630	638
Total	**1,711**	**1,591**

5. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2014/15 £000's	2013/14 £000's
Interest payable and similar charges	10,876	11,153
Interest receivable	(1,011)	(1,124)
Net interest on the net defined benefit liability	16,192	16,600
Changes in the fair value of investment properties	(98)	89
Other income	0	(7)
Total	**25,959**	**26,711**

6. TAXATION AND NON-SPECIFIC GRANT INCOME

	2014/15 £000's	2013/14 £000's
Council Tax Income	(102,209)	(99,355)
Non-Domestic Rates Income	(103,815)	(99,010)
Non-Domestic Rates Tariff payable to Central Government	61,728	58,027
Non-Domestic Rates Levy (receivable)/payable to Central Government	(31)	113
Non-Ringfenced Government Grants	(69,980)	(77,106)
Capital Grants & Contributions	(52,072)	(51,672)
Total	**(266,379)**	**(269,003)**

7. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2014/15

	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 2014	557,215	541,076	45,660	237,256	14,554	20,747	14,149	**1,430,657**
Additions	3,519	25,473	9,730	8,782	0	16,331	0	**63,835**
Revaluation (decreases)/increases recognised in Revaluation Reserve	26	2,533	(98)	0	0	0	(232)	**2,229**
Revaluation (decreases)/increases recognised in Surplus/Deficit on the Provision of Services	48,861	(30,590)	0	0	0	0	(1,831)	**16,440**
Derecognition - Disposals	(10,811)	(61,096)	(2,188)	0	0	(17,745)	(82)	**(91,922)**
Derecognition - Other	0	0	(1,786)	0	0	0	0	**(1,786)**
Assets reclassified within Property Plant and Equipment	0	5,509	3,993	0	0	(12,785)	3,283	**0**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	(349)	0	0	0	(261)	(2,655)	**(3,265)**
Other Movements in Cost Valuation	0	0	0	0	0	0	0	**0**
Cost of Valuation as at 31 March 2015	**598,810**	**482,556**	**55,311**	**246,038**	**14,554**	**6,287**	**12,632**	**1,416,188**
Accumulated Depreciation & Impairment at 1 April 2014	(25,684)	(28,978)	(10,261)	(87,099)	(460)	0	(4)	**(152,486)**
Depreciation charge for 2014/15	(9,431)	(16,285)	(4,008)	(5,914)	0	0	(28)	**(35,666)**
Depreciation written out to Revaluation Reserve	19	3,706	98	0	0	0	1	**3,824**
Depreciation written out to Surplus/Deficit on Services	34,434	17,981	0	0	0	0	0	**52,415**
Derecognition - Disposals	662	10,561	115	0	0	0	0	**11,338**
Derecognition - Other	0	0	1,786	0	0	0	0	**1,786**
Assets reclassified within Property Plant and Equipment	0	50	0	0	0	0	(50)	**0**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	3	0	0	0	0	0	**3**
Accumulated Depreciation & Impairment at 31 March 2015	0	(12,962)	(12,270)	(93,013)	(460)	0	(81)	**(118,786)**
Balance Sheet amount 1 April 2014	531,531	512,098	35,399	150,157	14,094	20,747	14,145	**1,278,171**
Balance Sheet amount 31 March 2015	**598,810**	**469,594**	**43,041**	**153,025**	**14,094**	**6,287**	**12,551**	**1,297,402**
Nature of asset holding								
Owned	598,810	469,594	42,757	153,025	14,094	6,287	12,551	**1,297,118**
Finance Lease	0	0	284	0	0	0	0	**284**
Balance Sheet amount 31 March 2015	**598,810**	**469,594**	**43,041**	**153,025**	**14,094**	**6,287**	**12,551**	**1,297,402**

NB: Of the £80.6m written out for disposals, £68.6m relates to community schools converting to academy status.

7. 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	546,347	57,886	227,033	9,973	9,770	10,863	**1,384,872**
Additions	1,839	40,259	17,684	10,223	47	11,039	155	**81,246**
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**	**541,076**	**45,660**	**237,256**	**14,554**	**20,747**	**14,149**	**1,430,657**
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)	(14,679)	(2,936)	(5,632)	0	0	(180)	**(32,302)**
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**
Assets reclassified within Property Plant and Equipment	0	430	30	0	(460)	0	0	**0**
Assets reclassified (to) & from Held for Sale & Investment	0	0	0	0	0	0	164	**164**
Accumulated Depreciation & Impairment at 31 March 2014	**(25,684)**	**(28,978)**	**(10,261)**	**(87,099)**	**(460)**	**0**	**(4)**	**(152,486)**
Balance Sheet amount 1 April 2013	505,882	522,538	20,666	145,566	9,973	9,770	10,613	**1,225,008**
Balance Sheet amount 31 March 2014	**531,531**	**512,098**	**35,399**	**150,157**	**14,094**	**20,747**	**14,145**	**1,278,171**
Nature of asset holding								
Owned	531,531	512,098	35,100	150,157	14,094	20,747	14,145	**1,277,872**
Finance Lease	0	0	299	0	0	0	0	**299**
Balance Sheet amount 31 March 2014	**531,531**	**512,098**	**35,399**	**150,157**	**14,094**	**20,747**	**14,145**	**1,278,171**

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

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

During 2014/15, the Council has recognised total revaluation losses of £23,930k (£12,847k in 2013/14), which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. The Council recognised valuation gains of £92,787k (£39,580 in 2013/14) 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.

9. COMMITMENTS UNDER CAPITAL CONTRACTS

As at March 2015, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2015/16 and future years budgeted to cost £15,279k. Similar commitments at 31 March 2014 were £40,433k. The major commitments are:

Scheme	31 March 2015 £000's	31 March 2014 £000's
Queenswalk Development	0	1,469
Schools Expansions Programme	7,853	35,019
New Vehicles	1,475	477
Other Capital Projects	5,951	3,468
	15,279	**40,433**

10. HERITAGE ASSETS

At 31 March 2015 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 2015 £000's	31 March 2014 £000's
Balance at start of year	501	501
Increase/(Decrease) in value	0	0
Balance at end of year	**501**	**501**

11. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are all purchased software licences as opposed to internally generated software.
All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The current useful lives assigned to all software is 5 years.
The carrying amount of intangible assets is amortised on a straight-line basis, to the following service headings:

	2014/15 £000's	2013/14 £000's
Service		
Central Services to the Public	143	163
Culture and Related Services	30	14
Environmental and Regulatory Services	94	45
Planning Services	25	12
Education and Children's Services	57	28
Highways and Transport Services	60	28
Local Authority Housing (HRA)	2	0
Other Housing Services	5	2
Adult Social Care	20	9
Public Health	50	24
Corporate and Democratic Core	15	7
Total	**501**	**332**

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

	2014/15 £000's	2013/14 £000's
Software		
Gross carrying amounts	2,469	2,631
Accumulated amortisation	(1,960)	(2,061)
Net carrying amount at the start of the year	**509**	**570**
Purchases	281	271
Gross Book Value Derecognition Other as fully depreciated	(673)	(433)
Amortisation Derecognition Other	673	433
Amortisation for the period	(501)	(332)
Net carrying amount at end of year	**289**	**509**
Comprising		
Gross carrying amounts	2,077	2,469
Accumulated amortisation	(1,788)	(1,960)
Total	**289**	**509**

12. INVESTMENT PROPERTIES

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

	2014/15 £000's	2013/14 £000's
Rental income from investment property	(433)	(438)
Direct operating expenses arising from investment property	58	41
Net gain	**(375)**	**(397)**

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:

	2014/15 £000's	2013/14 £000's
Opening Balance	5,717	5,806
Net gain/(loss) from fair value adjustments	98	(89)
Disposals	(14)	0
Transfers (to)/from Property, Plant and Equipment	(70)	0
Closing Balance	**5,731**	**5,717**

Notes to Main Financial Statements

13. FINANCIAL INSTRUMENT BALANCES

	Note	Current		Long-Term		Total	
		31 March £000's	31 March £000's	31 March £000's	31 March £000's	31 March £000's	31 March £000's
Investments and Cash Equivalents							
Loans and receivables		48,856	55,101	7,455	7,001	56,311	62,102
Loans and receivables - shown as cash equivalents	19	69,464	39,505	0	0	69,464	39,505
Available-for-sale financial assets		0	0	55	92	55	92
Total investments		**118,320**	**94,606**	**7,510**	**7,093**	**125,830**	**101,699**
Trade Debtors							
Financial assets carried at contract amounts		8,379	6,502	0	38	8,379	6,540
Total included in Trade Debtors		**8,379**	**6,502**	**0**	**38**	**8,379**	**6,540**
Borrowings							
Financial liabilities at amortised cost	43	(13,634)	(10,705)	(311,392)	(323,643)	(325,026)	(334,348)
Total included in borrowings		**(13,634)**	**(10,705)**	**(311,392)**	**(323,643)**	**(325,026)**	**(334,348)**
Other Long-Term Liabilities							
PFI and finance lease liabilities	38	(259)	(260)	(1,953)	(2,211)	(2,212)	(2,471)
Total Other Long-Term Liabilities		**(259)**	**(260)**	**(1,953)**	**(2,211)**	**(2,212)**	**(2,471)**
Trade Creditors							
Financial liabilities carried at contract amount		(21,934)	(27,925)	0	0	(21,934)	(27,925)
Total Trade Creditors		**(21,934)**	**(27,925)**	**0**	**0**	**(21,934)**	**(27,925)**

Notes to Main Financial Statements

INCOME, EXPENSE, GAINS AND LOSSES

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

	2014/15				2013/14			
	Financial Liabilities measured at amortised £000's	Financial Assets: Loans and Receivables £000's	Financial Assets: Available for Sale £000's	Total £000's	Financial Liabilities measured at amortised £000's	Financial Assets: Loans and Receivables £000's	Financial Assets: Available for Sale £000's	Total £000's
Interest Expense	9,987	0	0	9,987	10,205	0	0	10,205
Total Expense in Surplus or Deficit on the Provision of Services	**9,987**	**0**	**0**	**9,987**	**10,205**	**0**	**0**	**10,205**
Interest Income	0	(603)	(174)	(777)	0	(486)	(143)	(629)
Notional Icelandic Interest	0	(6)	0	(6)	0	(173)	0	(173)
(Gain) on Derecognition	0	0	(2)	(2)	0	(168)	0	(168)
Impairment Adjustment	0	0	0	0	0	(137)	0	(137)
Services	**0**	**(609)**	**(176)**	**(785)**	**0**	**(964)**	**(143)**	**(1,107)**
(Gains) / Loss on Revaluation	0	0	(23)	(23)	0	0	15	15
(Surplus)/Deficit arising on Revaluation of Financial Assets in Other Comprehensive Income and	**0**	**0**	**(23)**	**(23)**	**0**	**0**	**15**	**15**
PFI Interest	806	0	0	806	868	0	0	868
Other	83	(228)	0	(145)	80	(17)	0	63
Net Loss/(Gain) for the year	**10,876**	**(837)**	**(199)**	**9,840**	**11,153**	**(981)**	**(128)**	**10,044**

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 2015		31 March 2014	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
PWLB (Maturity Fixed)	(142,480)	(158,030)	(144,494)	(139,891)
PWLB (Maturity Variable)	(40,003)	(39,862)	(40,003)	(39,864)
PWLB (EIP Fixed)	(86,428)	(88,614)	(92,231)	(85,573)
PWLB (EIP Variable)	(7,503)	(7,480)	(9,003)	(8,975)
Market	(48,612)	(75,518)	(48,617)	(60,075)
Total Financial Liabilities	**(325,026)**	**(369,504)**	**(334,348)**	**(334,378)**
PFI/Finance Lease	(2,212)	(2,039)	(2,471)	(2,149)
Creditors	(21,934)	(21,934)	(27,925)	(27,925)

The fair value of PWLB and Market liabilities is higher than the carrying amount because the Council's debt portfolio includes a number of loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. Overall there is a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

Financial Liabilities 2014/15

- 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 2014/15

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 2015		31 March 2014	
	Carrying amount £000s	Fair value £000s	Carrying amount £000's	Fair value £000's
Short-Term	118,320	118,320	94,606	94,607
Long-Term	7,455	7,479	7,001	7,016
Long-Term Available for Sale	55	55	92	92
Debtors	8,379	8,379	6,540	6,540
Total Financial Assets	**134,209**	**134,233**	**108,239**	**108,255**

Offsetting Financial Assets and Liabilities

The Council had no financial assets or liabilities subject to an enforceable master arrangement or similar agreement.

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 2014/15 the Council had a balance of unpaid deposits with Heritable Bank of £0.8m . Due to ongoing legal action between Heritable and it's parent LBI no dividend was received from the administrators during the year. This dispute was not settled and the matter is due to be concluded during 2015/16. To date, dividends received total £14,188k which represents 94.02% of the claim value. The deposits 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 £6k of notional interest in relation to Heritable was credited to the Comprehensive Income and Expenditure Statement during 2014/15.

Notes to Main Financial Statements

14. INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2014/15 £000's	2013/14 £000's	2014/15 £000's	2013/14 £000's	2014/15 £000's	2013/14 £000's
Balance outstanding at start of year	58	91	287	164	345	255
Purchases	1,028	1,075	691	842	1,719	1,917
Recognised as expense in year	(1,024)	(1,108)	(685)	(719)	(1,709)	(1,827)
Balance outstanding at year-end	**62**	**58**	**293**	**287**	**355**	**345**

15. SHORT TERM DEBTORS

	31 March 2015 £000's	31 March 2014 £000's
Central Government bodies	10,237	6,951
Allowance for Impairment	(89)	0
Central Government Bodies net of Impairment	**10,148**	**6,951**
Other local authorities	2,141	2,315
Allowance for Impairment	(59)	0
Other local authorities	**2,082**	**2,315**
NHS bodies	1,603	464
Allowance for Impairment	(34)	(169)
NHS bodies	**1,569**	**295**
Housing rents	2,194	2,660
Allowance for Impairment	(1,806)	(1,831)
Housing rents net of Impairment	**388**	**829**
Council taxpayers	13,148	11,930
Allowance for Impairment	(7,461)	(7,205)
Council taxpayers net of Impairment	**5,687**	**4,725**
Non-domestic rate payers	3,780	2,233
Allowance for Impairment	(1,139)	(996)
Non-domestic rate payers net of Impairment	**2,641**	**1,237**
Other entities and individuals	32,456	25,238
Allowance for Impairment	(15,638)	(13,360)
Other entities and individuals net of Impairment	**16,818**	**11,878**
Total Debtors	65,987	51,791
Less: Provision for doubtful debts	(26,226)	(23,561)
	39,761	**28,230**

16.LONG TERM DEBTORS

	31 March 2015 £000's	New Advances £000's	Repayments £000's	31 March 2014 £000's
Housing advances & associations	7	0	1	8
Sale of Council houses	49	0	32	81
Long term payments in advance	9	0	28	37
Other loans & advances	246	0	11	257
Developer Contributions	7,203	7,203	0	0
	7,514	**7,203**	**72**	**383**

17.SHORT-TERM CREDITORS

	31 March 2015 £000's	31 March 2014 £000's
Council Taxpayers	(3,611)	(3,580)
Central Government Departments	(9,449)	(6,647)
NHS Bodies	(3,260)	(2,333)
Housing Rents	(666)	(669)
Non-Domestic Ratepayers	(2,901)	(2,094)
Other Local Authorities	(4,420)	(4,340)
Sundry Creditors	(45,388)	(42,725)
	(69,695)	**(62,388)**

18.LONG-TERM CREDITORS

Long Term Creditors consist of balances held under Section 106 and 278 Agreements and deposits which would become repayable after more than 1 year. These amount to £3,293k at 31 March 2015 (£2,898k at 31 March 2014).

19. CASH AND CASH EQUIVALENTS

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

	31 March 2015 £000's	31 March 2014 £000's
Cash held by the Council	11,035	9,449
Liquid deposits	69,464	39,505
Total Cash and Cash Equivalents	**80,499**	**48,954**

20. ASSETS HELD FOR SALE

At 31 March 2015 the Council held £3,585k (£1,911k at 31 March 2014) 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.

	31 March 2015 £000's	31 March 2014 £000's
Balance outstanding at start of year	1,911	11,539
Assets newly classified as held for sale	3,332	(2,970)
Revaluation gains	0	16
Assets sold	(1,658)	(6,872)
Other movements	0	198
	3,585	**1,911**

21. CURRENT INTANGIBLE ASSETS

At 31 March 2015 the Council held £605k (none at 31 March 2014) of current intangible assets through pre-purchase of carbon emission allowances as part of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme.

22. PROVISIONS

	1 April 2014 £000's	Additional provisions made in 2014/15 £000's	Amounts used in 2014/15 £000's	Unused amounts reversed in 2014/15 £000's	31 March 2015 £000's	Short-Term Provisions £000's	Long-Term Provisions £000's
Housing Repairs Claim	564	0	0	(331)	233	233	0
CRC Allowance Purchase	352	204	(345)	(7)	204	204	0
Dilapidation Provision	1,295	419	(377)	(410)	927	514	413
Non Domestic Rates Appeal Losses	1,289	0	(865)	0	424	424	0
Ordinary Residency Disputes	0	225	0	0	225	225	0
Personal Searches	140	0	0	0	140	140	0
Insurance Provision	3,675	909	(1,181)	(486)	2,917	1,216	1,701
MMI	131	0	(101)	0	30	0	30
Section 117 Mental Health Act	179	0	0	(75)	104	104	0
Other Provisions	0	239	0	0	239	239	0
Total Provisions	**7,625**	**1,996**	**(2,869)**	**(1,309)**	**5,443**	**3,299**	**2,144**

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 2015/16.

CRC Allowance Purchase
The 2014/15 financial year was the fourth year for which there is an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. The Council pre-purchased a number of allowances in advance at the start of 2014/15 which the Council will then be required to surrender to the scheme by the last working day in July 2015, in proportion to their reported emissions for the preceding scheme year. The obligation to transfer the allowances to the scheme is represented as a provision in the accounts to comply with accounting standards. The prepurchased allowances are accounted for as intangible current assets.

22. PROVISIONS (Continued)

Non Domestic Rates Appeal Losses
See note 3 to the Collection Fund Accounts on page 98. The Collection Fund Share represents the Council's 30% obligation in relation to appeals over the rateable value of properties from NNDR purposes.

Ordinary Residency Disputes
There are a small number of cases within Adult Social Care where the Ordinary Residence is in dispute with another local authority and determination from the Secretary of State is being sort. If it is determined the Ordinary Residence for these cases in within the London Borough of Hillingdon then we will have to pay for the backed dated costs of the placements. This provision is based on paying for the placements from the date the cases were originally referred to the Social Work teams.

Dilapidation Provision
The Council is contractually obliged to fund dilapidation costs on a number of leased properties. During the year a number of claims were settled below the initial claim figures. The impact of these settlements more than offset new claims, reducing the overall provision total to £927k. Works are expected to be carried out during 2015/16 and in future years.

Personal Searches
Following an earlier decision by the Information Commissioner that the information provided on local authority personal searches consisted of 'environmental information' and that the Council is not entitled to charge for it. Provision was made towards the possible costs of claims for refunds on personal property search charges where the Council has no authority to charge. The provision is for the final settlement of claims.

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 2015.

An exercise to determine long and short term provisions was carried out during 2014-15. Currently the ratio is 70% short term and 30% long term.

Municipal Mutual Insurance (MMI)
MMI ceased trading in 1992 and since that time have only been dealing with claims relating to their period of trading, 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 claims received after the 1st January 2014, LBH are 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 is monitored each year and the provision is 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.

Other Provisions
The other Provisions represent amounts set aside to meet potential future liabilities; this includes associated legal costs.

23. UNUSABLE RESERVES

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

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.

	2014/15		2013/14	
	£000's	£000's	£000's	£000's
Balance at 1 April		**827,776**		**775,111**
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	(35,666)		(32,302)	
- Revaluation gains/(losses) on Property, Plant and Equipment	68,857		26,822	
- Amortisation of intangible assets	(501)		(332)	
- Revenue expenditure funded from capital under statute	(10,548)		(9,471)	
- 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	(82,256)	(60,114)	(31,143)	(46,426)
Adjusting amounts written out of the Revaluation Reserve		3,433		1,955
Net written out amount of the cost of non-current assets consumed in the year		(56,681)		(44,471)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	6,616		8,922	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	51,573		51,671	
- Application of grants to capital financing from the Capital Grants Unapplied Account	113		15,829	
- Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	15,293		14,555	
- Finance Lease Principal	261		263	
- Capital expenditure charged against the General Fund and HRA balances	2,751	76,607	5,985	97,225
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure		98		(89)
Balance at 31 March		**847,800**		**827,776**

Notes to Main Financial Statements

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.

	2014/15 £000's	2013/14 £000's
Balance at 1 April	**(355)**	**(367)**
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	**(343)**	**(355)**

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 Non-Domestic Rates 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 deficit of £735k for Council Tax and a deficit of £1,662k for Non-Domestic Rates.

	31 March 2015 £000's	31 March 2014 £000's
Balance at 1 April	**4,020**	**2,853**
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	(2,397)	1,167
Balance at 31 March	**1,623**	**4,020**

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.

	2014/15		2013/14	
	£000's	£000's	£000's	£000's
Balance at 1 April		**56,381**		**59,624**
Upward revaluation of assets				
- Land & Buildings	7,365		3,132	
- Council Dwellings	45		0	
- Assets held for sale	0	7,410	16	3,148
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(1,126)		(4,281)	
- Surplus Assets	(231)	(1,357)	(155)	(4,436)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**6,053**		**(1,288)**
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(1,463)		(1,446)	
- Surplus Assets	(13)		(23)	
- Assets under construction	0	(1,476)	(5)	(1,474)
Accumulated gains on assets sold or scrapped				
- Assets held for sale	(210)		(358)	
- Land & Buildings	(1,747)		(116)	
- Community	0	(1,957)	(7)	(481)
Amount written off to the Capital Adjustment Account		**(3,433)**		**(1,955)**
Balance at 31 March		**59,001**		**56,381**

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.

	2014/15 £000's	2013/14 £000's
Balance at 1 April	**(381,940)**	**(373,262)**
Actuarial gains/(losses) on pensions assets and liabilities	(90,907)	7,969
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	(34,714)	(41,421)
Employer's pension contributions and direct payments to pensioners payable in the year	22,383	24,774
Balance at 31 March	**(485,178)**	**(381,940)**

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.

	2014/15 £000's	2013/14 £000's
Balance at 1 April	**(5,362)**	**(5,959)**
Settlement or cancellation of accrual made at the end of the preceding year	5,362	5,959
Amounts accrued at the end of the current year	(4,042)	(5,362)
Balance at 31 March	**(4,042)**	**(5,362)**

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.

	2014/15 £000's	2013/14 £000's
Balance as at 1 April	**31**	**46**
Change in Fair Value in year	23	(15)
Balance as at 31 March	**54**	**31**

24. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2014/15 £000's	2013/14 £000's
(Surplus)/Deficit on the provision of services	**(52,075)**	**(60,918)**
Depreciation and impairment of non-current assets	33,191	(5,480)
Amortisation of intangible fixed assets	(501)	(332)
Revenue Expenditure Funded from Capital under Statute	(10,548)	(9,471)
Pension Fund adjustments	(12,331)	(16,551)
(Increase) in impairment for provision for bad debts	(2,665)	(2,138)
(Increase)/Decrease in creditors	(7,702)	8,309
Increase/(Decrease) in debtors	21,327	7,416
Increase/(Decrease) in inventories	10	90
Carrying amount of non-current assets sold	(82,256)	(31,143)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(5,853)	(1,230)
Total adjusting items	**(67,328)**	**(50,530)**
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	24,960	19,360
Capital Grants and other contributions credited to Surplus or Deficit on the Provision of Services	52,071	51,671
Billing Authorities - Council Tax and NNDR adjustments	(6,756)	(14,422)
Total included elsewhere on Cash Flow Statement	**70,275**	**56,609**
Net cash flows from operating activities	**(49,128)**	**(54,839)**

Interest received, interest paid and dividends received

	2014/15 £000's	2013/14 £000's
Interest paid	(10,876)	(11,153)
Interest received	1,011	1,124

25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2014/15 £000's	2013/14 £000's
Cash Outflows		
Purchase of property, plant and equipment	64,116	81,715
Other payments for investing activities	10,548	9,471
	74,664	**91,186**
Cash Inflows		
Sale of property, plant and equipment	(24,960)	(19,360)
Capital grants received	(39,007)	(41,447)
Other receipts from investing activities	(3,625)	(4,654)
	(67,592)	**(65,461)**
Net Cash Outflow	**7,072**	**25,725**
Net (Decrease)/Increase in Short-Term Investments	(6,245)	21,808
Net Increase/(Decrease) in Long-Term Investments	417	5,361
Net cash flows from investing activities	**1,244**	**52,894**

26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2014/15 £000's	2013/14 £000's
Cash Outflows		
Repayments of amounts borrowed	9,322	10,278
Capital element of finance lease rental and on-balance sheet PFI payments	261	263
Cash Inflows		
Billing Authorities - Council Tax and NNDR adjustments	6,756	14,422
Net cash flows from financing activities	**16,339**	**24,963**

Notes to Main Financial Statements

27. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

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

SERVICE INFORMATION 2014/15 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	179,633	115,499	89,712	36,440	**421,284**	55,532	137,974	3,866	**618,656**
Income	(157,603)	(56,711)	(26,266)	(10,298)	**(250,878)**	(63,288)	(138,276)	(4,040)	**(456,482)**
Directorate Operating Budgets	**22,030**	**58,788**	**63,446**	**26,142**	**170,406**	**(7,756)**	**(302)**	**(174)**	**162,174**
Corporate Operating Budgets	11,722	0	0	0	**11,722**	0	0	0	**11,722**
Development & Risk Contingency	2,400	3,186	14,489	4,165	**24,240**	0	0	0	**24,240**
Priority Growth	2,006	0	0	0	**2,006**	0	0	0	**2,006**
Exceptional Items	(710)	0	0	0	**(710)**	0	0	0	**(710)**
Budget Requirement	(212,188)	0	0	0	**(212,188)**	0	0	0	**(212,188)**
Management Outturn	**(174,740)**	**61,974**	**77,935**	**30,307**	**(4,524)**	**(7,756)**	**(302)**	**(174)**	**(12,756)**

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

	£000's	
Cost of Services in Service Analysis (above)	**(12,756)**	
Notional accounting charges not reported to management	20,949	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	121,145	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	**129,338**	

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.

2014/15

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	(271,596)	0	140,533	(131,063)	**0**	(131,063)
Interest and investment income	(1,003)	0	996	(7)	**(1,011)**	(1,018)
Income from Council Tax and Non-Domestic Rates	(146,724)	0	146,724	0	**(144,327)**	(144,327)
Government Grant and Contributions	(414,568)	0	0	(414,568)	**(122,052)**	(536,620)
Total Income	**(833,891)**	**0**	**288,253**	**(545,638)**	**(267,390)**	**(813,028)**
Employee expenses	217,792	(11,011)	0	206,781	**0**	206,781
Other service expenses	568,710	(10,548)	(142,293)	415,869	**0**	415,869
Depreciation, amortisation & impairment	9,818	42,508	0	52,326	**(98)**	52,228
Interest payments	24,196	0	(24,196)	0	**27,068**	27,068
Precepts & Levies	619	0	(619)	0	**630**	630
Payments to Housing Cap Receipts Pool	0	0	0	0	**1,081**	1,081
(Gain) or Loss on Disposal of Non Current Assets	0	0	0	0	**57,296**	57,296
Total operating expenses	**821,135**	**20,949**	**(167,108)**	**674,976**	**85,977**	**760,953**
(Surplus)/Deficit on the provision of services	**(12,756)**	**20,949**	**121,145**	**129,338**	**(181,413)**	**(52,075)**

Notes to Main Financial Statements

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 Budget	**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 Contingen	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

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	£000's	
Cost of Services in Service Analysis (above)	**(13,697)**	
Notional accounting charges not reported to management	(36,073)	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.
Net Cost of Services in Comprehensive Income and Expenditure Statement	**167,992**	

Notes to Main Financial Statements

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 £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	(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	(35,834)	(114,329)	(140,671)	**89**	(140,582)
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
Loss/(Gain) on Disposal of Non Current Assets	0	0	0	0	**11,791**	11,791
Total operating expenses	**810,557**	**(35,635)**	**(141,648)**	**633,274**	**41,224**	**674,498**
(Surplus)/Deficit on the provision of services	**(13,697)**	**(36,073)**	**217,762**	**167,992**	**(228,910)**	**(60,918)**

28. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2014/15 £000's	2013/14 £000's
Fees payable in regard to external audit services carried out by the appointed auditor	210	211
Fees payable for the certification of grant claims and returns	66	39
Total External Audit costs	**276**	**250**

Non Audit Fees - The Council did not incur any non audit costs during 2014/15. In 2013/14 the council incurred non audit costs of £145k from Deloitte Real Estate (formerly Drivers Jonas Deloitte), a division forming part of Deloitte LLP, the Council's external auditors. Previously this was in respect of project management, employers agent, quantity surveying and design monitoring services associated with the Council's Primary School Capital Programme.

29. 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.

	2014/15 £000's	2013/14 £000's
Income	(4,040)	(3,726)
Expenditure	3,022	2,941
(Surplus)/ Deficit	**(1,018)**	**(785)**
Contribution to transport services	844	937
Total (Surplus)/ Deficit	**(174)**	**152**

30. MEMBER ALLOWANCES

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

	2014/15 £000's	2013/14 £000's
Salaries & Allowances	1,319	1,260
Total	**1,319**	**1,260**

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 (HCCG) in respect of Learning Disability Services and was effective from 1st April 2008. This is not operating as a Pooled Budget in that it clearly identifies the financial liabilities of the two partners on an individual client basis. The object of the agreement is to enable the effective commissioning of services for this client group thereby providing a seamless service to the individual. For 2014-15 this service provided support to approximately 538 clients at a gross cost of £32,596k which included approximately 22 HCCG clients for which the council received £2,707k.

A further section 75 agreement is in operation between London Borough of Hillingdon (LBH) and Hillingdon Clinical Commissioning Group (HCCG) in respect of Community Equipment Services. This S75 agreement started on 1st April 2010. This is operating as a Pooled Budget with LBH and HCCG sharing the cost of the service for 2014/15 on a 50:50 basis. The service is to provide community equipment to assist residents with daily living tasks. The net Pooled Budget expenditure for 2014/15 was £1,339k of which was split equally between LBH & HCCG at £669.5k each.

The introduction of the Better Care Fund from 1 April 2015 is expected to support a sustainable health and social care system providing better quality care and improved outcomes for health. A total of £17,991k is available for Hillingdon from a national pooled budget of £3,800m; this replaces a range a existing funding streams for both the Council and local Clinical Comissioning Group (CCG). The better Care fund plan sets out this funding as £10,032k in support of CCG commissioned activity and £7,959k to protect Social Care.

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 with membership of the London Borough of Hillingdon and five other London Boroughs. It is primarily funded by a levy paid by each of the six participating councils. The amount contributed for 2014/15 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 2014/15 was £20,827k (£20,733k 2013/14). A precept of £349k was paid to the London Pension Fund Authority in 2014/15 (£350k in 2013/14).

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 2014/15 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 Nick Denys	2,461,671.31
Central Middlesex Skills Development Centre	Councillor Tony Burles	625,932.00
Hillingdon Carers	Councillor Judith Cooper	354,228.39
Hillingdon Carers	Councillor Becky Haggar	354,228.39
Hagam	Councillor Jane Palmer	296,147.62
Carers Trust Hillingdon	Councillor Judith Cooper	279,475.75
Hillingdon & Ealing Citizens Advice	Councillor Tony Burles	217,290.49
Ruislip & Northwood Old Folks Assoc	Councillor Catherine Dann	124,400.00
Groundwork South Trust Ltd	Councillor George Cooper	110,147.51
Hillingdon Outdoor Activities Centre	Councillor Henry Higgins	88,561.00
Hillingdon Aids Response Trust	Councillor Peter Curling	68,916.67
Hillingdon Aids Response Trust	Councillor Scott Seaman-Digby	68,916.67
Hillingdon Aids Response Trust	Councillor David Simmonds	68,916.67
Hillingdon Assoc Of Voluntary Serv.	Councillor Judith Cooper	57,000.00
Relate London NW Family Mediation	Councillor Tony Burles	15,140.00
Hillingdon Law Centre	Councillor Janet Gardner	9,595.44
Ruislip Woods Trust	Councillor John Morgan	6,810.66
Yiewsley & West Drayton Community Assoc	Councillor Dominic Gilham	5,490.00
Yiewsley & West Drayton Community Assoc	Councillor Ian Edwards	5,490.00

32. RELATED PARTY TRANSACTIONS (Continued)

Precepts/Levies

In 2014/15 the following precepts and levies are considered related party transactions:

	2014/15 £000s	2013/14 £000s
Business Rate Retention - DCLG	224,130	210,678
Business Rate Retention - GLA	70,323	66,265
Greater London Authority Precept	27,012	26,744
Greater London Authority Crossrail	12,726	12,289
West London Waste Authority Levy	10,244	10,419
TFL Concessionary Fares	8,040	7,699
Lee Valley Regional Park Authority	281	287
Environment Agency	206	205

33. OFFICER EMOLUMENTS

The number of employees in 2014/15 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	2014/15 Total	2014/15 Due to Lump Sum	2013/14 Total	2013/14 Due to Lump Sum	2014/15 Total	2014/15 Due to Lump Sum	2013/14 Total	2013/14 Due to Lump Sum
£50,000 - £54,999	49	(4)	55	(2)	48	(1)	52	0
£55,000 - £59,999	29	(5)	24	(1)	14	(1)	19	0
£60,000 - £64,999	8	(1)	17	(3)	12	0	23	0
£65,000 - £69,999	9	(1)	9	(1)	19	0	16	0
£70,000 - £74,999	5	0	5	0	16	0	18	0
£75,000 - £79,999	3	(1)	4	0	12	0	6	0
£80,000 - £84,999	1	0	5	0	5	0	6	0
£85,000 - £89,999	4	0	1	0	1	0	1	0
£90,000 - £94,999	0	0	1	0	1	0	1	0
£95,000 - £99,999	0	0	1	0	1	0	1	0
£100,000 - £104,999	0	0	0	0	2	(1)	1	0
£105,000 - £109,999	0	0	0	0	0	0	0	0
£110,000 - £114,999	0	0	1	0	0	0	0	0
£115,000 - £119,999	0	0	0	0	1	(1)	0	0
	108	**(12)**	123	(7)	**132**	**(4)**	144	0

Disclosure of Remuneration for Senior Employees (Schools):-

Details of school employees in the above table earning over £100,000 during 2014/15 is listed below.

Job Title	Pensionable Pay 2014/15	Pensionable Pay 2013/14	Due to Lump Sum
Headteacher - Harlington Community School	£103,614	£101,152	N
Headteacher - Minet Junior School	£116,573	£61,923	Y
Headteacher - William Byrd School	£104,104	£72,669	Y

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 2014/15.

Group	Job Title		2014/15 Pensionable Pay	Compensation for loss of employment	EER's pension Contributions	Total
Administration	Chief Executive and Corporate Director of Administration (F Beasley)		£202,343	£0	£42,694	£245,037
	Head of Democratic Services		£97,044	£0	£20,476	£117,520
	Head of Human Resources		£101,850	£0	£21,490	£123,340
	Head of Legal Services		£118,150	£0	£24,930	£143,080
	Head of Policy & Partnerships		£84,317	£0	£17,791	£102,108
Finance	Corporate Director of Finance (P Whaymand)		£156,133	£0	£32,944	£189,077
	Deputy Director of Corporate Finance and Head of Operational Finance		£99,633	£0	£21,022	£120,655
	Deputy Director of Strategic Finance		£98,743	£0	£20,835	£119,578
	Head of Corporate Procurement & Commissioning, Acting Deputy Director Development & Assets	**1**	£106,410	£0	£22,453	£128,863
	Head of Internal Audit		£78,027	£0	£0	£78,027
	Head of Revenue and Benefits		£78,902	£0	£16,648	£95,550
Residents Services	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)		£196,044	£0	£0	£196,044
	Deputy Director Residents Services		£124,303	£0	£26,228	£150,531
	Deputy Director Policy, Highways and Community Engagement		£125,204	£0	£26,418	£151,622
	Deputy Director Asset Management		£108,944	£0	£22,987	£131,931
	Head of Communications		£79,675	£0	£16,811	£96,486
	Head of Policy and Standards - Education, Housing & Public Health	**2**	£83,476	£0	£17,613	£101,089
	Head of Business and Technical Support	**3**	£57,136	£0	£12,056	£69,192
	Head of Green Spaces, Sport, and Culture	**2**	£73,205	£0	£15,446	£88,651
	Head of Planning and Enforcement		£112,012	£0	£23,634	£135,646
	Interim Head of Estates and Tenancy Management	**4**	£68,813	£0	£14,519	£83,332
	Interim Director of Public Health		£96,013	£0	£13,442	£109,455
	ICT Service Manager		£80,647	£0	£17,017	£97,664
Adult Social Care	Director of Adults Services and Interim Director of Children and Young People's Service	**5**	£135,678	£0	£28,628	£164,306
	Better Care Fund Programme Manager	**6**	£57,998	£0	£12,238	£70,236
	Head of Early Intervention & Prevention		£67,265	£0	£14,193	£81,458
	Head of Disability Services		£83,038	£0	£17,521	£100,560
	Head of Adults Safeguarding, Quality Partnership		£75,344	£0	£15,856	£91,200
Childrens and Young Person's Service	Head of Early Intervention		£76,681	£0	£16,180	£92,861
Leavers	Deputy Director ICT, Highways and Business Services (S Palmer)	**7**	£107,055	£72,680	£0	£179,735
	Interim Head of Education, Policy and Standards	**8**	£39,278	£67,265	£8,288	£114,832
	Head of Housing	**9**	£75,212	£18,638	£19,802	£113,652
	Director of Children and Young Person's Service	**10**	£56,342	£37,955	£11,888	£106,185

1 - Employee in dual post from 13 October 2014
2 - New post created, employee in post from 1 January 2015
3 - Employee in post from 1 January 2015
4 - New post created, employee in post from 1 November 2014
5 - Employee in dual post from 29 August 2014
6 - New post created, employee in post from 15 September 2014
7 - Employment ended 31 January 2015
8 - Employment ended 31 July 2014
9 - Employment ended 05 February 2015
10 - Employment ended 12 September 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 2013/14

Group	Job Title		2013/14 Pensionable Pay	2013/14 Compensation for loss of employment	2013/14 EER's pension Contributions	2013/14 Total
Administration	Chief Executive and Corporate Director of Administration (F Beasley)		£185,796	£0	£39,203	£224,999
	Head of Corporate Communications		£77,220	£0	£16,403	£93,623
	Head of Democratic Services		£96,582	£0	£20,379	£116,961
	Head of Human Resources		£99,137	£0	£20,918	£120,055
	Head of Legal Services		£115,025	£0	£24,270	£139,295
	Head of Policy Performance & Partnerships		£82,358	£0	£17,378	£99,736
Finance	Corporate Director of Finance (P Whaymand)		£142,914	£0	£30,155	£173,069
	Deputy Director of Corporate Finance and Head of Operational Finance		£94,489	£0	£19,937	£114,426
	Deputy Director of Strategic Finance		£94,711	£0	£19,984	£114,695
	Head of Internal Audit	**1**	£56,723	£0	£0	£56,723
	Head of Procurement		£90,911	£0	£19,237	£110,148
	Head of Revenue and Benefits		£76,970	£0	£16,241	£93,211
Residents Services	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)		£178,884	£0	£0	£178,884
	Deputy Director Public Safety		£119,237	£0	£25,159	£144,396
	Deputy Director ICT, Highways and Business Services		£128,466	£0	£27,106	£155,572
	Deputy Director Environmental Policy and Community Engagement		£121,135	£0	£25,559	£146,694
	Deputy Director Asset Management		£100,004	£0	£21,101	£121,105
	Interim Director of Public Health	**2**	£94,595	£0	£13,243	£107,838
	Interim Head of Education, Policy and Standards		£109,865	£0	£23,181	£133,046
	Head of Planning, Green Spaces and Culture		£107,377	£0	£22,657	£130,034
	Head of Housing		£123,825	£0	£26,127	£149,952
Adult Social Care	Director Adult Social Care	**3**	£92,965	£0	£18,578	£111,543
	Head of Early Intervention & Prevention	**6**	£16,587	£0	£3,500	£20,087
	Head of Disability Services	**7**	£14,037	£0	£2,962	£16,999
	Head of Adults Safeguarding Quality Partnership	**8**	£18,551	£0	£3,914	£22,465
Children and Young People's Services	Director of Children and Young People's Service		£124,299	£0	£26,227	£150,526
	Head of Early Intervention		£74,458	£0	£15,711	£90,169
Leavers	Head of Childrens Safeguarding	**9**	£59,836	£0	£12,625	£72,461
	Finance Manager SC&H	**4**	£44,282	£46,277	£5,955	£96,514
	Corporate Director SC&H (L Sanders)	**5**	£37,453	£124,955	£7,903	£170,311

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

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)	2014/15 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	37	0	37	324	65	**389**
£20,001 - £40,000	15	0	15	346	80	**426**
£40,001 - £80,000	4	0	4	140	104	**244**
Over £80,001	4	0	4	140	460	**600**
	60	**0**	**60**	**950**	**709**	**1,659**

	LBH EMPLOYEES					
Exit Package Cost Band (including special payments)	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**

	SCHOOL EMPLOYEES					
Exit Package Cost Band (including special payments)	2014/15 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	6	1	5	47	0	**47**
£20,001 - £40,000	2	0	2	53	0	**53**
£40,001 - £60,000	2	0	2	100	0	**100**
	10	**1**	**9**	**200**	**0**	**200**

	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 £000s	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**

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 2014/15 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000's	**Individual Schools Budget £000's**	**Total £000's**
Final DSG for 2014/15 before academy recoupment			238,892
Academy figure recouped for 2014/15			(100,616)
Total DSG after academy recoupment for 2014/15			138,276
Brought-forward from 2014/15			3,781
Carry-forward to 2015/16 agreed in advance			(2,487)
Agreed initial budgeted distribution in 2013/14	23,577	115,993	139,570
In year adjustments	8,015	(8,015)	0
Final budgeted distribution for 2014/15	**31,592**	**107,978**	**139,570**
Less actual central expenditure	29,996		29,996
Less actual ISB deployed to schools		107,978	107,978
Plus Local Authority contribution for 2013/14	0	0	0
Carry-forward to 2015/16	**(1,596)**	**0**	**(1,596)**

36. GRANT INCOME

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

	2014/15 £000's	2013/14 £000's
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	52,018	62,007
Education Services Grant	3,392	3,712
Adoption Reform Grant	310	880
Council Tax Freeze Grant	1,138	1,119
Housing & Council Tax Support Subsidy Admin Grant	0	2,069
Housing Benefit Subsidy Admin Grant	1,641	0
Local Council Tax Support Admin Subsidy	350	0
New Homes Bonus	6,928	5,673
Other Grants	4,203	1,646
Total Non-Specific Revenue Grants	**69,980**	**77,106**
Revenue Grant Income Credited to Services		
Department for Education		
Dedicated Schools Grant (DSG)	138,284	145,533
Pupil Premium	6,846	5,357
Sixth Form & Adult Learning Grants	2,546	3,013
Universal Infant Free School Meals Grant	1,693	0
Department for Communities and Local Government:		
Troubled Families Grant	100	100
NNDR cost of collection	596	598
Preventing Homelessness	5	0
Department of Health		
Public Health Grant	15,712	15,281
Section 256 Agreement Funding	4,772	3,726
Arts Council		
Music Education Hub	337	331
Department for Work and Pensions:		
Housing & Council Tax Benefit Subsidy	150,458	147,825
Home Office:		
Asylum Funding	5,057	5,463
Other Grants	18,182	19,571
Total Grants Credited to Services	**344,588**	**346,798**
Total Revenue Grant Income	**414,568**	**423,904**

NB: The Housing & Council Tax Support Subsidy Admin Grant received in 2013/14 was replaced with two grants - the Housing Benefit Subsidy Admin Grant and the Local Council Tax Support Admin Subsidy

	2014/15 £000's	2013/14 £000's
Capital Grant Income credited to the Comprehensive		
Disabled Facilities Grant	1,645	1,627
Sports England Grant	0	25
Education Funding Agency	33,277	32,208
Transport for London	2,983	4,121
West London Housing Grant	50	75
HCA Empty Homes Grant	722	0
HRA Pipeline Grant	0	103
Outer London Fund	300	1,955
DH Community Capacity	571	560
EA Capital Waste Grant	0	250
DCLG Food Collection Grant	0	260
DECC Fund	0	100
DH Dementia Friendly Grant	0	94
Environment Agency Mitigation Work	0	175
Total Capital Grant Income	**39,548**	**41,553**
Schools Capital Contributions	2,791	1,509
S106 Contributions	8,920	8,228
Other Capital Contributions	812	381
Total Capital Grants and Contributions Received	**52,071**	**51,671**

Of the capital grant income applied to the Comprehensive income and expenditure account within Taxation and Non Specific Grant income £39,050k was used to fund the capital programme, and £498k has been transferred to the Capital Grants Unapplied Reserve for future use.

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:

	2014/15 £000's	2013/14 £000's
Capital Grant & Contribution Receipts in Advance		
EFA Capital Grants	736	1,360
S106	8,859	8,926
Other	0	6
Total Capital Grant & Contribution Receipts in Advance	**9,595**	**10,292**

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.

	2014/15 £000's	2013/14 £000's
Opening Capital Financing Requirement	402,916	408,955
Capital investment		
Property, Plant and Equipment	63,835	81,444
Intangible Assets	281	271
Revenue Expenditure Funded from Capital Under Statute	10,548	9,471
Sources of finance		
Capital Receipts	(6,617)	(8,922)
Government Grants and other Contributions	(51,686)	(71,485)
Sums set aside from revenue:		
Direct Revenue Contributions	(2,751)	(1,999)
Minimum Revenue Provision (MRP) / Loans Fund Principal	(15,293)	(14,555)
Other Revenue Provision	(272)	(264)
Closing Capital Financing Requirement	**400,961**	**402,916**
Explanation of movements in year		
(Decrease)/Increase in underlying need to borrow :		
- unsupported by Government financial assistance	(13,601)	(8,779)
(Decrease)/Increase in Capital Financing Requirement	**(1,955)**	**(6,039)**

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 2014/15 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 (including PFI)

Plant, Property and Equipment Outstanding obligations on 31 March	Finance Lease Liabilities		Minimum Lease Payments	
	2014/15 £000's	2013/14 £000's	2014/15 £000's	2013/14 £000's
Within 1 year (held in current liabilities)	259	260	1,068	1,139
2 - 5 years	1,004	1,010	3,437	3,778
More than 5 years	949	1,201	1,786	2,513
Total costs payable in future years	1,953	2,211	5,223	6,291
Total future lease payments	**2,212**	**2,471**	**6,291**	**7,430**

Operating Leases - Lessee

Plant, Property and Equipment Outstanding obligations on 31 March	Operating Lease	
	2014/15 £000's	2013/14 £000's
Within 1 year	514	253
2 - 5 years	949	278
Total future lease payments	**1,463**	**531**

Operating Lease obligations include commitments held by Hillingdon maintained Schools as well as those held by the Council. Operating lease expenditure of £233k (£342k 13/14) is included within Cost of Services in the Comprehensive Income and Expenditure Statement.

During 2014/15 the Council introduced a new private sector leasing scheme to assist in the ongoing housing of homeless clients. The scheme involves the Council paying guaranteed monthly rent in advance to a private landlord in exchange for the use of their property as temporary accommodation.

Operating Leases - Lessor

The council leases out property under operating leases for the following purposes:
- for the provision of community services, such a sports facilities and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses

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

Future Minimum Lease Payments:	Operating Lease	
	2014/15 £000's	2013/14 £000's
Within 1 year	1,106	1,161
2 - 5 years	3,328	3,555
More than 5 years	9,884	10,145
Total future lease payments	**14,318**	**14,861**

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	2,850	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 2014/15 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 2014/15 the Council paid principal of £245k, interest of £806k and service charges of £2,057k. 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 (2015/16)	2,190	241	739	3,170
2 - 5 years	10,207	927	2,188	13,322
More than 5 years	12,950	760	704	14,414
Total	**25,347**	**1,928**	**3,631**	**30,906**

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 £245k matching the principal repayment. The outstanding liability of the capital value at 31 March 2015 is £1,928k, of this £241k is due within a year and therefore included in creditors and the remaining £1,687k 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 £250k but is denied and will be defended.

The Council was successfully involved in an employment tribunal appeal which found in favour of the council however it is possible the claimant may seek to appeal this decision. The claim could amount of £232k however will be defended.

There are legal proceedings in relation to breach of Public Contract Regulations, this claim is being defended. The claim could amount to £1,600k.

41. EVENTS AFTER THE BALANCE SHEET DATE

Following the approval of applications for academy status, two schools have become academies during 2015/16 and one further school is planned for transfer during the year. It is possible other schools will also covert within the financial year. Under academy status, the existing maintained 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 2014/15 Statement of Accounts. Net book value of £4,508k relating to school buildings of the known transferred schools will be removed from the Council's long term assets for the 2015/16 accounts.

On the 26th August 2015 the Council received information in relation to the Heritable Bank Icelandic Investment which returned further dividends in excess of that included in the Statement of Accounts. The company was placed in administration on 7 October 2008 and at the beginning of 2014/15 the Council had a balance of unpaid deposits of £0.8m. The Council had previously received 94.02% of the original investment claim value; however due to ongoing legal matters the Council impaired the total original investment by 5% based on market recovery expectations. The Council received the payment of £0.6m on 27th August 2015 which results in receipts of 98.00% of the original claim, 3% higher than expected. The 2014/15 accounts have not been changed to reflect this additional income however the 2015/16 accounts will take this into account.

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, Standard & Poor's (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 2014/15 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.

Notes to Main Financial Statements

The table below summarises the amortised value of the Council's investment portfolio at 31 March 2015, and demonstrates that all investments were made in line with the Council's approved credit rating criterion.

Outstanding Investments as at 31 March 2015							
	Fitch Rating or lowest equivalent at time of Deposit	Fitch Rating or lowest equivalent 31 March 2015	Maturity of Investments				
			0-3 Months	3-6 Months	6-12 Months	Over 12 Months	Total
Fixed Term Deposits			**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
UK Banks & Building Societies							
Barclays Bank plc (CD)	A	A	0	5,838	0	0	5,838
Leeds Building Society	A-	A	1,001	0	0	0	1,001
Nationwide Building Society	A	A	4,030	0	0	0	4,030
Standard Chartered Bank (CD)	AA-	AA-	5,017	0	0	0	5,017
Sub-Total			10,048	5,838	0	0	15,886
Icelandic Banks							
Heritable Bank	A	In default/Credit Rating Withdrawn	0	0	151	0	151
Sub-Total			0	0	151	0	151
Government & Local Authorities							
Aberdeen CC	AA+	AA+	0	5,003	0	0	5,003
Blaenau Gwent CBC	AA+	AA+	0	0	0	2,420	2,420
Broxtowe BC	AA+	AA+	0	2,000	0	0	2,000
Lancashire CC	AA	AA	0	0	10,004	5,035	15,039
Monmouthshire CC	AA+	AA+	5,010	0	0	0	5,010
Moray Council	AA+	AA+	0	0	2,016	0	2,016
Plymouth City CC	AA+	AA+	5,002	0	0	0	5,002
Wolverhampton Council	AA+	AA+	0	7,067	0	0	7,067
Sub-Total			10,012	14,070	12,020	7,455	43,557
Total			**20,060**	**19,908**	**12,171**	**7,455**	**59,594**
Instant Access Accounts							
UK Banks & Building Societies							
HSBC Evergreen Notice Account	AA-	AA-	7,004	0	0	0	7,004
Bank of Scotland Call Account	A	A	3,624	0	0	0	3,624
Santander UK plc Call Account	A	A	5,838	0	0	0	5,838
Sub-Total			16,466	0	0	0	16,466
Overseas Banks							
Svenska Handelsbanken	AA-	AA-	5,604	0	0	0	5,604
Sub-Total			5,604	0	0	0	5,604
Money Market Funds							
All funds held explicit money market fund equivalent ratings of AAA, with at least one of the rating agencies			44,111	0	0	0	44,111
Sub-Total			44,111	0	0	0	44,111
Total			**66,181**	**0**	**0**	**0**	**66,181**
Total Investments			**86,241**	**19,908**	**12,171**	**7,455**	**125,775**

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. Please note that for instant access accounts, the credit ratings at 31/03/2015 are the same as for when deposits are made due the ability to deposit or make withdrawals on a daily basis.

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 £000's	Past Due 1-3 Months £000's	3-6 Months £000's	6-12 Months £000's	Over 12 Months £000's	Total £000's
Available for Sale	55	0	0	0	0	55
Total	55	0	0	0	0	55

Trade Debtors of £8,379k 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 2015			31 March 2014		
	PWLB £000's	Market £000's	Total £000's	PWLB £000's	Market £000's	Total £000's
Nominal Value	278,949	48,000	**326,949**	288,227	48,000	**336,227**
Premium	(3,279)	0	**(3,279)**	(3,306)	0	**(3,306)**
Accrued Interest	744	612	**1,356**	810	617	**1,427**
Amortised Value	276,414	48,612	**325,026**	285,731	48,617	**334,348**

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 2015	31 March 2015 £000's	31 March 2014 £000's
Less than 1 year	25%	4.20%	13,634	10,705
Between 1 and less than 2 years	25%	2.24%	7,277	12,278
Between 2 and less than 5 years	50%	10.63%	34,556	41,833
Between 5 and less than 10 years	75%	28.20%	91,667	91,667
Between 10 and less than 20 years	100%	18.46%	60,000	60,000
Between 20 and less than 30 years	100%	13.71%	44,571	44,571
Between 30 and less than 40 years	100%	1.54%	5,000	5,000
Between 40 and less than 50 years	100%	6.25%	20,321	20,294
Over 50 years	100%	14.77%	48,000	48,000
Total			**325,026**	**334,348**

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	485
Increase in interest receivable on variable rate investments	(1,354)
Impact on Surplus or Deficit on the Provision of Services	**(869)**
Share of overall impact credited to the HRA	(375)
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)	(89)
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)	(28,652)

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 £55k 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 2015 £231,449k was at fixed rates and £47,500k at variable rates). Borrowing at fixed rates enables the Council to enjoy stability of costs in future years and helps improve budgetary processes. Fixed rates protect the Council from interest rate increases but in contrast exposes it to opportunity costs should rates fall. Borrowing at variable rates currently allows the Council to source debt at levels which are considerably lower than fixed rate debt. Sourcing debt from the PWLB allows the Council to reschedule or prematurely redeem debt and the portfolio is continually monitored to take advantage of opportunities that may present themselves periodically to reduce overall costs.

£48,000k of debt is held in "Lenders Option Borrowers Option" (LOBO) market loans. These have been set to provide varying periods of fixed rate ranges with subsequent options for the lender to change this rate on agreed dates. Over the next three years loans totalling £13,000k, £14,000k and £5,000k respectively are scheduled for rate change options.

In order to minimise debt costs the Council did not take any new borrowing during 2014/15, instead utilising internal resources to finance its long term borrowing requirement. No debt was prematurely redeemed but naturally maturing debt of £9,278k reduced the loan portfolio during 2014/15.

Financial Assets

The Council had a weighted average balance of investments (excluding unpaid Icelandic deposits) for 2014/15 of £135,634k. 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 were two long term deposits outstanding totalling £7.4m. 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 2015 £000's	31 March 2014 £000's
Education trusts - providing academic prizes	4	4
Library trusts - purchase of library books	14	11
Total	**18**	**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's commitment to make future payments needs to be disclosed as the future entitlement is earnt.

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

The two LGPS scheme funds are:

- London Borough of Hillingdon (LBH) Pension Fund of the LGPS for employees, administered locally by the Council.
- London Pension Fund Authority (LPFA) Pension Fund of the LGPS, which is a closed arrangement for former employees administered by the London Pension Fund Authority.

For the London Borough of Hillingdon LGPS, contributions are made at a level intended to balance the pensions liabilities with investment assets. The adequacy of the funds' contributions and investments to resource future liabilities is reviewed tri-annually by actuaries appointed by the Council. Contribution rates are then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 2014/15 employer's contribution rate was 21.1%. Employees contributed at variable rates between 5.5% and 12.5% of pensionable salary. The employer's contribution rate set for 2015/16 is 22.1% with any pension strain costs being directly attributable to the service area, as was the case in 2014/15.

The London Pension Fund Authority (LPFA) Pension Scheme has been combined with London Borough of Hillingdon Pension Fund in the figures within this note as it is a closed non contributing fund for a number of former employees.

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 2014/15 was 14.1% (14.1% in 2013/14). The total contribution to the fund by the Council in 2014/15 was £6,291k (£6,874k in 2013/14), of this amount £526k was outstanding at 31 March 2015 (£576k at 31 March 2014). The employer rate for Teachers Pension contribution will increase to 16.48% on 1 September 2015, which will have a direct impact on the amount contributed to the fund, although the final figure will be subject to adjustment resulting from school academy transfers.

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 2014/15, 2013/14 or 2012/13, and £849k paid in respect of on-going payments in 2014/15 (£861k in 2013/14).

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 2014/15 LB Hillingdon paid a total of £87,747 to the NHS Pension Scheme, representing 14% of pensionable pay. Contributions to the fund are expected to remain unchanged for 2015/16.

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 2015 £000's	**31 March 2014 £000's**	**31 March 2015 £000's**	**31 March 2014 £000's**	**31 March 2015 £000's**	**31 March 2014 £000's**
Cost of Services:						
Service Cost	18,522	24,821	0	0	18,522	24,821
Total Net Cost Of Services	**18,522**	**24,821**	**0**	**0**	**18,522**	**24,821**
Financing and Investment and Expenditure						
Interest Cost on Defined Benefit Obligation	44,817	45,971	180	71	44,997	46,042
Interest Income and Return on Plan Assets	(28,653)	(29,359)	(152)	(83)	(28,805)	(29,442)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**16,164**	**16,612**	**28**	**(12)**	**16,192**	**16,600**
Amounts to be met from Government Grants and Local Taxation						
Movement on pension reserve	**34,686**	**41,433**	**28**	**(12)**	**34,714**	**41,421**
Actual amount charged against council tax for pensions in the year						
Employer's contributions payable to scheme	20,073	22,506	0	0	20,073	22,506
Administration Costs	0	0	(4)	(4)	(4)	(4)
Contributions in respect of unfunded benefits	2,310	2,267	4	5	2,314	2,272
	22,383	**24,773**	**0**	**1**	**22,383**	**24,774**

In addition the Comprehensive Income and Expenditure Statement included an actuarial loss of £90,907k in 2014/15 (£7,969k gain in 2013/14). The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement since 2004/05 is £415,768k.

The Council expects to make payments of £21,728k (£20,827k in 2014/15) in respect of contributions to the LBH Pension Fund during the financial year 2015/16.

46. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2015 £000's	31 March 2014 £000's	31 March 2015 £000's	31 March 2014 £000's	31 March 2015 £000's	31 March 2014 £000's
Opening Benefit Obligation	1,051,794	1,026,344	5,254	5,763	1,057,048	1,032,107
Current Service Cost	21,690	25,812	0	0	21,690	25,812
Interest on defined liability	44,817	45,971	180	71	44,997	46,042
Contributions by Members	6,338	6,857	0	0	6,338	6,857
Remeasurement (gains) and losses:						
Actuarial losses/(gains) arising from changes in demographic assumptions	0	12,127	0	(81)	0	12,046
Actuarial losses/(gains) arising from changes in financial assumptions	146,026	(17,253)	301	(822)	146,327	(18,075)
Other	(9,141)	(9,208)	0	929	(9,141)	(8,279)
Past Service Cost including Curtailments	302	533	0	0	302	533
Liabilities Extinguished on Settlements	(4,587)	(2,110)	0	0	(4,587)	(2,110)
Estimated Unfunded Benefits Paid	(2,310)	(2,267)	(4)	(5)	(2,314)	(2,272)
Estimated Benefits Paid	(36,217)	(35,012)	(530)	(601)	(36,747)	(35,613)
Closing Defined Benefit Obligation	**1,218,712**	**1,051,794**	**5,201**	**5,254**	**1,223,913**	**1,057,048**

Reconciliation of fair value of scheme assets

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2015 £000's	31 March 2014 £000's	31 March 2015 £000's	31 March 2014 £000's	31 March 2015 £000's	31 March 2014 £000's
Opening Fair Value of Employer Assets	672,603	656,243	2,505	2,602	675,108	658,845
Interest Income on Plan Assets	28,653	29,359	152	83	28,805	29,442
Contributions by Members	6,338	6,857	0	0	6,338	6,857
Contributions by the Employer	20,073	22,506	0	0	20,073	22,506
Contributions in respect of Unfunded Benefits	2,310	2,267	4	5	2,314	2,272
Remeasurement (gains) and losses:						
The return on plan assets, excluding the amount in the net interest expense	46,279	(6,764)	0	425	46,279	(6,339)
Assets Distributed on Settlements	(1,117)	(586)	0	0	(1,117)	(586)
Administration Expenses		0	(4)	(4)	(4)	(4)
Estimated Unfunded Benefits Paid	(2,310)	(2,267)	0	0	(2,310)	(2,267)
Estimated Benefits Paid	(36,217)	(35,012)	(534)	(606)	(36,751)	(35,618)
Closing Fair Value of Employer Assets	**736,612**	**672,603**	**2,123**	**2,505**	**738,735**	**675,108**

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 14/15 £000's	Quoted Prices not in Active Markets 14/15 £000's	Quoted Prices in Active Markets 13/14 £000's	Quoted Prices not in Active Markets 13/14 £000's	Quoted Prices in Active Markets 14/15 £000's	Quoted Prices not in Active Markets 14/15 £000's	Quoted Prices in Active Markets 13/14 £000's	Quoted Prices not in Active Markets 13/14 £000's	31 March 2015 £000's	31 March 2014 £000's
Equity Instruments	Consumer	21,911		26,921		178		263		22,089	27,184
	Manufacturing	31,344		34,606		79		86		31,423	34,692
	Energy & Utilities	25,483		31,865		11		39		25,494	31,904
	Financial Institutions	41,247		41,927		59		94		41,306	42,021
	Health & Care	7,885		9,591		0		0		7,885	9,591
	Information Technology	9,162		8,374		34		60		9,196	8,434
	Other	5,775		13,183		68		122		5,843	13,305
Debt Securities	UK Government	16,506		28,143						16,506	28,143
	Other	0		5,884						0	5,884
Private Equity	All		34,166		34,566		161		170	34,327	34,736
Real Estate			75,686		46,758		59		66	75,745	46,824
Investment Funds & Unit Trusts	Equities	283,693	0	244,398	0	17	15	31	2	283,725	244,431
	Bonds	65,138	0	83,011	0	347	47	270	306	65,532	83,587
	Hedge Funds	0	1,153	0	0	0	100	4	13	1,253	17
	Commodities	0	2,333	0	1,635	0	0	0	0	2,333	1,635
	Infrastructure	0	7,461	0	5,009	6	98	7	81	7,565	5,097
	Other	0	38,599	0	22,561	104	244	62	501	38,947	23,124
Derivatives		46,275	0	16,579	1,552	0	(4)	0	8	46,271	18,139
Liability Driven Investments		0	0	0	0	0	159	0	154	159	154
Target Returns		0	0	0	0	74	0	82	0	74	82
Commodities		0	0	0	0	6	13	20	7	19	27
Cash & Cash Equivalents		22,795		16,040		248		57		23,043	16,097
		577,214	**159,398**	**560,522**	**112,081**	**1,231**	**892**	**1,197**	**1,308**	**738,735**	**675,108**

Pensions Assets and Liabilities recognised in the Balance Sheet

	2014/15 £000's	2013/14 £000's	2012/13 £000's	2011/12 £000's	2010/11 £000's
Present value of liabilities:					
LBH	(1,218,712)	(1,051,794)	(1,026,344)	(895,278)	(820,944)
LPFA	(5,201)	(5,254)	(5,763)	(5,749)	(5,946)
Fair Value of Assets:					
LBH	736,612	672,603	656,243	584,868	575,064
LPFA	2,123	2,505	2,602	2,960	3,380
Deficit in the scheme:					
LBH	(482,100)	(379,191)	(370,101)	(310,410)	(245,880)
LPFA	(3,078)	(2,749)	(3,161)	(2,789)	(2,566)
Total	**(485,178)**	**(381,940)**	**(373,262)**	**(313,199)**	**(248,446)**

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,224m is offset by the scheme assets of £739m to give the net pension liability of £485m 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 2015	31 March 2014	31 March 2015	31 March 2014
Financial Assumptions: (% p.a.)				
Pension Increase Rate	2.4%	2.8%	1.9%	2.4%
Salary Increase Rate	3.3%	3.6%	3.7%	4.2%
Discount Rate	3.2%	4.3%	2.4%	3.6%
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	22.7	22.7	22.2	22.1
- Women	24.7	24.7	25.2	25.1
Longevity at 65 for future pensioners:				
- Men	24.3	24.3	24.5	24.4
- Women	26.9	26.9	27.4	27.3
Take-up of option to convert annual pension to tax free lump sum pre-April 2008	65%	65%	50%	50%
Take-up of option to convert annual pension to tax free lump sum post-April 2008	85%	85%	0%	0%

Sensitivity Analysis

The estimation of the defined benefit obligation is sensitive to principal actuarial assumptions used to measure the scheme. The sensitivity analyses below have been based on 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 2015	**% Increase to Employer Liability**	**£000's Increase to Employer Liability**	**% Increase to Employer Liability**	**£000's Increase to Employer Liability**
0.5% Decrease in Real Discount Rate	9%	115,407	4%	225
1 Year Increase in Member Life Expectancy	3%	36,561	3%	176
0.5% Increase in the Salary Increase Rate	2%	29,427	0%	0
0.5% Increase in the Pension Increase Rate	7%	84,260	4%	225

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 a rate which is as constant as possible. The Council's Pension Fund undergoes a triennial valuation to set the contribution rates of the all the employers in the scheme to 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 April 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 (HRA) (page 92)

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 96)

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 99)

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 2015 £000's	31 March 2014 £000's
Expenditure			
Repairs and maintenance		8,062	10,160
Supervision and management		15,799	15,670
Rents, rates, taxes & other charges		25	37
Increase in provision for bad debts		0	587
Depreciation of non current assets	*3*	9,818	9,492
Impairment or Reversal of previous impairment / revaluation loss		(83,295)	(37,946)
		(49,591)	**(2,000)**
Income			
Gross dwelling rents		(57,105)	(55,264)
Gross non dwelling rents		(1,211)	(1,064)
Charges for services and facilities		(3,426)	(3,455)
Contributions towards expenditure		(1,547)	(1,506)
		(63,289)	**(61,289)**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		(112,880)	(63,289)
HRA Services share of Corporate and Democratic Core		651	722
Net Cost of HRA services		**(112,229)**	**(62,567)**
(Gain) on sale of HRA non current assets		(10,321)	(5,572)
Other HRA income		0	(7)
Interest payable and similar charges		8,225	7,281
Interest & Investment income		(418)	(266)
Capital Grant Income		0	(103)
(Surplus)/Deficit for the year on HRA services		**(114,743)**	**(61,234)**

Movement on the HRA Balance

	2014/15 £000's	2013/14 £000's
HRA Balance brought forward	(22,820)	(19,089)
(Surplus)/Deficit for the year on HRA services	(114,743)	(61,234)
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	10,320	5,580
Capital Grant Income	0	103
Premium on early redemption of HRA debt	22	35
HRA share of contributions to or from the Pension Reserve	(826)	(96)
Revaluation of Non Current Assets	83,295	37,946
Annual Leave Accrual Adjustment	89	0
Provision for repayment of debt	8,259	9,854
Net Increase before transfer to reserves	**(13,584)**	**(7,812)**
Transfer to Major Repairs Reserve	5,874	4,750
Released from Earmarked Reserves	(46)	(669)
Increase in year on HRA	**(7,756)**	**(3,731)**
Balance on HRA at the end of the current reporting period	**(30,576)**	**(22,820)**
HRA Balances		
Major Repairs Reserves	(24,774)	(11,379)
HRA Share of Earmarked Reserves	0	(46)
Total HRA Balances	**(55,350)**	**(34,245)**

Notes to Housing Revenue Account

1. HOUSING STOCK

The Council was responsible at 31st March 2015 for managing dwellings.

The stock was as follows:

	Total Properties 31 March 2015	Total Properties 31 March 2014
1 Bed Properties	3,580	3,621
2 Bed Properties	3,537	3,616
3 Bed Properties	2,735	2,799
4 Bed plus Properties	232	242
Total	**10,084**	**10,278**

2. VALUE OF HRA ASSETS

	Net Book Value 31 March 2015 £000's	Net Book Value 31 March 2014 £000's
Council dwellings	598,810	531,531
Other land & buildings	914	834
Vehicle, plant & equipment	5,048	4,990
Surplus Assets	355	0
Intangible Asset	9	11
Investment Properties	0	70
Total	**605,136**	**537,436**

The vacant possession value of dwellings within the authority's HRA as at 31 March 2015 was £2,395m, this differs from the balance sheet value of £599m which is based on the economic use value of social housing. The difference of £1,796m 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 2014/15 £000's	Depreciation 2013/14 £000's
Council dwellings	(9,430)	(8,875)
Other land & buildings	(14)	(405)
Intangibles	(2)	0
Vehicle, plant & equipment	(372)	(212)
Total	**(9,818)**	**(9,492)**

Notes to Housing Revenue Account

4. CAPITAL EXPENDITURE

Capital Expenditure on HRA council dwellings during 2014/15 totalled £3.972m.This was financed by:

	31 March 2015 £000's	31 March 2014 £000's
Revenue Contribution	2,296	3,986
Capital Receipts	1,676	0
Other Contributions	0	103
	3,972	**4,089**

Capital receipts from the sale of HRA RTB properties during 2014/15 totalled £19,527k of which £1,081k was paid to Central Government under the pooling arrangements, with £18,446k remaining with the Council.

5. RENT ARREARS

At 31 March 2015 the gross HRA rent arrears amounted to £3,564k (£3,544k in 2013/14).

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2015 was £2,260k (£2,623k in 2013/14). In the year, £363k 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.

	2014/15 £000's	2013/14 £000's
Balance as at 1 April	11,379	1,123
Depreciation transferred to reserve	9,818	9,492
Transfer to MRR	5,874	4,750
Capital programme funding	(2,297)	(3,986)
	24,774	**11,379**

The £24.7m 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 reduction for 2014/15 was £46.4k.

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 2015 £000's**	**31 March 2014 £000's**
Council Tax Income		(129,980)	(127,018)
Contribution towards previous years' estimated Council Tax (Surplus) / Deficit	1	4,593	606
Write-offs Uncollectable Council Tax Debt		190	194
Write-back Uncollectable Council Tax Debt		(16)	(354)
Provision for Doubtful Council Tax Debts		208	773
London Borough of Hillingdon Council Tax Precept	1	99,327	97,321
Greater London Authority Council Tax Precept	1	26,686	26,496
Council Tax (Surplus) / Deficit for the Year		**1,008**	**(1,982)**
Opening Council Tax (Surplus) / Deficit Balance		(5,669)	(3,687)
Council Tax (Surplus) / Deficit for the Year		1,008	(1,982)
		(4,661)	**(5,669)**

National Non-Domestic Rates (NNDR) & Business Rate Supplement (BRS)	**Notes**	**31 March 2015 £000's**	**31 March 2014 £000's**
National Non-Domestic Rates Income		(344,956)	(336,269)
Business Rate Supplement Income		(12,745)	(12,901)
Write-offs Uncollectable NNDR Debt		1,143	2,627
Write-back Uncollectable NNDR Debt		(447)	(517)
Provision for Doubtful NNDR Debts		287	(393)
Provision/(Release of Provision) for Backdated Appeal Losses	3	(2,884)	4,295
London Borough of Hillingdon Share NNDR Income	2	105,485	99,397
Greater London Authority Share NNDR Income	2	70,323	66,265
Central Government Share NNDR Income	2	175,808	165,662
Transitional Payment Protection Receivable		183	(349)
Payment to Greater London Authority in respect of BRS Income		12,726	12,879
NNDR Cost of Collection Allowance		596	598
BRS Cost of Collection Allowance		19	22
NNDR (Surplus) / Deficit for the Year		**5,538**	**1,316**
Opening NNDR (Surplus) / Deficit Balance		1,316	0
NNDR (Surplus) / Deficit for the Year		5,538	1,316
Brought Forward NNDR (Surplus) / Deficit Balance		**6,854**	**1,316**

Collection Fund Account

1. Calculation of the Council Tax Base and 2014/15 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 2014/15 base agreed by full Council on 16 January 2014.

Band	Estimated Number of Properties	Discounts & Exemptions	Council Tax Support Scheme	Net Estimated Number of Properties	Band D Equivalent Ratio	Band D Equivalent 2014/15	Band D Equivalent 2013/14
A	880	(203)	(198)	479	6/9	319	315
B	5,768	(1,244)	(1,362)	3,162	7/9	2,459	2,403
C	23,660	(3,407)	(4,620)	15,633	8/9	13,896	13,417
D	45,152	(4,021)	(6,094)	35,037	9/9	35,037	34,275
E	18,180	(1,604)	(1,084)	15,492	11/9	18,935	18,468
F	9,589	(814)	(275)	8,500	13/9	12,278	12,193
G	4,915	(722)	(74)	4,119	15/9	6,865	6,685
H	391	(26)	(5)	360	18/9	720	706
Total	**108,535**	**(12,041)**	**(13,712)**	**82,782**		**90,509**	**88,462**
					Adjustment for Non-collection	(1,810)	(1,769)
					Ministry of Defence Contribution	550	753
					Council Tax Base	**89,249**	**87,446**
					London Borough of Hillingdon Band D Council Tax (£)	1,113	1,113
					Greater London Authority Band D Council Tax (£)	299	303
					Total Band D Council Tax (£)	**1,412**	**1,416**
					Demand on Collection Fund (£'000)	**126,013**	**123,817**

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 2014 £000's	2014/15 Precept £000's	Release of Prior Year Estimated Surplus £000's	2014/15 Council Tax Revenues £000's	2014/15 Deficit £000's	Balance 31 March 2015 £000's
London Borough of Hillingdon	(4,407)	99,327	3,610	(102,202)	735	(3,672)
Greater London Authority	(1,262)	26,686	983	(27,396)	273	(989)
Grand Total	**(5,669)**	**126,013**	**4,593**	**(129,598)**	**1,008**	**(4,661)**

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 8,120 hereditaments within the borough totalled £789,480k, with rates payable determined by the National Non-Domestic multiplier which is set annual by Central Government. For 2014/15 the standard multiplier was 48.2p in the pound and for small businesses 47.1p in the pound.

The Business Rate Retention System requires that locally raised income is shared between the Council (30%), the Greater London Authority (20%) and Central Government (50%) as detailed in the table below. The Council's own share of these revenues are reflected in the main statement of accounts.

	Balance 31 March 2014 £000's	2014/15 Budgeted Share of Income £000's	Release of Prior Year Estimated Surplus £000's	2014/15 Non-Domestic Rates Revenues £000's	2014/15 Deficit £000's	Balance 31 March 2015 £000's
London Borough of Hillingdon	387	105,485	0	(103,823)	1,662	2,049
Greater London Authority	267	70,323	0	(69,216)	1,107	1,374
Central Government	662	175,808	0	(173,039)	2,769	3,431
Grand Total	**1,316**	**351,616**	**0**	**(346,078)**	**5,538**	**6,854**

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. 841 such appeals relating to 736 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2015. Given the inherent uncertainty around the financial impact of such appeals, a provision of £1,411k has been established on the basis of past experience of appeals. This represents a reduction from the provision of £4,295k held for this risk at 31 March 2014.

Pension Fund Accounts and Net Asset Statement

	Notes	31 March 2015 £000's	Restated 31 March 2014 £000's
Contributions	*5*	37,383	35,099
Transfers In from other pension funds	*6*	1,164	750
Less: Benefits	*7*	(34,448)	(34,748)
Less: Leavers	*8*	(1,365)	(2,890)
Less: Management expenses	*9*	(6,834)	(5,981)
Net additions/(withdrawals) from dealings with members		**(4,100)**	**(7,770)**
Investment income	*10*	16,887	15,546
Profit and losses on disposal of investments and changes in value of investments	*11*	62,982	35,715
Taxes on income		(5)	(7)
Net return on investments		**79,864**	**51,254**
Net Increase in the fund during the year		**75,764**	**43,484**
Net Assets at start of year		**726,536**	**683,052**
Net Assets at end of year		**802,300**	**726,536**

		31 March 2015 £000's	31 March 2014 £000's
Investment Assets	*11*	800,969	725,110
Investment Liabilities	*12*	(1,209)	(649)
Current Assets	*13*	3,191	2,802
Current Liabilities	*14*	(651)	(727)
TOTAL NET ASSETS		**802,300**	**726,536**

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
September 2015

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2014/15 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 (Miscellaneous Amendments) Regulations 2014
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory career average revalued earnings (CARE) scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the London Borough of Hillingdon 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 the 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 (Miscellaneous Amendments) Regulations 2014 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and an automatic lump sum retirement allowance (for any member with service pre 1 April 2008). The scheme is administered by CAPITA Employee Benefits, on behalf of 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 Employers, Pension Fund members and by income from the fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

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
Hillingdon Primary School - New in 2014/15
John Locke Academy - New in 2014/15
Lake Farm Park Federation - New in 2014/15
LBDS Frays Academy Trust
London Housing Consortium
Nanak Sar Primary School
Northwood Academy
Pinkwell School - New in 2014/15
Pentland Field School - New in 2014/15
Queensmead Academy
Rosedale Hewens Academy
Ruislip High School - New in 2014/15
Ryefield Primary School - New in 2014/15
Stockley Academy
Swakeleys Academy
Willows Academy
Uxbridge College
Uxbridge Academy
Vyners Academy
Wood End Academy

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2015 there were 8,046 active employees contributing to the fund, with 6,051 in receipt of benefit and 6,278 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2015	31 March 2014
Number of employers with active members	40	33
Number of employees in scheme		
London Borough of Hillingdon	5,809	6,002
Other employers	2,237	1,522
Total	**8,046**	**7,524**
Number of Pensioners		
London Borough of Hillingdon	5,541	5,505
Other employers	510	498
Total	**6,051**	**6,003**
Deferred pensioners		
London Borough of Hillingdon	4,927	4,980
Other employers	1,351	1,331
Total	**6,278**	**6,311**

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, Barings Asset Management (Defunded 31 October 2014) GMO Investments, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investments, Newton Asset Management, Permira LLP, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle

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 2014/15:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr David Simmonds
Cllr Raymond Graham
Cllr Richard Mills
Cllr Tony Eginton
Cllr Beulah East
Cllr John Morse
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)
Mr John Holroyd (Pensioner/Deferred Scheme Member Representative) (Non Voting)

Pensions Board

From 01 April 2015, a local Pensions Board has been created.

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 2014/15 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009 (as amended). 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 for 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 2015 was £35,275k (£37,146k at 31 March 2014).

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 2015 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 £35,757k. There is a risk that this investment may be under- or overstated in the accounts.

4. PRIOR PERIOD ADJUSMENTS AND CHANGES IN ACCOUNTING POLICIES

Prior period adjustments have been made to the Pension Fund 2014/15 published financial statements in relation to the following:

Accounting for Scheme Management Expenses

In 2014/15 CIPFA, through the Code of Practise on Local Authority Accounting in the United Kingdom introduced the financial accounting framework to ensure all costs associated with the management of LGPS assets are captured and reflected in the financial statement in one form or another (through either the fund accounts or changes in values in the net assets statement). The main drivers of the changes by the framework were the needs for comparable data, consistency of reported costs and transparency of costs reporting across all LGPS funds. To this end, three cost categories, Investment Management Expenses, Oversight and Governance and Pension Administration were introduced.

One of the main requirements of the revised code of practise in relation to fund expenses is the reporting of pooled fund expenses. Practitioners are expected to disclose all expenses incurred both at partnership and fund of funds level. This prompted the need to seek information from all pooled fund managers engaged by the fund in relation to total fees and expenses charged to the fund at both levels and comparative figures for prior year was requested for completeness. The information received indicated fees and expenses for both private Equity managers engaged by the London Borough of Hillingdon Pension Fund were understated for prior year (2013/14), hence the relevant restatements were made to the fund accounts and notes to both comply with the three new management expenses categories and provide comparative figures for prior year.

Restatement of Pension Fund Accounts

	Published 31 March 2014 £000's	Restatement £000's	Restated 31 March 2014 £000's
Contributions	35,099		35,099
Transfers In from other pension funds	750		750
Less: Benefits	(34,748)		(34,748)
Less: Leavers	(2,890)		(2,890)
Less:Administrative expenses	(610)	610	
Less: Management expenses		(5,981)	(5,981)
Net additions/(withdrawals) from dealings with members	**(2,399)**	**(5,371)**	**(7,770)**
Investment income	15,546		15,546
Profit and losses on disposal of investments and changes in value of investments	34,113	1,602	35,715
Taxes on income	(7)		(7)
Investment management expenses	(3,769)	3,769	
Net return on investments	**45,883**	**5,371**	**51,254**
Net Increase in the fund during the year	**43,484**	**0**	**43,484**
Net Assets at start of year	**683,052**		**683,052**
Net Assets at end of year	**726,536**		**726,536**

Notes To Pension Fund Accounts

5. CONTRIBUTIONS

	31 March 2015 £000's	31 March 2014 £000's
Employers		
Normal	23,621	21,098
Deficit funding	4,576	5,160
Members		
Normal	8,410	8,133
Additional contributions	776	708
	37,383	**35,099**

Deficit Funding:- At the 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%.

Schedule of contributions by body	31 March 2015 £000's	31 March 2014 £000's
Employers		
LB Hillingdon	20,827	20,733
Scheduled Bodies	7,081	5,250
Admitted Bodies	289	275
Members		
LB Hillingdon	7,151	6,983
Scheduled Bodies	1,938	1,765
Admitted Bodies	97	93
	37,383	**35,099**

6. TRANSFERS IN

	31 March 2015 £000's	31 March 2014 £000's
Individual transfers in from other schemes	1,164	750

7. BENEFITS

	31 March 2015 £000's	31 March 2014 £000's
Pensions	(29,862)	(28,114)
Commutations and lump sum retirement benefits	(4,521)	(6,105)
Lump sum death benefits	(65)	(529)
	(34,448)	**(34,748)**

Schedule of benefits by employer	31 March 2015 £000's	31 March 2014 £000's
LB Hillingdon	(33,985)	(34,205)
Scheduled Bodies	(416)	(450)
Admitted Bodies	(47)	(93)
	(34,448)	**(34,748)**

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2015 £000's	31 March 2014 £000's
Individual transfers out to other schemes	1,365	2,890
	1,365	**2,890**

9. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2015 as follows:

	31 March 2015 £000's	Restated 31 March 2014 £000's
Administrative Costs	534	525
Investment Management Expenses	5,995	5,242
Oversight and Governance	305	214
	6,834	**5,981**

The above analysis of the costs of managing the London Borough of Hillingdon Pension Fund has been prepared in accordance with the CIPFA guidance on LGPS management costs.

10. INVESTMENT INCOME

	31 March 2015 £000's	31 March 2014 £000's
Dividends from equities	6,672	6,668
Income from fixed interest Securities	107	40
Income from index-linked securities	205	334
Income from pooled investment vehicles	1,833	1,818
Interest on cash deposits	83	157
Other (for example from stock lending or underwriting)	7,987	6,529
	16,887	**15,546**

11. INVESTMENT ASSETS

	Value 1 April 2014 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2015 £000's
Equities	148,058	29,090	(44,510)	3,684	136,322
Index-linked securities	41,191	36,172	(21,355)	8,826	64,834
Pooled investment vehicles	516,357	130,560	(124,264)	47,380	570,033
	705,606	**195,822**	**(190,129)**	**59,890**	**771,189**
Other investment balances	1,131			4,130	913
Fund managers' cash	18,373			(1,038)	28,867
Total Investment Assets	**725,110**			**62,982**	**800,969**

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 £218k (£539k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Notes To Pension Fund Accounts

11. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2015 £000's	Market Value 31 March 2014 £000's Restated
Adams Street Partners	22,988	21,199
AEW UK	24,623	0
Barings Global Asset Management (Defunded 31 October 2014)	0	63,046
GMO	65,729	0
JP Morgan Asset Management	38,447	77,397
Kempen International Investments	87,276	77,307
LGT Capital Partners	12,769	15,945
M&G Investments	32,965	25,822
Macquarie Infrastructure	13,886	5,270
Newton Asset Management	27,173	23,618
Permira Credit Solutions	4,029	0
Ruffer LLP	94,758	84,447
State Street Global Advisors	161,566	143,802
UBS Global Asset Management (Equities	104,844	115,829
UBS Global Asset Management (Property	64,119	54,368
UBS TAA	31,742	12,768
Other*	12,846	3,643
Total	**799,760**	**724,461**

* Other includes pending trades, accrued income and cash held in Custody accounts, independent of Fund managers not mandated to hold cash.

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	11,410	(11,496)	(86)	13/01/2015	17/04/2015
Northern Trust	JPY - GBP	2,485	(2,482)	3	22/01/2015	17/04/2015
Northern Trust	JPY - GBP	3,352	(3,368)	(16)	30/01/2015	17/04/2015
Northern Trust	JPY - GBP	4,349	(4,383)	(34)	02/02/2015	17/04/2015
Northern Trust	GBP - JPY	1,546	(1,582)	(36)	16/02/2015	17/04/2015
Northern Trust	GBP - USD	20,492	(21,044)	(552)	11/02/2015	15/05/2015
Northern Trust	GBP - USD	461	(478)	(17)	02/03/2015	15/05/2015
Northern Trust	GBP - EUR	2,216	(2,224)	(8)	09/03/2015	12/06/2015
Total unrealised gains		**46,311**	**(47,057)**	**(746)**		

As at 31 March 2015 eight forward foreign exchange contracts were in place for £47,057k with unrealised loss of £746k. 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 2015 £000's	31 March 2014 £000's
Equities		
UK quoted	108,883	121,335
Overseas quoted	27,439	26,723
	136,322	**148,058**
Index Linked Securities		
UK Public Sector quoted	17,642	14,006
Overseas Public Sector Quoted	47,192	21,357
	64,834	**35,363**
Pooled Investment Vehicles		
UK Managed funds - other	351,510	364,199
UK Unit Trusts - property	87,738	50,427
Overseas Unit Trusts - other	95,028	70,413
Private Equity	35,757	37,146
	570,033	**522,185**
Other Investment balances		
Forward foreign exchange unrealised gain	0	288
Amount due from brokers	3	0
Outstanding dividend entitlements and recoverable withholding tax	910	843
	913	**1,131**
Cash deposits		
Sterling	28,867	18,373
	28,867	**18,373**
	800,969	**725,110**

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

11. 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, which 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 2015 was £6,488k and as at 31 March 2014 £6,444k (2013/14 restated to include bonus of £1,410k). Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 5.

12. INVESTMENT LIABILITIES

	31 March 2015 £000's	31 March 2014 £000's
Amount outstanding to brokers	(463)	(649)
Forward foreign exchange unrealised loss	(746)	0
	(1,209)	**(649)**

13. CURRENT ASSETS

	31 March 2015 £000's	31 March 2014 £000's
Employers' contributions due	391	197
Employees' contributions due	111	65
Debtor: London Borough of Hillingdon	0	266
Debtor: Other Entities	0	7
Cash balances	2,689	2,267
	3,191	**2,802**

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 2015 £000's	31 March 2014 £000's
Creditor: Other Entities	(394)	(721)
Creditor: London Borough of Hillingdon	(257)	(6)
	(651)	**(727)**

NB: The total of £394k other entities is due to bodies external to government, namely investment managers.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

Financial Assets	31 March 2015 £000's	31 March 2014 £000's
Fixed Interest Securities	57,833	35,363
Equities	136,322	148,058
Pooled Investments	439,607	429,343
Pooled Property Investments	87,743	50,427
Private Equity/Infrastructure	49,684	42,415
Derivative Contracts	0	288
Cash	28,867	18,373
Debtors	913	843
	800,969	725,110
Financial Liabilities		
Derivative Contracts	(746)	0
Creditors	(463)	(649)
	(1,209)	(649)
	799,760	**724,461**

b) Net Gains and Losses on Financial Instruments

Financial Assets	31 March 2015 £000's	Restated 31 March 2014 £000's
Fair Value through profit and loss	63,742	35,427
Financial Liabilities		
Fair Value through profit and loss	(746)	288
	62,996	**35,715**

c) Fair Value of Financial Instruments and liabilities

Financial Assets	31 March 2015 Fair Value £000's	31 March 2015 Carrying Value £000's	31 March 2014 Fair Value £000's	31 March 2014 Carrying Value £000's
Fair Value through profit and loss	771,189	771,189	705,606	705,606
Loans and receivables	29,780	29,780	19,504	19,504
Total Financial assets	**800,969**	**800,969**	**725,110**	**725,110**
Financial Liabilities				
Fair Value through profit and loss	(1,209)	(1,209)	(649)	(649)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(1,209)**	**(1,209)**	(649)	(649)

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2015	Quoted Market Price Level 1 £000's	Using Observable Inputs Level 2 £000's	With Significant unobservable inputs Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	596,838	87,716	86,635	771,189
Loans and Receivables	16,183	8,527	5,070	29,780
Total Financial Assets	**613,021**	**96,243**	**91,705**	**800,969**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(1,209)			(1,209)
Total Financial Liabilities	**(1,209)**	**0**	**0**	**(1,209)**
Net Financial Assets	**611,812**	**96,243**	**91,705**	**799,760**

Values as at 31 March 2014	Quoted Market Price Level 1 £000's	Using Observable Inputs Level 2 £000's	With Significant unobservable inputs 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**

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee (ISC) undertook 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 were 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	10.20%
Overseas quoted equities	7.93%
UK Public Sector quoted Index-Linked Securities	8.26%
Overseas Public Sector quoted Index-Linked Securities	8.26%
Corporate Bonds	4.10%
UK Managed funds - other	10.20%
UK Unit Trusts - property	3.16%
Overseas Unit Trusts - other	7.93%
Private Equity/Infrastructure	4.57%

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 2015 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Cash and Cash equivalents	28,867	0.01	29,156	28,578
Investment Assets				
UK quoted equities	108,883	10.20	119,989	97,777
Overseas quoted equities	27,439	7.93	29,615	25,263
UK Public Sector quoted Index-Linked Securities	17,642	8.26	19,099	16,185
Overseas Public Sector quoted Index-Linked Securities	47,192	8.26	51,090	43,294
UK Managed funds - Equities	101,728	10.20	112,104	91,352
UK Managed funds - Bonds	67,314	4.10	70,074	64,554
UK Unit Trusts - property	87,738	3.16	90,511	84,965
Overseas Unit Trusts - Equities	223,217	7.93	240,918	205,516
Overseas Unit Trusts - Bonds	40,352	4.10	42,006	38,698
Private Equity/Infrastructure	49,684	4.57	51,955	47,413
Net Derivative assets	(746)	0.00	(746)	(746)
Investment income due	910	0.00	910	910
Amounts receivable for sales	3	0.00	3	3
Amounts payable for purchases	(463)	0.00	(463)	(463)
Total Assets Available to pay benefits	**799,760**		**856,221**	**743,299**

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	44,711	40,121
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**

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 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2015 £000's	31 March 2014 £000's
Cash	28,867	18,373
Fixed Interest Securities	172,500	173,064
Total	**201,367**	**191,437**

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 2015	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash	28,867	289	(289)
Fixed Interest Securities	172,500	1,725	(1,725)
Total change in assets available	**201,367**	**2,014**	**(2,014)**

Asset Type	Carrying amount as 31 March 2014	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
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)**

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 2015 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2015 and as at the previous period ending 31 March 2014.

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

Currency exposure by asset type

	Asset value 31 March 2015	Asset value 31 March 2014
	£000's	**£000's**
Overseas quoted Securities	36,181	26,723
Overseas Corporate Bonds	31,869	69,294
Overseas Index-linked Bonds	40,191	21,357
Overseas managed funds	228,144	136,622
Private Equity/Infrastructure	49,684	42,415
	386,069	**296,411**

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 6.03%, based on the data provided by WM. A 6.03% 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 6.03% 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 2015	Change in the net assets available to pay benefits	
		+6.03%	**-6.03%**
	£000's	**£000's**	**£000's**
Overseas quoted Securities	36,181	38,363	33,999
Overseas Corporate Bonds	31,869	33,791	29,947
Overseas Index-linked Bonds	40,191	42,615	37,767
Overseas managed funds	228,144	241,901	214,387
Private Equity/Infrastructure	49,684	52,680	46,688
	386,069	**409,349**	**362,789**

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**

Notes To Pension Fund Accounts

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 2015 was £2,689k (31 March 2014: £2,267k) and this was held with the following institutions.

Summary Money market funds	Rating	Balances as at 31 March 2015 £000's	Rating	Balances as at 31 March 2014 £000's
Northern Trust Global Sterling Fund A	AAAm	1,700	AAAm	200
Bank current accounts				
Natwest (Capita)	A-	838	A-	949
HSBC Plc	AA-	151	AA-	1,118
Total		2,689		2,267

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 (£2,689k). 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 2015 these assets totalled £596,838k, with a further £28,867k 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 2015 % P.a.**	**31 March 2014 % P.a.**
Inflation /Pensions Increase Rate	2.4%	2.8%
*Salary Increase Rate	3.3%	3.6%
Discount Rate	3.2%	4.3%

*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 2015 by Hymans Robertson LLP with the following results:

Description	**31 March 2015 £000's**	**31 March 2014 £000's**
Present Value of Promised Retirement Benefits	1,308,000	1,102,000
Assets	802,485	726,536
Deficit	505,515	375,464

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 two members of the pension fund committee who were deferred members of the pension fund. These members are Cllr Philip Corthorne (Chairman) and Cllr David Simmonds. 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 2015 £000's	Accrued pension 31 March 2014 £000's
Corporate Director of Finance	1,241	1,128
Deputy Director - Strategic Finance	741	672

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 2015, securities worth £12,588k were on loan by Northern Trust from our portfolio and collateral worth £13,757k was held within the pool including Hillingdon. In the same period, a net income of £24k 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 2014/15.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2015 totalled £56,975k (31 March 2014: £61,506k).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure, secondary property (AEW) and Credit solutions (Permira) 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

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

No Post Balance Sheet events to report for 2014/15

London Borough of Hillingdon

Annual Governance Statement 2014/15

1 Scope of Responsibility

The London Borough of Hillingdon (LBH) 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. LBH 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, LBH is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.

LBH follows an approach to corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government'.* The authority's constitution is on its website at www.Hillingdon.gov.uk. This statement explains how the authority has met 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 LBH'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 LBH for the year ended 31 March 2015 and up to the date of approval of the 2014/15 Statement of Accounts.

3 The Governance Framework

LBH has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined 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, as required.

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

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** and **ASSETS HELD FOR SALE**.

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 FUND RESERVE - amounts remaining unspent on revenue account after taking account of all expenditure and income for the year. The General Fund 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.

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 which defines what items consist within total cost and defines the service allocation within the Comprehensive Income and Expenditure Statement

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. Specific grants can only be spent within the service in which they are intended.

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 percentage terms) for the return on investing activities 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; and
- 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 Major Applications Planning Committee established in 2013 has strengthened the way the Council determines major developments and commercial/ business applications.

5 Part 2, article 8 also sets out how the Authority works with its partners in Hillingdon through the **Health and Wellbeing Board**, which is chaired by the Leader of the Council and meets the requirements of the Health and Social Care Act 2012. The Health and Wellbeing Board seeks to improve the quality of life of the local population and provide high-level collaboration between the Council, NHS and other agencies to develop and oversee the strategy and commissioning of local health services.

6 Part 3 of the Constitution sets out the **'Scheme of Delegations to Officers'**. This governs the responsibility allocated to officers of LBH to perform the authority's activities. These include the Chief Executive, Borough Solicitor and Head of Democratic Services and the schemes are updated when required 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.

7 Part 5 of the Constitution sets out formal **'Codes of Conduct'** governing the behaviour and actions of all elected Council members and Council officers. A 'Code of Conduct for Members and Co-opted Members' was adopted in July 2012. The code requires that councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority regularly reviews the code and guidance to ensure these requirements reflect changes to the Council structure. A revised Code of Conduct for Officers and Protocol for Member / Officer Relations were approved by full Council in February 2015.

8 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.

9 **A Member training programme** is devised for each municipal year. Training for all Members on the revised Code of Conduct took place after the local elections (May 2014), delivered by

the Borough Solicitor and Head of Democratic Services. 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. Specific training for members of the Audit Committee is planned to be addressed during 2015/16.

10 **Member 'Register of Interests'** records the interests of elected members of the London Borough of Hillingdon. There is a separate 'Related Parties' register that all members and relevant senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.

11 **A Member / Officer Protocol** to govern and regulate the relationship between the London Borough of Hillingdon's elected members and appointed officers is in place. This has been developed in consultation with the political leadership, all Council members and relevant senior officers. It was revised and re-adopted by Council in February 2015.

12 **A formal whistleblowing policy**, which sets out how the Council complies with 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. An Internal Audit assurance review in September 2014 identified some areas requiring improvements relating to the process surrounding the recording of whistleblowing allegations to ensure the right officers are promptly notified and sufficient records are maintained. Work is ongoing to strengthen arrangements in this area.

13 **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).

14 **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.

15 **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 £12.8 million were delivered in 2014/15 taking total savings over the last five years to over £80 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.

16 **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 issues are produced and communicated through the finance management team.

17 **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 9 priority areas for the focus of its work, with actions to address local priorities delivered through theme groups.

18 **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 Hillingdon's Joint Health and Wellbeing Strategy. 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.

19 **An Independently Chaired Audit Committee** operates to oversee financial reporting, provide scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities 2005. During 2014/15, the Audit Committee continued to function effectively, whilst a replacement Chairman was appointed.

20 The **Performance Management Framework** is a Council-wide framework requiring service areas and teams to set annual 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. An Internal Audit of the Performance Management Framework is due to be carried out in 2015/16 including a review of the effectiveness of the PADA process.

21 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 group risks. The Corporate and Group Risk Registers enable the identification, quantification and management of strategic risks to delivering the Council's objectives. Group Risk Registers are updated quarterly, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register. The Council's Risk Management framework is reviewed annually. During 2014/15 Internal Audit highlighted a number of areas for further improvement including a gap in the identification of lower level, operational risks, that may not be considered as much of a high priority as the group and strategic risks.

- **A Corporate Risk Management Group** (CRMG), chaired by the Corporate Director of Finance, reviews the Corporate and Group Risk Registers on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The risk reports are presented to the Audit Committee in the following quarter. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks.

- **Risk management training** is available via an e-learning training package and accessible for all staff and forms part of the induction programme for specific new staff. Options for wider training for senior managers in the areas of risk will be considered during 2015/16.

22 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. Awareness within services of insurance risks and improving performance as a result of claims will be revisited as part of the tendering of a new insurance services contract during 2015.

23 **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.

24 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, data protection training has been rolled out to staff, briefings have been delivered to Elected Members and where identified, learning from cases has been implemented.

25 The London Borough of Hillingdon has **an Anti-Fraud and Anti-Corruption Strategy** approved by Cabinet and made available to all staff, although this is need of some updating. 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 the Whistleblowing Policy. Work is underway to implement a new Anti-Fraud and Anti-Corruption Strategy by December 2015, which will help ensure that all staff are made aware of their responsibilities and the procedures for reporting fraud or corruption.

26 **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 Group is available on the Hillingdon's internal web pages: 'Horizon'.

27 The London Borough of Hillingdon **monitors legislative changes,** considers implications and opportunities and ensures 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.

28 **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.

29 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 required to be 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. A planned

Internal Audit review in 2015/16 will consider the links between learning and development needs identified in the PADA and the delivery of training to staff.

30 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.

31 **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.

32 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 2015 and, except where identified in sections 3 and 5, the 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 Schemes of Delegation. As a key member of the Corporate Management Team leadership, his role is to act as, and exercise the functions of, the "Chief Finance Officer" meaning the officer designated under section 151 of the Local Government Act 1972. As such he is actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.

3 The work of the external auditors (Deloitte) as reported in their Annual Audit Letter.

4 The work of the Internal Audit service, which develops its annual work plan after an assessment of risk. The Head of Internal Audit reported quarterly 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 2014/15.

5 Assurance Statements were received from all Deputy Directors and Heads of Service covering the financial year 2014/15. Statements provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that control issues other than those identified in Section 5 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 £40.4 million by 31 March 2015.

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 groups, Procurement supports the delivery of financial and service level requirements to meet the wider corporate objectives with a 'Resident First' approach.

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.

All internal control issues reported in the 2013/14 AGS and in previous years have been resolved, except that:

5.1 The historical weaknesses in the monitoring and control of some construction projects led to new processes and procedures, including 'Gateway Sign Offs' being implemented with guidance from Internal Audit. This has been reflected across all Asset Management functions including Housing and Facilities Management. The restructure of Asset Management is underway.

5.2 The inadequate controls in place to scrutinise elements of the servicing and boiler replacement programme of works for HRA properties are being addressed during the Asset Management restructure. Poor practice is being addressed with a new approach to the boiler servicing/replacement programme and ongoing monitoring now in place.

5.3 Systems and processes are being developed to bring improved value for money, probity and transparency, and better control of resources in Housing Repairs. This work continues and additional changes will be implemented to further increase productivity, value for money and to enhance customer service.

5.4 Good progress has been made in improving services following the Ofsted Inspection in December 2013. Service planning now embeds all actions in the "getting to good" plan with new approaches and stronger management of services leading to improvement, e.g. in reductions of social worker caseloads. Regular reporting to senior management and through overview and scrutiny ensures that this work remains a high priority and focus of attention across the Authority.

5.5 Following an Internal Audit assurance 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. The Internal Audit follow up review in March 2015 concluded that work is ongoing to strengthen controls in this area.

Following a review of the effectiveness of the system of internal control, the following governance issues have been identified in 2014/15:

5.6 There is a need for a stronger, school-led, school improvement approach in Hillingdon. There are currently 20 schools out of 97 Hillingdon schools (including special schools and Academy schools) judged by Ofsted as “requiring improvement”. The Council is working closely with all schools to ensure all children in Hillingdon receive a “good” or better education by undertaking targeted reviews of schools, issuing warning notices to community schools which are a cause for concern, notifying the Regional Schools Commissioner and Ofsted where the Local Authority has concerns about an Academy School and undertaking thematic audits to share common themes for further improvement. A programme of follow-up, targeted reviews to check the progress community schools have made to address concerns is being undertaken to ensure schools improve.

5.7 An Internal Audit assurance report on the Council's Corporate Anti-Fraud and Anti-Corruption arrangements identified a number of governance issues requiring improvement. Positive action has been proposed by senior management and work is ongoing to strengthen the Council's arrangements in this area.

5.8 Effective information governance remains a high priority for the local authority. Whilst, there have been a small number of Data Protection breaches during 2014/15 these have been quickly identified and addressed in line with expected procedures. During 2014/15, a programme of refresher data protection training has been rolled out to staff to ensure standards in information governance remain high and key policies and guidelines have been reviewed. An Internal Audit assurance review has identified further work to be undertaken during 2015/16 to embed the principles of data protection.

5.9 The Council continues to operate in an environment of declining financial support from government while managing increasing demand for a broad range of services, which in the absence of any response would result in a rising annual deficit that would reach £63m by 2020/21. In response the Council continues to review and transform services to drive improvement and efficiency through initiatives such as the successful BID programme, which is on-track to bridge the budget gap by delivering £10m savings in 2015/16. This proven approach is set to be continued beyond 2015/16, enabling the Council to continue to 'put residents first' in challenging financial conditions.

Fran Beasley
Chief Executive
xx September 2015

Cllr Ray Puddifoot MBE
Leader of the Council
xx September 2015

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 2014/15 Pension Fund 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 on the audit of the Pension Fund accounts for 2014/15.

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 Code of Practice (The Code).

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 2015.

SCOPE OF THE EXTERNAL AUDIT

4. 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

5. 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

6. 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 were no required adjustments to the Pension Fund accounts as a result of the audit testing.

7. In relation to accounting and internal control systems, Deloitte have made one best practice recommendation regarding frequency of management reviewing reconciliation of fund manager and custodian to ensure management are confident in the pricing of Pension Fund asset valuations being reported throughout the year.

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.

HILLINGDON
LONDON

London Borough of Hillingdon Pension Fund

Report to the Pension and Audit Committees on the Year Ended 31 March 2015 Pension Fund Audit

the Distinctive audit

10 September 2015

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The big picture

The Big Picture

We have pleasure in setting out in this document our report to the Pension and Audit Committees of the London Borough of Hillingdon Pension Fund for the year ended 31 March 2015 for discussion at the meetings scheduled for 23 and 24 September 2015 respectively. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2015.

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

Status 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.

We have substantially completed our audit in accordance with our Audit Plan, which was presented to you prior to the commencement of the audit, subject to the satisfactory completion of the matters set out below:

- Completion of final review process on the annual report;
- Receipt of signed management representation letter (see appendix 1); and
- Update of post balance sheet event review.

We will report to you orally 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, we expect to issue an unmodified audit opinion.

"I am delighted to present our final report on the findings from our 2014/15 audit."

Heather Bygrave, Audit Partner

A reminder of our audit plan:

- Materiality: £8.0m (2013/14: £7.3m).
- Threshold for reporting misstatements: £0.401m (2013/14: £0.363m).
- Significant risks over contributions, benefits, investments and management override of controls.

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/or disclosure matters within the financial statements.

Completeness and accuracy of contributions
Significant audit risk

Nature of risk

Unlike the positions in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.

Impact on the financial statements and our audit challenge

Errors in processing contributions can lead to issues such as non-compliance with the Schedule of Contributions and 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 at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly;
- we performed 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 changes in contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level.

Deloitte view

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

Valuation of investments
Significant audit risk

Nature of risk

The scheme had investments of £801m as at 31 March 2015 and therefore a small degree of error in their valuation represents a significant risk of material misstatement.

This risk is compounded given the use of investments in unquoted investment vehicles, like private equity houses, and the use of derivatives within the scheme.

Private equity funds are complex to value and include an element of judgement on the part of the investment manager. In addition, further amounts are invested in managed funds which are complex to value due to the difficulty in visibility of the underlying investments.

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 risk around investments:

- we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly;
- we have reconciled the total value of the investments held by the Fund as reported in the investment report from Northern Trust to the value of investments reported in the Net Assets Statement;
- we have compared the valuations provided by Northern Trust to the reports provided by the investment manager;
- we have performed a test of detail on a sample basis of quoted investment and compared the value reported by the Northern Trust to the quoted price obtained from Bloomberg, DataStream or other third party sources;
- we have performed a test of detail on a sample basis of the unquoted pooled investments to the valuations received from the external investment managers;
- we have performed analytical review procedures to assess the reasonableness of the change in market value of investments; and
- consulted with our internal financial instrument specialists to ensure our testing approach was appropriate given the Plan's specific investment strategy and portfolio.

Deloitte view

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

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.

Further changes have been implemented in 2014 which required the move to career average as the basis for calculation of benefits, effective from 1 April 2014.

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, scheme rules and benefit choices made by the member;
- confirmed that the Fund Account movements were consistent with membership movements by agreeing movements back to member documentation to verify the movement has been approved and recorded correctly; and
- we developed an expectation of pensions payable 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

Upon successful completion of our work with respect to member movements held, we expect to form a conclusion that we have no matters we wish to bring to the attention of the Committees.

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 UK pension regulations.

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 Committees.

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 audit committee.

Risk management and internal control systems

As set out in the "Briefing on audit matters" provided in the prior years, for controls considered to be 'relevant to the audit' we have evaluated the design of the controls and determined whether they have been implemented ("D&I"). We have taken a substantive approach to the audit and have not tested the operating effectiveness of controls. Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Plan.

Risk management and control observations

We discuss below the internal control matters that have come to our attention during the audit:

Review of Internal Controls Reports of Investment Managers

The Fund outsources its fund management and custodian operations to third parties. It is common for such service providers to commission reports on their internal control systems from their auditors. Such reports often comment on the operating effectiveness of the internal controls and highlight any exceptions noted as a result of the testing carried out which is documented below:

For all of the below reports, the Reporting Accountant's Report was unqualified except for those exceptions highlighted below.

Bridging letters were obtained for periods between the sign offs of the AAF reports and the period under audit with no issues noted.

Service Provider	Year End	Opinion qualified.	Controls operating effectiveness testing performed by external auditor?	Number of Exceptions
Adams Street Partners	No internal control report issued			
AEW UK Investments	31-Dec-14	No	Yes	2
Capita Hartshead	31-Dec-14	No	Yes	9
GMO	5-Oct-14	No	Yes	1
JP Morgan Asset Management	31-Mar-15	No	Yes	5
Kempden International Investments	31-Dec-14	No	Yes	10
LGT Capital Partners	31-Dec-14	No	Yes	2
M&G Investments	No internal control report issued, refers to custodian report issued by State Street Global Advisers, summarised below			
Macquarie Investments	Report is not audited and does not report specific exceptions			
Newton Asset Management	30-Sep-14	No	Yes	2
Northern Trust	31-Mar-15	No	Yes	13
Permira Credit Solutions	No internal control report issued, refers to custodian report issued by Northern Trust, summarised above			

Risk management and internal control systems (continued)

Service Provider	Year End	Opinion qualified.	Controls operating effectiveness testing performed by external auditor?	Number of Exceptions
Ruffer LLP	31-Mar-15	No	Yes	3
State Street Global Advisors	30-Jun-14	No	Yes	3
UBS	31-Dec-14	No	Yes	4

Key:

No exceptions noted in the report

Except for qualification

Qualified report

For Adams Street Partners and Macquarie Investments, which do not issue an audit control report, we have held conversations with the investment manager to discuss their control environment as well as reviewing the control report of their custodian.

We note that the identified exceptions above are regarding appropriate timely reviews or IT controls which we do not consider to have a significant impact on the adequacy of controls present within the Scheme as a whole, neither do they have an impact on the valuation of investments.

We recommend management regularly review the control reports issued by its service organisations, particularly the exceptions raised and satisfy themselves that the exceptions do not relate specifically to the Fund and that necessary controls are in place to secure high performance of the service organisations' duties.

Differences between custodian and investment manager valuations

We identified that there were a number of differences between the valuations provided by the investment managers and that provided by Northern Trust. These differences offset to an amount that was below our threshold for reporting uncorrected misstatements. We understand that management perform an annual reconciliation to ensure from a risk perspective they are comfortable with the differences, however we recommend management perform more regular reconciliations between these two different sources as there is a risk that these differences fluctuate throughout the year.

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 and Audit Committees 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; and
- Our internal control observations.

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 board.
- In addition, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management, the administrator or by other specialist advisers.
- Finally, our views on internal controls 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.
- This report should be read in conjunction with Briefing on Audit Matters which has been distributed in prior years.

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

St. Albans

10 September 2015

This report has been prepared for the Pension and Audit Committees, as bodies, 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/RLG/2015*** ***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 2015 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 2014/15, the financial transactions of the Pension Fund during the year ended 31 March 2015, and the amount and disposition of the Fund's asset and liabilities as at 31 March 2015, 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 Statement of Recommended Practice – Financial Reports of Pension Schemes (revised May 2007) ("Pensions SORP 2007"), Code of Audit Practice on Local Authority Accounting in the United Kingdom in 2014/15: 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 2015 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 2015 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 £401,000 (2014: £363,000) for the financial statements. There are no such misstatements that we would like to bring to the attention of the Committees.

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 noted as part of our audit.

Appendix 3: 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 inquiries 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 Trustee:

1. Whether the Trustee have knowledge of any fraud, alleged or suspected fraud
2. The role that the Trustee 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 Trustee's assessment of the risk that the financial statements may be materially misstated because of fraud.
4. Whether the Trustee have disclosed to us all information in relation to any fraud, alleged or suspected fraud

Representations from the Committees in this area is included in the draft letter of representation attached as Appendix 1.

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 2015 accounts was £21,000 plus disbursements and VAT (2014: £21,000).
Non-audit services	In our opinion, there are no inconsistencies between APB Ethical Standards for Auditors and the plan's policy for the supply of non-audit services or of 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 advise as necessary.
Relationships	There are no business or personal relationships to report.

Appendix 5: Topical matters in the Pensions World

For reference, the following developments in financial reporting or regulatory matters may impact the financial statements and operations of the Scheme:

VAT

VAT remains a key issue for pension funds and their sponsoring employers. Pension funds often pay the wrong amount of VAT because the rules are increasingly complex and often misunderstood.

Whilst it is likely that VAT legislation will rumble on for some time, there are a number of steps that a pension fund and its sponsoring employer should be taking now.

HM Revenue & Customs issued two briefs on 26 November 2014 – 43/14: VAT on pension fund management costs and 44/14: VAT treatment of pension management services, by way of updated guidance following the CJEU judgements in Fiscale Eenheid PPG Holdings BV and ATP Pension Services (ATP).

Employer/pension fund arrangements

The European Court decision in Fiscale eenheld PPG Holdings BV cs te Hoogezand (PPG) suggests that there may be significantly more scope for employers to recover VAT for costs incurred in connection with the operations of a pension fund.

In HMRC's brief addresses the following themes:

- The factors to be considered relevant when deciding whether pension-related services can actually be viewed as supplied to the employer include: (i) the payment and invoicing arrangements, (ii) "contemporaneous evidence" that the services are provided to the employer, and (iii) whether the employer is a party to the contract for services;
- In a departure from their prior position, HMRC now accept that there are no grounds to differentiate between costs incurred in the administration of a pension scheme and the management of assets; and
- HMRC view any recharges by an employer to the pension scheme as consideration for an onward taxable supply and consideration that VAT should be charged accordingly.

Liability

The European Court recently found in ATP Pension Services A/S (ATP) that defined contribution (DC) schemes should be treated on a par with other 'special investment funds'.

In the brief HMRC accepts that eligible pensions funds that many services provided by their managers or administrators should be, and always should have been, exempt from VAT. Trustees will need to determine whether any irrecoverable VAT has been incurred and take appropriate protective steps.

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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 2015.

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 2015.
2. The Local Government Pension Scheme Annual Report – work is ongoing however it is expected to issue an unqualified opinion on the Council's pension scheme annual report for the year ended 31 March 2015.
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 2015.
4. Whole of Government Accounts – it is planned to issue a report that the consolidated return is consistent with the statutory accounts prior to the reporting deadline of 2 October 2015.
5. Grants Certification – there will be a separate letter on grant certification issued to Audit Committee at the end of 2015.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

London Borough of Hillingdon

Draft annual audit letter to the Members of the Council for the year ended 31 March 2015

10 September 2015

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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 2015. The letter is to be published on the Council's website.

Below are the conclusions we have formed on the significant areas of the audit process.

The Council's financial statements	Assuming the satisfactory completion of our remaining procedures, which include review of final financial statements, receipt of management representation letter and completion of subsequent events review, we intend to issue an unqualified opinion on the Council's financial statements for the year ended 31 March 2015.
The Council's local government pension scheme annual report	Assuming the satisfactory completion of our remaining procedures, which include review of final financial statements, receipt of management representation letter and completion of subsequent events review, we intend to issue an unqualified opinion on the Council's pension scheme annual report for the year ended 31 March 2015.
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 2015.
Whole of Government Accounts return	We intend to meet the National Audit Office reporting deadline of 2 October 2015. 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 upon completion of this work, 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 2015, 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 £466.7m for the year (2013/14: £475.6m). Our testing concluded that grant income recognition is appropriate.
Recording of capital spend	We identified this as a significant risk because of the size of capital spend in the financial year (£63.8m compared with £81.2m in 2013/14) 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 have not identified any improper use of accounting estimates or judgements.
Valuation of pension liability	The pension liability is substantial and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. The assumptions used in the valuation of the liability fall within a tolerable threshold, albeit on the prudent side.
Revaluation of properties	Property valuation has been identified as a risk because of the size of the property balance in relation to the overall financial statements, and because any valuation is subject to estimates and assumptions. Our testing has concluded that the assumptions used in the valuation of the property portfolio are within an acceptable threshold.
Accounting for schools	The 2015 Accounting Code requires local authority maintained schools (community, voluntary aided, voluntary controlled and foundation) to be treated as entities for financial reporting purposes in accordance with IFRS 10, which creates an area of judgement as both control and ownership are required in order to meet the capitalisation criteria of this standard. Our testing concluded that the recognition, or the derecognition, of schools has been performed in accordance with the 2015 Accounting Code.

We did not identify any significant issues arising from these areas and we consider management's judgements to be reasonable.
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 primarily with respect to fixed asset valuations.

Key issues arising from the audit of the Pension Fund annual report

We will report our findings on the audit of the Pension Fund 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 WGA ahead of the 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 2015
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 2015; 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 2015

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**)	210.6	210.6
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	21.0
	231.6	**231.6**
Fees payable for the certification of grant claims	66.4	45.3
Total fees payable in respect of our role as Appointed Auditor	**298.0**	**276.9**
Non audit fees		
Deloitte Real Estate contract monitoring engagement (**Note 1**)	10.0	53.6

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 2: The fee of £210,600 includes a fee of £3,450 (2013/2014: £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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Corporate Fraud Investigation Team Progress Report April to August 2015

Contact Officers: Garry Coote
Telephone: 01895 250369

REASON FOR ITEM

To inform members of the work undertaken by the Corporate Fraud Investigation Team (CFIT) from April to August 2015.

OPTIONS AVAILABLE TO THE COMMITTEE

The Committee is asked to consider and note the Corporate Fraud Investigation Team report.

INFORMATION

1. Roles and Responsibilities

The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. The work of the Corporate Fraud Investigation Team (CFIT) supports this by providing efficient value for money anti-fraud activities and investigates all referrals to an appropriate outcome. The Team provides support, advice and assistance on all matters of fraud risk including prevention, fraud detection, other criminal activity and deterrent measures.

Corporate Fraud Investigation Team activities since April 2015 included:

- Social Housing fraud
- Council Tax/Business Rates inspections
- Single Person Discount (SPD)
- Temporary Accommodation and Housing Needs Reception
- Right to Buy investigations
- Proceeds of Crime investigations
- Housing Waiting List
- Enhanced Recruitment Verification
- Blue Badge
- Procurement fraud
- Mobile working
- Council Tax Reduction Scheme (CTR)

2. Corporate Fraud Investigation Team Objectives

The Corporate Fraud Investigation Team aims to maximise income and reduce expenditure for the Council. The team intends to detect and prevent fraud across all Council activities and when appropriate prosecute offenders. The results of the work of the CFIT will ensure Hillingdon is able to achieve the objective of putting residents first.

3. Performance Outcomes April – August 2015

3.1 Social Housing Fraud

In October 2013 the Government passed legislation to criminalise sub-letting fraud. On conviction, tenancy fraudsters face up to two years in prison or a fine. Hillingdon will use these powers to prosecute suitable cases.

The CFIT investigates suspected cases of social housing fraud which are identified either by direct referral from Housing Officers, data matching exercises or telephone calls to the fraud hotline. Since April 2015 the CFIT has recovered 32 properties which are now available to be re-let to residents in genuine housing need.

The Audit Commission, in their report 'Protecting the Public Purse 2014' estimated that nationally it costs councils on average £18,000 a year for each family placed in temporary accommodation. Using this calculation the savings for Hillingdon this year are £540,000. The target set by CFIT for 2015/16 is to recover 52 properties (1 a week). To date in 2015/16 this target has been exceeded.

In total since the commencement of this project in 2010 the CFIT have recovered 218 properties which using the Audit Commission calculation equates to savings of just over £3.92 million.

To promote this project the Blow the whistle on Housing Cheats poster appears in Hillingdon People, this helps to generate calls to our fraud hotline, all referrals are fully investigated.

Examples of combating social housing fraud are also publicised in Hillingdon People. These articles often describe the improved quality of life for Hillingdon residents who have been allocated the tenancy of a recovered property. This generates positive feedback from residents and encourages reporting of suspected social housing fraud.

To increase awareness of social housing fraud the Corporate Fraud Investigation Team will be promoting their work at residents meetings in 2015/16 as part of the forward work programme.

A new initiative for 2015/16 has involved working in partnership with Registered Social Landlords (RSL's). The CFIT are in the process of matching data from two RSL's with a Credit Reference Agency to identify fraudulent sub-letting. The CFIT are working with RSL's to investigate individual cases. In return for delivering this service RSL's have committed to ensuring that all recovered properties will be exclusively made available to Hillingdon Council, thereby helping to reduce housing pressures. As this project develops the CFIT will engage with more RSL's to increase the scope of the initiative.

This model being used for this project is unique to Hillingdon. The CFIT are leading the process in terms of the recovery of properties and all the investigations. Other authorities have used a different approach where RSL's have taken the lead, resulting in underperforming projects. By taking the lead in Hillingdon the CFIT is able to ensure that they drive the project, based on their previous experience, to achieve positive results.

The CFIT Social Housing Fraud project was recently reviewed by the Corporate Services and Partnerships Policy Overview Committee who produced 7 recommendations. These recommendations have been reported to Cabinet. The Cabinet welcomed the Committee's positive findings and endorsed the following recommendations:

(1) That the Corporate Fraud Investigations Team be congratulated for the work they have carried out in relation to the detection of Social Housing Fraud and for the reclaiming of housing resources for residents of the Borough.

(2) That officers be asked to approach other Registered Social Landlords (Housing Associations) which provide social housing for residents of the Borough to enable investigations to take place into any potential Social Housing Fraud.

(3) That officers be asked to investigate those measures which were raised during the review to make unsuspecting sub-letters aware if they were about to rent a social housing property.

(4) That consideration be given to the Council applying for Compensation Orders when people are convicted of Social Housing Fraud, to enable compensation to be paid to the victims of this crime.

(5) That officers be asked to consider witnesses counter-signing tenancy agreements for social housing tenants and to send annual reminders to tenants explaining their responsibilities under their tenancy agreements.

(6) That training is offered by Council officers to local Magistrates on the complexities involved in social housing and on the issues which local authorities face as social housing landlords.

(7) That officers be asked to include a Social Housing Fraud Policy within the Council's Anti-Fraud Strategies and Policies.

The above recommendations will be implemented and members will be updated on future progress reports.

Table 1 shows the number of properties recovered monthly and the notional savings achieved based on the Audit Commission calculation.

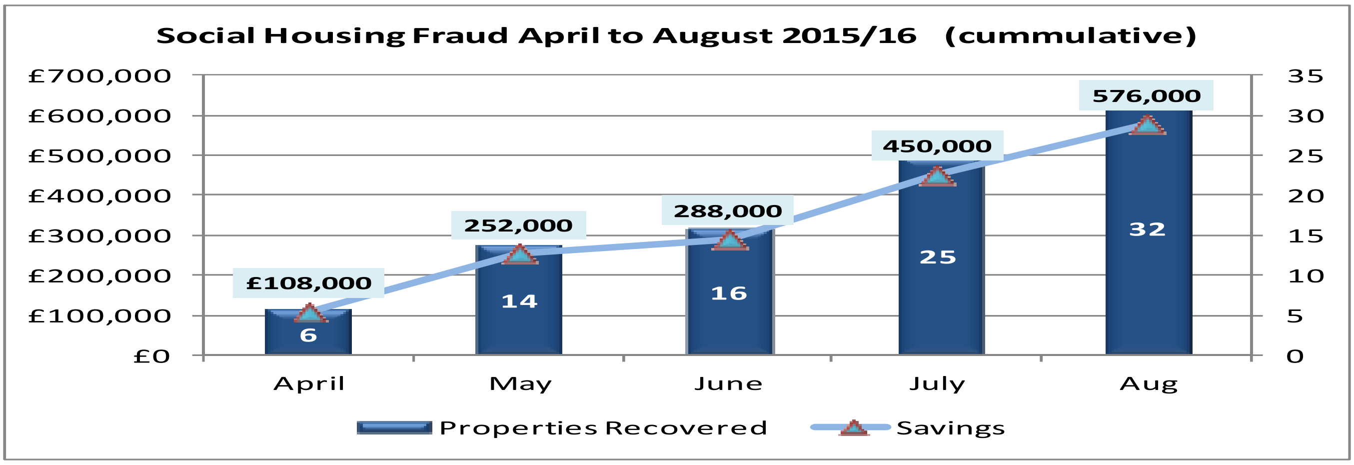
Table 1

Social Housing Fraud – number of properties recovered and savings achieved											
2015/16											
April		May		June		July		Aug		Total	
Number	Savings	Number	Savings	Number	Savings	Number	Savings	Number	Savings	Number	Savings
6	£108k	8	£144k	2	£36k	9	£162k	7	£126k	32	£576k

*The Audit Commission estimates that every property recovered represents a saving of £18,000

Chart 1shows the cummulative properties recovered and saving since April 2015.

Chart 1



3.2. Council Tax and Business Rates Inspections

The inspection role for Council Tax and Business Rates within the Corporate Fraud Team is crucial in terms of maximising the Councils revenue income.

This year from April to August 5,279 visits have been carried out. The visiting programme is very intense and officers are trained in all areas of work to ensure an efficient and planned approach to all visits.

Council Tax Inspections are generally reactive and identify the status of those claiming discounts and exemptions. Where the visit establishes the wrong amount of Council Tax is being charged the account is changed and the person re-billed. 3,190 Council Tax inspection visits have been made from April to August 2015.

Business Rate inspection visits are carried out to check occupation status of commercial premises to ensure the Council maximises the non domestic rate revenue. Similarly, the new build visits are carried out to ensure properties are rated for domestic or business rates as soon as they are completed. It is estimated that for the 2 year period from April 2014 there will be approximately 1,400 new build properties being developed in Hillingdon. This represents a significant amount of additional revenue. 2089 visits have been made between April and August 2015 to check Business Rates and New Build Inspections.

The robust visiting programme continues in 2015/16 working with internal partners such as planning to monitor new developments with the aim of maximising revenue potential.

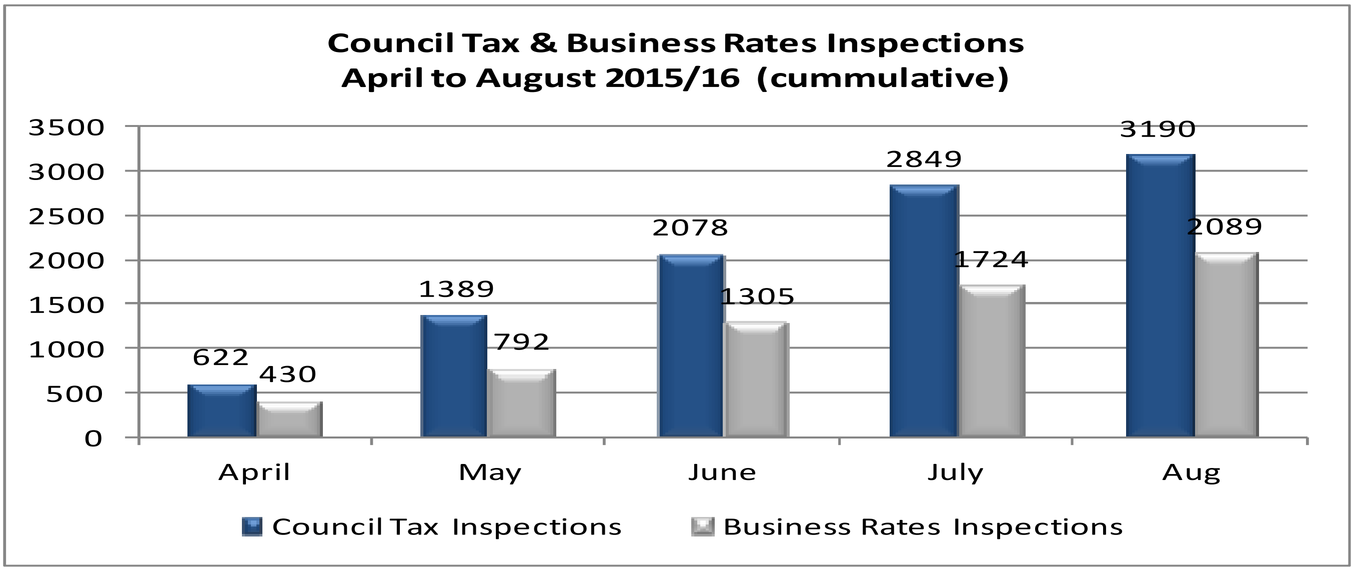
Table 2 and chart 2 show the number of visits carried out each month since April 2015.

Table 2

Council Tax and Business Rates Inspections							
	2015/16						
	April	May	June	July	Aug	YTD	Income*
Number of Council Tax Inspections	622	767	689	771	341	3,190	Increase in CT revenue
Number of Business rates and New Build Inspections	430	362	513	419	365	2,089	Increase in Business Rate/New Build revenue

*Data is not specifically recorded of the increased revenue from CFIT inspections. This additional income contributes to the overall Council Tax and Business Rates revenue.

Chart 2



3.3 Single Person Discount (SPD)

The CFIT have been working on a project since January 2015 to identify incorrect claims for Single Person Discount. The project is producing very positive results in terms of reducing the number of SPD claims and generating additional income to the Authority. There are currently 30,200 SPD claims in Hillingdon. Since the commencement of this project SPD numbers are the lowest they have been for the last five years.

The CFIT are operating 3 work streams to match internal data sources against SPD claims.

Under the first work stream SPD records are being matched against Hillingdon First cards issued since April 2014. The matching exercise establishes if more than one person is registered for a Hillingdon First card at an address where SPD is being claimed. To date 86

SPD cases have been stopped resulting in an overpayment of £45k which will be recovered as additional revenue.

The second work stream concerns 'notices of the intention to marry' submitted to the Registrar's Office. Couples have to include their current residence on these applications and these details have been matched to SPD claims. Records from April 2014 are being checked and to date 55 cases have been identified resulting in an overpayment of £47k which will be recovered.

The third work stream involves data matching SPD records with the Electoral register. To date 225 cases have been identified resulting in an overpayment of £178k for recovery.

If a suspected SPD fraud is identified the CFIT carries out additional background checks on the claimant, such as housing records, benefit records, school records and Equifax online credit reference checks. A member of the CFIT then contacts the claimant either by telephone, letter or personal visit to discuss the claim and the evidence indicating fraudulent activity. In most instances as a result of this contact claimants choose to resolve matters swiftly and make arrangements to repay the Council any monies they have previously claimed in discount. They are keen to settle the matter and avoid any repercussions.

Since April 2015 the CFIT team have commenced a significant data matching exercise with a credit reference agency called Experian. This exercise matches all our SPD claims with credit reference information to establish if applications for SPD are genuine. The matches have been rated into categories of high, medium and low depending upon the likelihood of an incorrect SPD claim. Officers from the CFIT are investigating all relevant cases. To date 37 SPD cases have been stopped resulting in a saving of £38k. It is planned to review the data matches by the 31st December 2015.

We have also run some additional in house reports to compare information on different systems and this has identified a further 189 cases resulting in savings of £82k.

Since January 2015/16 the CFIT have cancelled 592 SPD claims resulting in overpayments of £390k as shown in table 3.

Table 3

Council Tax - Single Person Discount – since January 2015		
Workstream	Number of claims stopped	Overpaid SPD
Hillingdon First Card data matching	86	£45k
Notices of intention to marry checks	55	£47k
Electoral registration data matching	225	£178k
Experian credit reference agency data matching	37	£38k
In-house data matching reports	189	£82k
Total	**592**	**£390k**

Charts 3 and 4 show summaries of the SPD overpayments and the number of household where claims have been cancelled from the intervention of the CFIT.

Chart 3

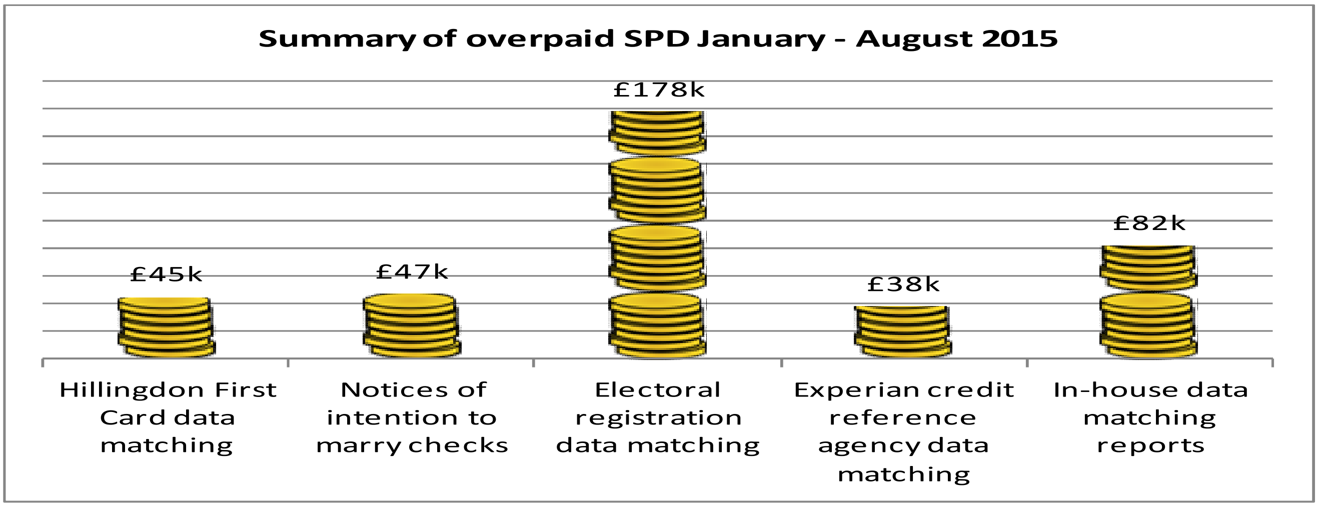
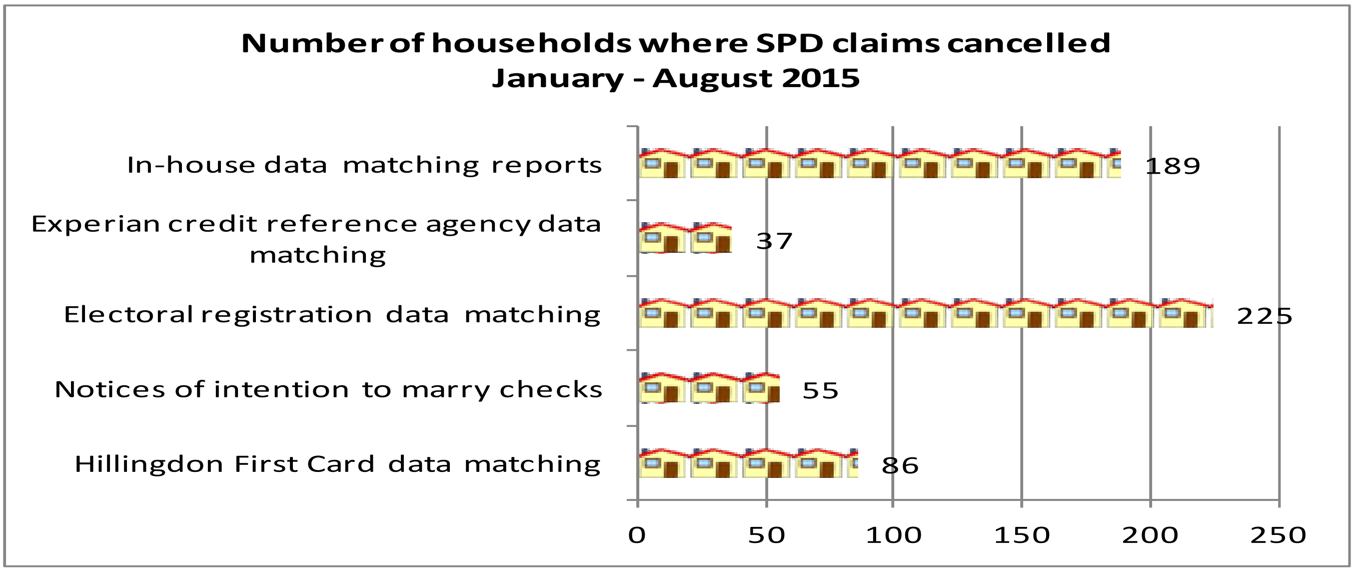


Chart 4



In cases where there is evidence of serious fraud the CFIT will look to pursue the prosecution of the claimant.

A new poster has been designed to raise the profile of Single Person Discount abuse. The poster will appear in issues of Hillingdon People and notice boards around the Borough.

3.4 Temporary Accommodation & Housing Needs reception.

The aim of this project is to prevent illegal claims for housing from people that do not qualify for housing support from Hillingdon. This means people who are misrepresenting themselves as homeless and therefore do not have a genuine housing need.

The CFIT carries out unannounced visits to Bed & Breakfast/Temporary Accommodation to verify residency. Since April 2015 through the work of the CFIT 2 cases have been cancelled This represents a saving of approximately £574 a week. The average duration of a bed & breakfast placement is 13 weeks. Therefore on these 2 cancellations alone approximately £7,462 will be saved through this activity.

The CFIT are working with Housing Officers to identify applicants where there is a suspicion that a fraudulent claim has been made. This could include applicants submitting false wage slips in an attempt to verify economic activity. This would indicate financial independence which is a condition for some claimants to secure a tenancy and increase welfare benefits. Another example is where people falsely claim they are being evicted from an address in Hillingdon when they have never actually been a resident at this address. They are often giving this fraudulent information to attempt to meet the 10 year residency rule. Officers from the CFIT have trained Housing Officers on the identification of possible fraudulent claims. These cases are then referred to the CFIT for investigation.

Since April this year 2 applicants have withdrawn their claim for housing support as a result of contact with the CFIT.

From April 2015 the CFIT has expanded this work to verify the claims of people awaiting permanent accommodation to verify they are still eligible and their circumstances mean that they have a genuine housing need. To date 288 requests for verification have been passed to the CFIT. Of these 275 verification visits have taken place of which 58 (21%) require further investigation to confirm eligibility.

Table 4

Temporary Accommodation & Housing Needs Reception		
	YTD 2014/15	Savings per week
Temporary Accommodation Cancelled	2	*£574
Number of cases withdrawn after CFIT contact	2	

*Average B&B placement = 13 weeks calculates to £7,462

3.5 Right to Buy

Right to Buy applications are verified by the Corporate Fraud Investigation Team. Since April 2015 the CFIT have carried out 49 Right to Buy verifications, following CFIT involvement 4 applications have been rejected.

Two of these cases concerned tenants who had applied for mortgages whilst still claiming housing benefit. Cross referencing the income details on their housing benefit application with mortgage brokers identified that they were making false income statements and the mortgage offers were withdrawn. The other two cases cancelled their application following our visit.

We have also introduced our own additional Right to Buy application form to ensure that the verification process captures all the available information.

Table 5

Right to Buy		
	2015/16	
	YTD	Savings
Number of Right to Buy verifications	49	
Number of applications rejected	4	**£336,850** **(discount)**

3.6 Proceeds of Crime Investigations (POCA)

The role of the Accredited Financial Investigator within the Corporate Fraud Team is crucial in the fight against fraud. The aim is not only to prosecute serious offenders but also to look at recovering additional monies where the offender has benefited financially from their crimes and a criminal lifestyle can be demonstrated.
These investigations are complex and are often challenged by the offender which results in lengthy legal processes. Therefore it may take many months for a case to reach court and a confiscation order agreed and paid.

Since April 2015 the CFIT have been working on 11 investigations of which 7 are currently before the courts. Confiscation orders have been obtained in a number of cases and Hillingdon will receive 37.5% of the amount awarded under the Home Office Incentivisation scheme. Since 1st April 2015, offenders have paid £111,536 towards their confiscation orders. Hillingdon will receive its incentivisation amount of £38,076 on the 30th September 2015, with the remaining £3,750 due on the 31st December 2015.

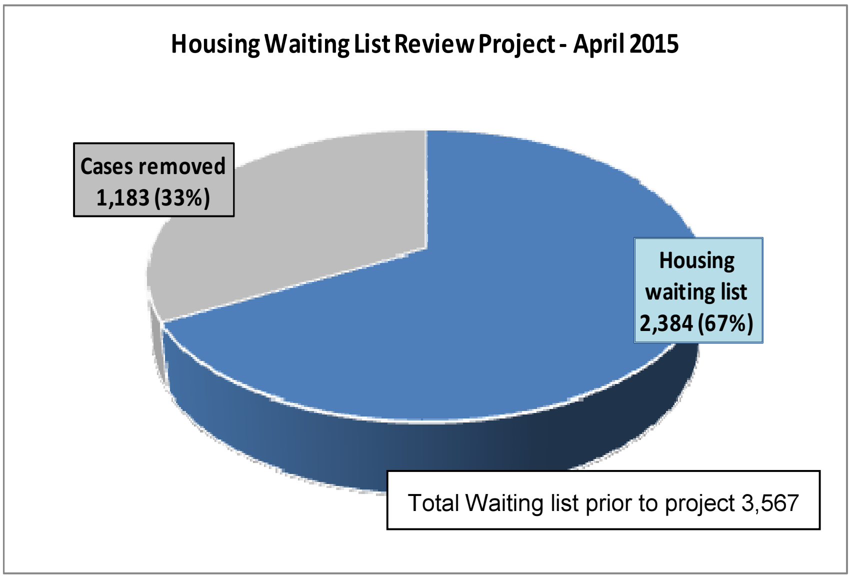
Since the 1st June 2015 a Planning Enforcement Officer has been working with the CFIT Financial Investigator on a part-time basis to ensure effective identification of cases where planning regulations have been breached. All breaches of Planning Notices since April 2013 are being considered by this project. A number of cases are being reviewed in order to assess their suitability for confiscation proceedings under the Proceeds of Crime Act 2002.

For 2015/16 the CFIT will be examining other areas across the Council in which POCA can be applied.

3.7 Housing Waiting List

A project was set up by the CFIT in April 2015 to review the current Housing Register Waiting List, at that time there were 3,567 people on the waiting list. The purpose of the project was to identify through checking council records, such as Council Tax information and electoral registration, people on the waiting list who were no longer entitled to Social Housing. Their circumstances had either changed or they provided false information on their application. Removing these people from the waiting list means that the Council will have an accurate data relating to current social housing needs for effective forward planning.

Chart 5



Since the project commenced on 27th April 2015, the CFIT reviewed all cases. Cases where a change was readily identifiable were targeted for investigation and if they were no longer eligible they were removed. This has meant that 1,183 applicants have been removed from the waiting list. In the process of this exercise the CFIT has also identified 13 cases where the household has been incorrectly claiming Single Person Discount for Council Tax which totals £9.5k. This review project will be ongoing in 2015/16 to carry out enhanced checks on the remaining cases on the waiting list.

3.8 Enhanced Recruitment Verification

HR are preparing a report for approval by the Corporate Management Team to commence a pilot project where the CFIT will carry out enhanced checks to verify identity, qualification, education documents and employment history. This will ensure eligibility to work and effective recruitment. The CFIT has previously identified staff through routine data matching who were ineligible to work because of their immigration status. Expanding these checks in the recruitment process would prevent the future employment of fraudulent applicants.
This would prevent damage to the Councils reputation, reduce unnecessary recruitment costs and ensure the appointment of suitably qualified staff.

3.9 Blue Badge

In July we carried out an exercise with the Police to check the correct use of Blue Badges in Hayes Town Centre. Two cases were identified where the Blue Badge was being used by someone other than the Blue Badge Holder. We are reviewing the circumstances of these cases to see if they are suitable for prosecution.

On the day of the checks Residents thanked Officers for undertaking this exercise which they thought should be repeated. Further exercises are planned throughout the year.

An article will appear in Hillingdon People reminding residents of the conditions of using the Badge and also about the random checks that we will be carrying out.

3.10 Procurement fraud

In January 2015 the CFIT secured £112,500 funding, through a bid process, from the Government to investigate procurement fraud in partnership with the Police. In 2015/16 a project will be developed with the Police to establish methods to detect and investigate procurement fraud effectively to maximise results.

To date we have matched all our Procurement Supplier information with the Police suspicious activity reports, often referred to as SARs. This data holds records on people and companies where there would appear to be some suspicion on their creditability. This data match did not identify any cases that need to be investigated.

We are still working with the Police to see if there are any other matches we could undertake.

3.11 Mobile working

Work is underway with ICT to scope appropriate mobile technology to support CFIT operations. This would enable CFIT officers to work with live information, increasing productivity and effective communication. The implementation of this new technology will enable CFIT Officers to enter verification visits information from their laptops directly into the main computer systems in the civic centre. This will mean that the Housing service will have accurate information to inform decision making process and allocations. Testing of this technology will take place in September. Once this system has been tested and is operational it could be rolled out to other functions within the Council.

3.12 Council Tax reduction scheme (CTR)

The CFIT is currently reviewing CTR claims against the national fraud initiative data matches. All cases where anomalies are identified will be investigated and appropriate action taken. Results from this exercise will be reported in the next CFIT performance report.

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IA Progress Report for 2015/16 Quarter 2 (including the Quarter 3 IA Plan)

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 2015/16 IA Plan and assurance in this respect during the Quarter 2 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 enables the Audit Committee to hold the Head of IA to account on delivery of the 2015/16 IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity.

The attached report also presents the Audit Committee with the Quarter 3 IA Plan which has been produced in consultation with senior managers. The Plan sets out the programme of IA coverage which is due to commence in the 1st October to 31st December 2015 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2015/16 Quarter 2 (24th June to 16th September 2015) and consider the Quarter 3 IA Plan for 2015/16 and, subject to any further minor amendments, approve it.

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.

The PSIAS, which came into force on the 1st April 2013, 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 (AGS).

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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INTERNAL AUDIT

Progress Report to Audit Committee for 2015/16 Quarter 2 (including the 2015/16 Quarter 3 IA Plan)

24September 2015

HILLINGDON
LONDON

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 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.

1.1.2 The UK Public Sector IA Standards (PSIAS) defines the nature of IA and sets out basic principles for carrying out IA within the public sector. The PSIAS help the Council to establish a framework for providing IA services, which adds value to the organisation, leading to improved organisational processes and operations.

1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

1.2.1 This progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all 2015/16 IA assurance, consultancy and grant claim verification work covered during the period 24th June to 16th September 2015. In addition, it provides an opportunity for the Head of Internal Audit (HIA) to highlight any significant issues arising from IA work in Quarter 2. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 2 IA plan since its approval in June 2015 (refer to **Appendix B**).

1.2.2 A key feature of the Quarter 2 IA progress report is the inclusion of the Quarter 3 IA plan (refer to **Appendix C**). This has been produced in consultation with senior managers over the last few weeks and sets out the planned programme of IA coverage due to commence in the 1st October to 31st December 2015 period.

2. Executive Summary

2.1 Since the last IA Progress Report on 24th June 2015, **7 assurance reviews** have been completed to final report stage, **7 consultancy reviews** have concluded and **3 grant claims** have been reviewed.

2.2 IA work on the 2015/16 Quarter 2 IA plan commenced on 1st July and work is underway on all Quarter 2 planned work including **4** additional requests for work (refer to **Appendix B**). Reasonable progress has been made on the IA plan this quarter, although following the departure of the Assistant IA Manager to progress their career in Central Government, IA capacity during this period has been reduced.

2.3 Key assurance reviews finalised this quarter have included **Deprivation of Liberty Safeguards** and **Disabled Facilities Grant and Adaptations** reviews. Both reviews were requested by the respective Corporate Directors and resulted in **LIMITED** assurance opinions being given. Positive management action has been proposed to address the **MEDIUM** risk recommendations raised, although the relevant Head of Service has opted to 'Tolerate' one of the eight **MEDIUM** risk recommendations in relation to the Disabled Facilities Grant and Adaptations audit.

2.4 Hillingdon schools remain a key focus of IA work, with thematic assurance reviews of Pupil Premium Funding and Supply and Agency Staffing in schools having been covered this quarter. The thematic review process continues to receive positive feedback from schools, as highlighted in section 4 of this report.

2.5 The Housing Benefit Subsidy Grant Claim has been a significant piece of work for us this quarter. IA also continues to undertake a variety of consultancy work across the Council.

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

3. Analysis of Internal Audit Activity in 2015/16 Quarter 2

3.1 Assurance Work in Quarter 2

3.1.1 All IA assurance reviews carried out in the financial year to date are individually listed at **Appendix A**. This list details the assurance levels achieved (in accordance with the assurance level definitions outlined at **Appendix D**) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at **Appendix D**). During this quarter **7** 2015/16 IA assurance reviews have been completed to final report stage, with **3** others progressed to draft report stage and the remaining reviews at planning or testing stage (refer to **Appendix A** for details).

3.1.2 Key assurance reviews finalised this quarter have included Deprivation of Liberty Safeguards (**DoLS**) and Disabled Facilities Grant and Adaptations (**DFGA**) reviews. For **DoLS** we raised **6** **MEDIUM** and **2** **LOW** risk recommendations. Our testing identified control weaknesses concerning insufficient capacity to undertake assessments in line with statutory timescales, which in turn restricts a service user's liberty if assessments are overdue. Management has proposed to address the **MEDIUM** risk recommendations.

3.1.3 For **DFGA** we raised **8** **MEDIUM** and **4** **LOW** risk recommendations and **1** **NOTABLE PRACTICE**. We identified control weaknesses in relation to a lack of effective communication as well as team and resource changes which have impacted on delivery of the service. This has created a backlog of cases which have resulted in statutory timescales being breached.

3.1.4 Management has proposed to 'Treat' 7 of the 8 **MEDIUM** risk recommendations and for one recommendation the Head of Service has opted to 'Tolerate' the risk. This specific recommendation was *"the current process for managing client contributions to adaptations should be reviewed, with options such as using Corporate Debtors to manage this being explored"*. Our view is where additional work such as debt collection is undertaken by staff involved in the adaptations process there is a risk of a potential financial loss, particularly as a central debt collection team already exists. However, the Head of Service view is that changing this process would unnecessarily complicate the Adaptations process; particularly given there have been no unpaid client contributions to date.

3.1.5 Other assurance reviews finalised this quarter included two schools thematic audits; Pupil Premium Funding (**PPF**) and Supply Staffing (**SS**). Both final reports provided **REASONABLE** assurance opinions and together in total raised **8** **HIGH**, **1** **MEDIUM** and **5** **LOW** risk recommendations and **6** **NOTABLE PRACTICE** observations.

3.1.6 For **PPF** we visited **8** schools and identified the main control weakness as the lack of statutory information available on school websites in relation to pupil premium spend. We also found some schools were not demonstrating how the funding has made a difference to the attainment of disadvantaged pupils. For **SS** we visited **6** schools and identified a control weakness where safeguarding checks were not always being recorded on the Single Central Register for supply and agency staff in schools. Positive management responses have been received from the relevant schools and we will follow-up these recommendations in due course.

3.2 Consultancy Work in Quarter 2

3.2.1 IA continues to undertake a variety of consultancy work across the Council. The consultancy coverage includes IA staff attending working and project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach continues to help increase IA's knowledge of corporate developments that feed into the risk based deployment of IA resource on assurance work.

3.2.2 Also, participation in working and project groups continues to help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council. Due to the nature of consultancy work, we do not provide an assurance opinion or formal recommendations for management action. However, as part of our advisory reports and memos we do provide specific observations and suggestions for senior management to consider.

3.2.3 Attached at **Appendix A** is a list of all consultancy work carried out in 2015/16 to date. Following the previous progress update to the Audit Committee on 24th June 2015, **7** further consultancy reviews have been completed and **5** other reviews are in progress.

3.2.4 IA has been liaising with management in relation to **Corporate Construction, Housing Planned Maintenance and Housing Repairs** in an attempt to provide advice on the new structures and processes being implemented. These areas were assessed as **HIGH** risk and it has been agreed with management that we will carry out an assurance review of each of these 3 areas during Quarter 3 (refer to **Appendix C**).

3.2.5 Following a request by the Deputy Chief Executive and Corporate Director of Residents Services, we conducted a 'mock audit' at Uxbridge **Mortuary** in preparation for their inspection by the Human Tissue Authority (HTA) on the 1st July 2015. We found there to be no significant gaps in the Council's compliance with the HTA Standards and a detailed summary was provided to assist management in their preparation of the inspection. Following our audit, we understand the HTA visit has taken place and were informed that the Mortuary passed their inspection with only a few minor issues raised by the HTA.

3.2.6 A consultancy review of **Stores Management** was completed following a request by the Deputy Director Residents Services. The review looked at the procedures for procuring, managing and distributing stocks and stores in an efficient, effective and economical manner. We have suggested that management consider consolidating their stock management systems to increase efficiency and reduce errors when stock is not being recorded on the system correctly. We also highlighted that controls surrounding the issuing of stock could be improved and we found some discrepancies in the fuel systems which warrant further enquiry by management. This review has been positively received by management and our improvement suggestions are being actively considered to strengthen controls and efficiencies in this area.

3.2.7 IA has been attending the **Troubled Families Project Group** meetings and providing advice as the Council enters into Phase 2 of the Troubled Families grant claim. We have been assisting in the development of a new database which will help identify families using data from several public body sources including DWP, the Police and the NHS.

3.3 Grant Claim Verification Work in Quarter 2

3.3.1 During this quarter IA has also assisted the Council's External Auditors (Deloitte ~ for 2014/15 grants), with a review of the Council's **Housing Benefit Subsidy Grant Claim**. This work has included:

- Module 2 - Up Rating
  Testing to help ensure the Council's Revenues and Benefits software is using the correct housing benefit parameters to calculate benefit entitlement;
- Module 3 - Workbooks
  Testing calculations and verifying evidence for an initial sample of 60 cases (HRA, Non HRA and Private Tenants); and
- Module 5 - Software Diagnostic Tool
  Testing to ensure the subsidy claim had been completed using recognised software for claim completion and reconciled benefit 'granted' to benefit 'paid' in accordance with the software supplier's instructions. IA documented evidence to verify that the Council had complied with a series of control questions relevant to the Council's Revenues and Benefits software.

3.3.2 The Housing Benefit Subsidy Grant Claim audit has been a significant piece of work for IA (approx. 30 IA days). However, the work we carry out in this area saves the Council considerable money by way of a reduced external audit fee in relation to grant claims. This type of approach also demonstrates good collaborative working between IA and external audit, as well as an effective and efficient use of IA resources.

3.3.3 As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families Grant**. Phase 2 was introduced this quarter and involves checking families against 6 criteria rather than 4 as previously. IA is in the process of testing 100% of troubled families that had been identified as being 'turned around' by the Troubled Families Team.

3.3.4 The Local Authority **Bus Subsidy Grant** for 2014/15 covers both commercial and non-commercial bus routes and is administered centrally by the Department for Transport. The Grant is the partial refund on fuel duty received from the government by operators of local bus services in England. IA is currently in the process of completing testing to confirm compliance with the conditions of the grant.

3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 2

3.4.1 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. Follow-up work within this quarter has been undertaken on all outstanding IA recommendations, in part by using the IA software module 'TeamCentral'. We also escalate outstanding recommendations to Corportae Directors where it is necessary to do so.

3.4.2 For the year **2014/15** there was **35 HIGH** and **147 MEDIUM** risk recommendations raised by IA. **117** of these recommendations have passed their target date, of which **116** have been confirmed by management as implemented, leaving only **1 MEDIUM** risk recommendation currently outstanding (work is actively ongoing by management to address this risk). For the year **2015/16** so far, there have been **8 HIGH** and **23 MEDIUM** risk recommendations raised by IA. A total of **6** of these recommendations have reached their target date, all of which have been confirmed by management as implemented. Overall this is **a very positive achievement by the Council in relation to managing these risks**.

3.5 Other Internal Audit Work in Quarter 2

3.5.1 In 2015/16 we have introduced **a quarterly approach to our risk based IA planning**. As a result, as well as providing a high-level estimation of where we expect to utilise our resources over the year, we now produce quarterly detailed operational IA plans in liaison with management. Over the last month we have produced the detailed operational IA plan for Quarter 3 (refer to **Appendix C**) in consultation with management. The quarterly planning cycle should help ensure that IA resources are directed in a more flexible and targeted manner to maximise the benefit to our stakeholders.

3.5.2 The **Quality Assurance & Improvement Programme** (QAIP) is designed to provide assurance that IA work continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring and improvement of IA activity. The QAIP developed in accordance with the IA Charter has been reviewed and updated, with improvement initiatives formally assigned to members of the IA team. Progress against the QAIP will be reported to the Audit Committee later in the audit year.

3.5.3 Following requests by the Interim Director of Children and Young Peoples Service (CYPS) and the Head of Business Improvement & HR, the IA team are providing support to assist with project work in these respective teams. Since June the Assistant IA Manager has been working with the CYPS senior management team on the implementation of its Service Improvement Plan.

3.5.4 The results of our Quarter 2 work that is still in progress will be reported in the Quarter 3 progress report due to be presented to the Audit Committee at its meeting on 15th December 2015.

4. Analysis of Internal Audit Performance in 2015/16 Quarter 2

4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and its stakeholders in helping measure how successful IA has been in achieving its strategic and operational objectives. For the 2015/16 year, IA will report quarterly to CMT and the Audit Committee on the 9 KPIs listed in the table below.

4.2 We believe that the 2015/16 IA KPIs are meaningful and will provide sufficient challenge to the IA 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 range of stakeholders. Actual cumulative IA performance against its KPIs in the 1st April to 16th September 2015 period is highlighted in the table below:

KPI Ref.	Performance Measure	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	**HIGH** risk IA recommendations where management action is taken within agreed timescale	**90%**	100%	**GREEN**
KPI 4	**MEDIUM** risk IA recommendations where management action is taken within agreed timescale	**75%**	75%	**GREEN**
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to **draft report** stage by 31st March	**90%**	78%	**RED**
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to **final report** stage by 31st March	**80%**	68%	**RED**
KPI 7	Percentage of draft reports issued as a final report within 15 working days	**75%**	86%	**GREEN**
KPI 8	Client Satisfaction Rating (from CFQs)	**85%**	87%	**GREEN**
KPI 9	IA work fully compliant with the UK **PSIAS** and **IIA Code of Ethics**	**100%**		

Key for above:

- CFQs = Client Feedback Questionnaires.
- PSIAS = Public Sector Internal Audit Standards.
- IIA = Chartered Institute of Internal Auditors (UK).

Key for future reporting on actual KPI performance:

- **RED** = currently this performance target is not being met (significantly [**>5%**] short of target performance).
- **AMBER** = currently not meeting this performance target (just short [**<5%**] of target performance).
- **GREEN** = currently meeting or exceeding this performance target.

4.3 IA KPIs 5 and 6 are not on track to be achieved as at 16th September 2015 due to a shortage of IA resource/capacity during quarter 2. This is mainly as a result of a vacancy within the IA service as well as one other member of the IA team being on secondment to the CYPS directorate. In addition, the summer is historically a quieter period for finalising IA reviews due to reduced officer availability. This is all against a backdrop of IA receiving a significant number of requests for additional work during quarter 2. Nevertheless, the HIA remains confident that IA will reduce the backlog of audit reviews during quarter 3 and quarter 4 and that both of these KPIs will be fully achieved by year end.

4.4 We are currently exceeding several of our KPI targets including KPI 8 Client Satisfaction Rating. In particular, the thematic review process continues to receive positive feedback from schools, a couple examples of which are highlighted below:

Botwell House Catholic Primary School:

- *"The auditors...were both helpful and professional and I feel the thematic reviews that are now being carried out are far more beneficial to all schools than the previous audit process."*

Rabbsfarm Primary School:

- *"Very useful process - it was supportive of the school's development process."*

4.5 KPI 9 refers to the IA process complying with the **PSIAS** and the **IIA Code of Ethics**. We have a duty to complete reviews within these guidelines, which is encompassed in our IA and management review processes. We will report our progress against this KPI to the Audit Committee as part of our annual **Effectiveness of IA** review in June 2016.

5. Forward Look

5.1 There have been a number of IA staffing changes during this quarter, including;

- one of the Trainee Internal Auditors successfully attained the PIIA qualification and has subsequently been promoted to Internal Auditor;
- one of the IA team has become a fully qualified Chartered Internal Auditor and has subsequently been promoted to Principal Internal Auditor;
- the Assistant Internal Audit Manager left LBH in July 2015 to progress his career in Central Government and following a recruitment exercise, another member of the IA team has been promoted into the Assistant Internal Audit Manager vacancy.

As a result, IA will shortly be commencing the process to **recruit a Trainee/ Internal Auditor** to fill the current vacancy in the team.

5.2 IIA Standard 1312-1 states that an IA service must undergo an external assessment at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. In response to this requirement, most London authorities have signed up to a partnership arrangement whereby each HIA carries out an external review of another London authority. We are waiting to hear which London Council's HIA will be carrying out the assessment of our IA service and when that will take place. However, LBH's HIA is scheduled to carry out an external assessment of Hackney's IA service in January/ February 2016. The reviews are expected to take place over 5 days and will be conducted by each Council within existing IA resources.

5.3 Following the closure of the Audit Commission on 31st March 2015, some functions have been transferred to **Public Sector Audit Appointments Limited** (PSAA). The PSAA will aim to ensure that public money continues to be properly accounted for and protected during the transition to the new local appointment regime to be established under the Local Audit and Accountability Act 2014. The PSAA will oversee the delivery of audit services provided to relevant authorities. From the 1st April 2015, PSAA have been tasked with ensuring External Audit is appointed to all relevant authorities. During Quarter 3, IA will be liaising with the Council's new External Auditors (Ernst & Young) to ensure a dovetailed approach to audit coverage at Hillingdon continues going forward.

5.4 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during Quarter 2. 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 FCCA, CMIIA
Head of Internal Audit

16th September 2015

APPENDIX A

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 ~ QUARTERS 1 & 2

Key:	
IA = Internal Audit	**NP** = Notable Practice
H = High Risk	**CFQ** = Client Feedback Questionnaire
M = Medium Risk	
L = Low Risk	**ToR** = Terms of Reference

2015/16 IA Assurance Reviews - Quarters 1 and 2:

IA Ref.	IA Review Area	Status as at 16th Sept 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
15-A6	Review of the Effectiveness of Internal Audit	Final report issued on 9th Jun 2015	REASONABLE	0	3	6	0	N/A
15-A7	Review of the Effectiveness of the Audit Committee	Final report issued on 24th Jun 2015	REASONABLE	0	2	3	0	Yes
15-A13	Music Service	Final report issued on 24th Jun 2015	LIMITED	0	8	5	1	Yes
15-A2	Schools - Pupil Premium Funding *<u>8 Schools visited:</u> Cherry Lane Primary School, Field End Junior School, Frithwood Primary School, Highfield Primary School, Minet Infant School, St. Marys Catholic Primary School, Harlyn Primary School and Yeading Junior School.*	Final report issued on 26th Jun 2015	REASONABLE	5	1	0	3	Yes
15-A4	Schools - Use of Supply Teachers *<u>6 Schools visited:</u> Abbotsfield School, Botwell House Catholic Primary School, Grange Park Junior School, Hillside Junior School, Rabbsfarm Primary School and Ruislip Gardens Primary School.*	Final report issued on 20th Jul 2015	REASONABLE	3	0	5	3	Yes
15-CR1	Deprivation of Liberty Safeguards	Final report issued on 28th Jul 2015	LIMITED	0	6	2	0	Yes
15-A5	Absence Management	Final report issued on 1st Sep 2015	REASONABLE	0	3	4	0	Not yet due
15-A24	DFG and Adaptations (refer to **<u>Appendix B</u>**)	Final report issued on 1st Sep 2015	LIMITED	0	8	4	1	Not yet due

APPENDIX A (cont'd)

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 ~ QUARTERS 1 & 2 (cont'd)

2015/16 IA Assurance Reviews - Quarters 1 and 2:

IA Ref.	IA Review Area	Status as at 16th Sept 2015	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
15-A11	Imprest Accounts	Final report issued on 9th Sep 2015	REASONABLE	0	1	3	1	Yes
15-A14	Purchasing Cards	Final report issued on 16th Sep 2015	REASONABLE	0	3	4	0	Not yet due
15-A10	Officers' Scheme of Delegations	Draft report in progress						
15-A3a	Personalised Budgets (ASC&CYPS)	Draft report in progress						
15-A12	Corporate Procurement & Commissioning	Draft report in progress						
15-A9	Value Added Tax	Testing in progress						
15-A16	Records Management & Document Retention Policy	Testing in progress						
15-A22	Reablement Service	Testing in progress						
15-A23	Domiciliary Care (refer to **Appendix B**)	Testing in progress						
15-A25	Schools - ICT Arrangements (refer to **Appendix B**)	Testing in progress						
15-CR2	Child Sexual Exploitation	Testing in progress						
15-A15	Performance Management	Planning in progress for audits scheduled to commence in Q3 to Q4						
15-A17	Schools - Safeguarding							
15-A18	E-Invoices							
15-A19	Main Accounting System							
15-A20	Creditors							
15-A21	Debtors							
Total Number of IA Recommendations Raised in 2015/16 Quarters 1 and 2				**8**	**35**	**36**	**9**	
Total % of IA Recommendations Raised in 2015/16 Quarters 1 and 2				**9%**	**40%**	**41%**	**10%**	

APPENDIX A (cont'd)

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 ~ QUARTERS 1 & 2 (cont'd)

2015/16 IA Consultancy Reviews - Quarters 1 and 2:

IA Ref.	IA Review Area	Status as at 16th Sept 2015
15-C4a	Data Protection Policy Review	Final consultancy memo issued 28th April 2015
15-C4b	Information Governance Policy Review	Final consultancy memo issued 11th May 2015
15-C8	Procurement Tender Evaluation Records (refer to **Appendix B**)	Final consultancy memo issued 29th May 2015
15-C3	Education Funding Agency (EFA) Mock Audit - Hillingdon Adult & Community Learning	Final consultancy memo issued 5th June 2015
15-C10	Mortuary	Final consultancy memo issued 25th June 2015
15-C5	First Aid Quality Assurance Review - Quarter 1	Final consultancy memo issued 28th July 2015
15-C6	Stores Management	Final consultancy memo issued 30th July 2015
15-C14	Textiles Recycling Processes	Final consultancy memo issued 16th September 2015
15-C11	Corporate Construction (refer to **Appendix C**)	Verbal advice provided (IAAR due in Q3)
15-C12	Housing - Planned Maintenance (refer to **Appendix C**)	Verbal advice provided (IAAR due in Q3)
15-C13	Housing Repairs (refer to **Appendix C**)	Verbal advice provided (IAAR due in Q3)
15-C7	24+ Advanced Learning Loans Mock Audit - Hillingdon Adult & Community Learning	Draft memo issued 15th September 2015
15-C9	Whistleblowing Investigation	Draft report in progress
15-C2	Review of Children & Young People's Services financial control operations (this review will incorporate the planned review of Looked After Children - Asylum & Indigenous)	Testing in ongoing
15-C17	Libraries Imprest Accounts	Testing in progress
15-C16	National Fraud Initiative - Single Person Discount	Consultancy support is in progress

APPENDIX A (cont'd)

DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16 ~ QUARTERS 1 & 2 (cont'd)

2015/16 IA Grant Claim Verification Reviews - Quarters 1 and 2:

IA Ref.	IA Review Area	Status as at 16th Sept 2015
15-GC1	Troubled Families Grant - Quarter 1	Memo issued 29th May 2015
15-GC3	Housing Benefits Subsidy Grant	IA testing completed on 3rd September 2015
15-GC2	Bus Subsidy Grant	Testing in progress
15-GC4	Troubled Families Grant - Quarter 2	Testing in progress

APPENDIX B

REVISIONS TO THE 2015/16 INTERNAL AUDIT PLAN ~ QUARTER 2

IA reviews ADDED to the 2015/16 Operational IA Plan for Quarter 2:

IA Ref.	Planned IA Review Area	Review Type	Review Sponsor	Scope / Rationale
15-A23	Domiciliary Care	Assurance	**Tony Zaman**, Director of Adult Services and Interim Director Children & Young People's Services	At the request of the Director of Adult Services and Interim Director Children & Young People's Services, IA was asked to perform an assurance audit to review the care provision being provided to service users, in particular the effectiveness, efficiency and value for money.
15-A24	Disabilities Facilities Grant and Adaptations	Assurance	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	At the request of the Deputy Chief Executive & Corporate Director of Residents Services, IA was asked to perform an assurance review of DFG following recent management and procedural changes within the team.
15-A25	Schools - ICT and Asset Management Arrangements	Assurance	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	Following discussions with the Head of Business Performance, Policy and Standards (Education, Housing and Public Health), IA agreed to review ICT and Asset Management in place of Safeguarding, which is deferred to Quarter 3, refer to **Appendix C**). This review will look at compliance with the Data Protection Act and ensuring safeguarding procedures are in place for pupils using ICT.
15-C17	Libraries Imprest Accounts	Consultancy	**Paul Whaymand**, Corporate Director of Finance	Following our recent audit of Imprest Accounts (refer to **Appendix A**), the Corporate Director of Finance requested IA to carry out a separate consultancy review of imprest account arrangements at all 17 libraries in the borough.

APPENDIX C

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 3

IA work scheduled to commence in the 1st October to 31st December 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A26	Housing - Planned Maintenance	Assurance	HIGH	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	This was a deferred audit from the 2014/15 due to significant and radical changes to the operating model, structures and processes within the service. These processes are currently being embedded and it would now be a prudent time for an IA review to ensure that a robust control framework has been established and that risks are being appropriately mitigated.
15-A27	Housing - Repairs	Assurance	HIGH	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	As above.
15-A28	Corporate Construction	Assurance	HIGH	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	As above.
15-A29	Financial Assessments (Children's and Adults)	Assurance	HIGH	**Tony Zaman**, Director of Adult Social Care Services and Interim Director Children & Young People's Services	Following the introduction of the Care Act 2014 and the Children & Families Act 2014, significant reforms for both Adults and Children's social work included changes to local authority duties to provide financial assessments for people with eligible needs. This assurance audit will establish how well the Council is doing at managing the significant risks it is exposed to in relation to this system. IA will also review the anti-fraud and anti-corruption key controls in this system as part of its coverage.
15-A30	Right to Buy (RtB)	Assurance	HIGH	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	RtB is a national scheme providing eligible public sector tenants with an opportunity to purchase their property at a discounted rate. The Audit Commission's 'Protecting the Public Purse' reports included RtB as a significant fraud risk, highlighting that the increased discount is likely to make the RtB scheme more attractive to fraudsters.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 3

IA work scheduled to commence in the 1st October to 31st December 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A31	Schools - Asset Management	Assurance	HIGH	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	The Council has invested over £149m on its ambitious building programme for schools, the largest of its kind in London, which aims to address the increasing demand for primary school places in the borough. This programme will be a combination of new build, refurbishment and refresh projects and will make significant changes to School's fixed assets. This thematic assurance audit will seek to establish how School's are deploying, operating, maintaining, upgrading, and disposing of assets in a cost-effective, efficient and consistent manner.
15-A32	Special Educations Needs and Disability (SEND) Reforms	Assurance	HIGH	**Tony Zaman,** Director of Adult Social Care Services and Interim Director Children & Young People's Services	The new Children & Families Act offers simpler, improved and consistent help for children and young people with SEND. As well as protecting the schools budget, it extends provision from birth to 25 years of age via the introduction of a new education, health and care plan. A SEND Code of Practice provides statutory guidance on duties, policies and procedures relating to Part 3 of the Children and Families Act 2014 and associated regulations and applies to England. From September 2014 the Council must have regard to this Code.
15-A33	ICT Audit Support	Assurance	MEDIUM	**Jean Palmer,** Deputy Chief Executive & Corporate Director of Residents Services	The scope of this work will be agreed with the newly appointed Deputy Director Digital Strategy & Communications, who is due to be in post at the end of September 2015. This review will focus on areas of risk/ assurance which the new Deputy Director would like IA to independently provide assurance on. The HIA will contract Mazars to provide ICT Audit expertise as required, with members of the in-house IA team shadowing ICT Auditors to further their skills and experience.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 3

IA work scheduled to commence in the 1st October to 31st December 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-A34	Performance Management	Assurance	MEDIUM	**Fran Beasley,** Chief Executive & Corporate Director of Administration	Our planning sources identified some concerns in relation to the performance management framework within the Council. This audit will review the 'Golden Thread' which links plans and targets together and how this thread runs through them, connecting the broad strategic objectives of the Council and its partners with the actions of managers and staff at service, team and individual level.
15-A35	Schools Safeguarding, including Safer Recruitment	Assurance	MEDIUM	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	Statutory guidance from the Department for Education (DfE) was issued in July 2015 under Section 175 of the Education Act 2002, the Education (Independent School Standards) Regulations 2014 and the Education (Non-Maintained Special Schools) (England) Regulations 2011. This thematic review will seek to provide assurance that system as described in statutory guidance *"Working Together to Safeguard Children 2015"* is being consistently applied and that schools and colleges are effectively working with social care, the police, health services and other services to promote the welfare of children and protect them from harm.
15-A36	Section 117 of the Mental Health Act 1983 - Aftercare and accommodation	Assurance	MEDIUM	**Tony Zaman,** Director of Adult Social Care Services and Interim Director Children & Young People's Services	Aftercare can include almost anything arising from or related to the person's mental disorder that helps someone live in the community. Aftercare doesn't refer to any specific services, but the services must either arise from or be related to a mental disorder and are nevertheless broad. The care plan may make arrangements for housing needs, particularly if the user is likely to be homeless when discharged from hospital or unable to return home for some reason. This assurance review will seek to provide assurance that the housing needs of vulnerable service users are being appropriately, effectively and efficiently managed.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 3

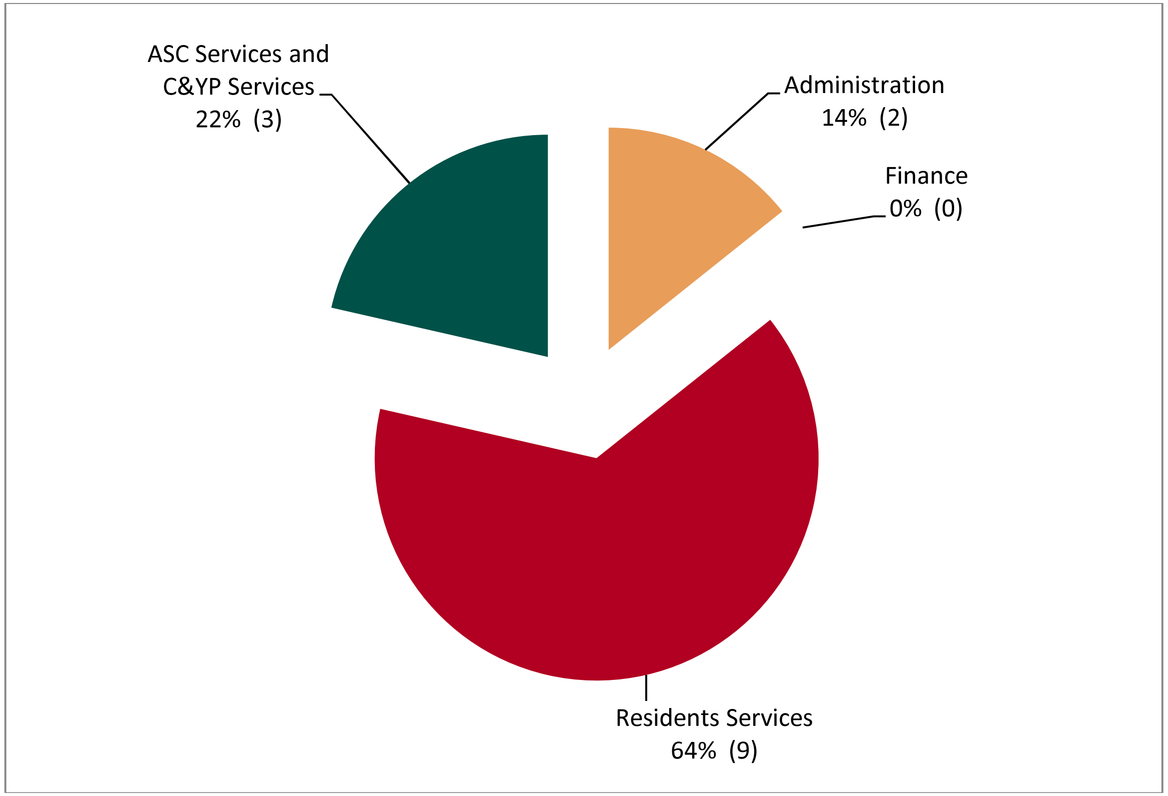
IA work scheduled to commence in the 1st October to 31st December 2015 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
15-CR3	Housing Needs - Allocations & Assessment	Assurance	***As per Corporate Risk Register***	**Jean Palmer**, Deputy Chief Executive & Corporate Director of Residents Services	The Housing Act 1996 (as amended) requires local authorities to give reasonable preference in their allocations policies to people with high levels of assessed housing need. This assurance audit will establish how the Council is managing the risk of not meeting housing needs in the borough caused by insufficient provision of accommodation which includes the supply of affordable housing, and the provision and management of temporary accommodation.
15-AF1	National Fraud Initiative Data Matching Exercise	Anti-Fraud	**N/A**	**Jean Palmer,** Deputy Chief Executive & Corporate Director of Residents Services	IA will be providing assistance to the Council's Counter Fraud and Investigations Team (CFIT) on the data matching exercise involving Council Tax single persons discount. This is part of the National Fraud Initiative, a highly successful drive to detect fraudulent or erroneous payments from the public purse.
15-C20	Policy Review	Consultancy	**N/A**	**Fran Beasley,** Chief Executive & Corporate Director of Administration	Following a request from the Audit Committee, IA was asked to perform a consultancy review to identify the number of Policies across the Council as well as the date of last review to ensure they continue to be of value and provide sufficient governance, guidance and instruction to officers.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2015/16 ~ QUARTER 3

IA work scheduled to commence in the 1st October to 31st December 2015 period – Analysis by Corporate Director:



- The relevant Corporate Directors and Deputy Director / Head of Service will be consulted regarding the exact timing of each individual IA review; and
- Where an IA review is deferred or cancelled within the quarter, the relevant Audit Sponsor will be required to provide an alternative audit in their Group.

APPENDIX D

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

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

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

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

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

APPENDIX D (cont'd)

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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

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Audit Committee Forward Programme 2015/16 and 2016/17

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

This report is to enable the Audit Committee to review planned meeting dates and the forward programme.

OPTIONS AVAILABLE TO THE COMMITTEE

1. **To confirm dates for Audit Committee meetings; and**

2. **To make suggestions for future agenda items, working practices and/or reviews.**

INFORMATION

All meetings to start at 5.00pm

Meetings	Room
2 July 2015	CR4
24 September 2015	CR3
15 December 2015	CR4
15 March 2016	CR3
30 June 2016	CR3
22 September 2016	CR 3

AUDIT COMMITTEE

Forward Programme 2015/16 and 2016/17

Meeting Date	Item	Lead Officer
15 December 2015	*Private meeting with the Corporate Head of Finance to take place before the meeting	
	External Audit Annual Grant Audit Letter 2014/15	Deloitte
	Draft Treasury Management Strategy 2016/17 to 2020/21	Corporate Director of Finance
	Internal Audit Progress Report 2015/16 Quarter 3 & Operational Internal Audit Plan Quarter 4	Head of Internal Audit
	Corporate Fraud Team Progress Report	Corporate Fraud Investigations Manager
	Risk Management Report & Q2 Corporate Risk Register - Part II	Head of Business Performance, Policy and Standards (Education, Housing & Public Health)
	Audit Committee Forward Programme	Democratic Services Manager

15 March 2016	*Private meeting with external auditors take place before the meeting	
	Annual External Audit Plan 2015/16 (Ernst & Young)	Corporate Director of Finance /Ernst & Young
	Annual Governance Statement 2015/16 – Interim Report	Head of Policy
	Balances and Reserves Statement	Corporate Director of Finance
	Revisions to the Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2020/21	Corporate Director of Finance
	Internal Audit Charter 2016/17	Head of Internal Audit
	Internal Audit Progress Report 2015/16 Quarter 4	Head of Internal Audit

	Annual Internal Audit Plan 2016/17 & Operational Internal Audit Plan Quarter 1	**Head of Internal Audit**
	Corporate Fraud Team Progress Report	**Corporate Fraud Investigations Manager**
	Risk Management Report & Q3 Corporate Risk Register - Part II	**Head of Business Performance, Policy and Standards (Education, Housing & Public Health)**
	Audit Committee Forward Programme	**Democratic Services Manager**

Meeting Date	Item	Lead Officer
30 June 2016	***Private meeting with Head of Internal Audit to take place before the meeting**	
	Draft Annual Governance Statement 2016/17	**Head of Policy**
	Annual Review on the Effectiveness of Internal Audit 2016/17	**Head of Internal Audit**
	Annual Review of the Effectiveness of the Audit Committee 2016/17	**Head of Internal Audit**
	Annual Internal Audit Report & Head of Internal Audit Opinion Statement 2015/16	**Head of Internal Audit**
	Internal Audit 2016/17 Quarter 1 Progress Report & Quarter 2 Operational Internal Audit Plan	**Head of Internal Audit**
	Corporate Fraud Team Progress Report	**Corporate Fraud Investigations Manager**
	Risk Management Report & Q4 Corporate Risk Register - Part II	**Head of Business Performance, Policy and Standards (Education, Housing & Public Health)**
	Audit Committee Forward Programme	**Democratic Services Manager**

Meeting Date	Item	Lead Officer
22 September 2016	***Private meeting with the Corporate Fraud Investigations Manager to take place before the meeting**	
	Deloitte - Draft Annual Audit Letter	**Deloitte**
	Approval of the 2015/16 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2016	**Corporate Director of Finance /Deloitte**
	External Audit Report on the Pension Fund Annual Report and Accounts	**Deloitte**
	Internal Audit Progress Report 2016/17 Quarter 2 & Operational Internal Audit Plan Quarter 3	**Head of Internal Audit**
	Corporate Fraud Team Progress Report	**Corporate Fraud Investigations Manager**
	Risk Management Report & Q1 Corporate Risk Register - Part II	**Head of Business Performance, Policy and Standards (Education, Housing & Public Health)**
	Audit Committee Forward 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 11

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