



HILLINGDON
LONDON



Audit Committee

Councillors on the Committee

Councillor Scott Seaman-Digby (Vice-Chairman)
Councillor George Cooper
Councillor Tony Eginton
Councillor Susan O'Brien

Date: WEDNESDAY, 27
SEPTEMBER 2017

Time: 5.00 PM (PLEASE NOTE,
MEMBERS ARE INVITED
TO A PRIVATE MEETING
AT 4.45PM)

Venue: COMMITTEE ROOM 6 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE UB8
1UW

**Meeting
Details:** Members of the Public and
Press are welcome to attend
this meeting

Published: Tuesday, 19 September 2017

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This Agenda is available online at:

<https://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=256&MId=3008&Ver=4>

Putting our residents first

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

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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 approve (but not direct) the Internal Audit Strategy to ensure that it meets the Council's overall strategic direction.
2. Review, approve and monitor (but not direct) Internal Audit's planned programme of work, paying particular attention to whether there is sufficient and appropriate coverage.
3. Through quarterly Internal Audit summary reports of work done, monitor progress against the Internal Audit Plan and assess whether adequate skills and resources are available to provide an effective Internal Audit function. Monitor the main Internal Audit recommendations and consider whether management responses to the recommendations raised are appropriate, with due regard to risk, materiality and coverage.
4. Make recommendations to the Leader of the Council or Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and Internal Audit Plans.
5. Review the Annual Internal Audit Report and Opinion Statement and the level of assurance this provides over the Council's corporate governance arrangements, risk management framework and system of internal controls.
6. Consider reports dealing with the activity, management and performance of Internal Audit.
7. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to request work from Internal Audit.

External Audit

8. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
9. Monitor management action in response to issues raised by External Audit.
10. Receive and consider specific reports as agreed with the External Auditor.
11. Comment on the scope and depth of External Audit work and ensure that it gives value for money, making any recommendations to the Corporate Director of Finance.
12. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
13. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
14. Monitor arrangements for ensuring effective liaison between Internal Audit and External Audit, in consultation with the Corporate Director of Finance.

Governance Framework

15. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations and where necessary bring proposals to the Leader of the Council or the Cabinet for their development.
16. Review any issue referred to it by the Chief Executive, Deputy Chief Executive, Corporate Director, any Council body or external assurance providers including Inspection agencies.
17. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the Corporate Risk Register and seeking assurances that appropriate action is being taken on managing risks.
18. Review and monitor Council strategy and policies on anti-fraud and anti-corruption including the 'Raising Concerns at Work' policy, making any recommendations on changes to the relevant Corporate Director in consultation with the Leader of the Council.
19. Oversee the production of the authority's Annual Governance Statement and recommend its adoption.
20. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on suggested actions to improve alignment with best practice.
21. Where requested by the Leader of the Council or Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

Accounts

22. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the external auditor that need to be brought to the attention of the Council.
23. Consider the External Auditor's report to those charged with governance on issues arising from the external audit of the accounts.

Review and reporting

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

Agenda

PART I

- 1 Apologies for absence
- 2 Declarations of interest
- 3 To confirm that all items marked Part I will be considered in Public and that any items marked Part II will be considered in Private
- 4 Minutes of the Meeting held on 29 June 2017 1 - 6
- 5 Approval of the 2016/17 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2017 7 - 246
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Minutes

Audit Committee

Thursday 29 June 2017

Meeting held at Committee Room 6 - Civic Centre,
High Street, Uxbridge UB8 1UW



HILLINGDON
LONDON

	<p>Cabinet Member Present: Councillors Scott Seaman-Digby (Vice-Chairman - In the Chair), Peter Davis, Tony Eginton and Raymond Graham</p> <p>Officers Present: Kevin Byrne (Head of Policy and Partnerships), Sarah Hydrie (Business Assurance Manager), Sian Kunert (Chief Accountant), Muir Laurie (Head of Business Assurance), Paul Whaymand (Corporate Director of Finance), Martyn White (Senior Internal Audit Manager), Gary Coote (Corporate Investigations Team Manager), and Anisha Teji (Democratic Services Officer).</p>
1.	<p>APOLOGIES FOR ABSENCE</p> <p>Apologies received from Councillor George Cooper, with Councillor Raymond Graham substituting and Councillor Susan O'Brien, with Councillor Peter Davis substituting.</p>
2.	<p>DECLARATIONS OF INTEREST</p> <p>None.</p>
3.	<p>TO CONFIRM THAT ALL ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THAT ANY ITEMS MARKED PART II WILL BE CONSIDERED IN PRIVATE</p> <p>It was agreed that all the items on the Agenda be considered in public with the exception of Agenda Item 12- Business Assurance - Corporate Risk Register for Quarter 4 2016/17.</p>
4.	<p>MINUTES OF THE MEETINGS HELD ON 16 MARCH AND 11 MAY 2017</p> <p>Minutes from 16 March 2017 agreed as an accurate record, subject to the inclusion of the Declaration of a Non Pecuniary Interest by Councillor Eginton in agenda item 5 - EY 2016/2017 Pension Fund Audit Plan and Information on their Detailed Work Plan. Councillor Eginton declared an interest because he was a deferred member of the Local Government Pension Scheme.</p> <p>Minutes from 11 May 2017 were agreed as an accurate record.</p>
5.	<p>INDEPENDENT CHAIRMAN OF THE AUDIT COMMITTEE</p> <p>Consideration was given to the report asking the Committee to agree the process to appoint a new Independent Chairman of the Committee.</p>

On the appointment of the last Independent Chairman, the Audit Committee interviewed applicants, with the Cabinet Member for Finance, Property and Business Services in attendance.

The Committee discussed suitable candidates for the role of Independent Chairman and it was agreed that the candidate would need to provide a willingness to commit to the role for a sustained period of time. A committed Chairman may include a candidate who was at an early stage of their career, hoping to gain more experience and was keen to learn new skills. This would ensure continuity of the Chairman role.

The Committee noted that that the remuneration of the role had been agreed by Council.

RESOLVED -

- 1. That the former Chairman of the Audit Committee be thanked for his service to the Council; and**
- 2. That Democratic Services be instructed to co-ordinate the process to advertise and appoint a new Independent Member/Chairman of the Audit Committee.**

6. THE DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17

The Committee was provided with an update on the progress to date in the preparation of the Annual Governance Statement for 2016/17. The report author took the Committee through the report and gave a summary of each part.

The significant governance issues from 2015/16 had been resolved, were detailed in the report and a summary of each point was provided.

Reference was made to the good progress made during the last year which included embedding the school led improvement approach in Hillingdon, working closely with Head Teachers and Governing Bodies in the Borough. Schools which were causes for concern had been subject to regular performance reviews, and where appropriate, Warning Notices were served. Others areas which had been progressed included the Council's Corporate Anti Fraud and Anti Corruption arrangements, contract monitoring in the Passenger Transport Service, health and safety arrangements at Harlington Road Depot, Homelessness and Housing services and strengthening arrangements in the Council's Data Protection and Information Governance arrangements.

A number of significant issues had been identified in 2016/17 which included the need to strengthen Business Continuity/Disaster Recovery plans, Building Control Services, evidence of deterioration of financial position in two maintained schools and incomplete management information in relation to Social Care clients.

Reference was also made to the fact that the Council continued to operate with declining financial support from the Government whilst managing a broad range of services. In 2016/17, £13.3m savings had been made.

	<p>Members enquired about general Member training programmes and Officers advised that they would feedback to the Head of Democratic Services about ensuring regular Member development sessions. Members also enquired about the annual report on the Audit Committee and Officers advised that this was on the work programme for the Audit Committee meeting in September, with a view to being submitted to Council in November 2017.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the comments made by the Committee be noted and the draft AGS be noted. 2. That the Committee noted that at this stage the AGS was in draft form and was subject to possible amendment and that the Committee would be asked to adopt the AGS once it had been signed and agreed by the Leader of the Council and the Chief Executive, for publication alongside the annual accounts in September 2017.
<p>7.</p>	<p>ORAL UPDATE ON STATEMENT OF ACCOUNTS</p> <p>The Chief Accountant provided an oral update on Statement of Accounts.</p> <p>It was reported that a draft version of the Accounts had been completed on 1 June 2017 and had provided assurance to officers that the statutory deadlines would be achieved. Draft Accounts were formally signed off on 27 June 2017 and sent to Ernst & Young (EY) to enable them to move onto the next step of the external audit process. Officers had improved communications with EY as there was now regular contact.</p> <p>It was reported that Council testing had been carried out up to the first nine months at the interim audit stage and the outcomes were reported to Committee by EY in March. The remainder of accounts would be completed as per the agreed timeline from July when the external auditors would be on site for eight weeks. A timetable for staff resources had been provided in advance and a work plan to ensure relevant teams were available at suitable times to assist the auditors. Grant audits were also underway and in line with agreed timelines.</p> <p>In summary, the accounts of this year had been completed and overall the results were good. Officers were comfortable with the improvements made by auditors, particularly as there had been better planning and management of the audit process.</p> <p>RESOLVED -</p> <ol style="list-style-type: none"> 1. That the oral update be noted.
<p>8.</p>	<p>BUSINESS ASSURANCE - INTERNAL AUDIT ANNUAL REPORT & OPINION STATEMENT 2016/17</p> <p>The Head of Business Assurance reported that the 2016/2017 Internal Audit plan was 93% complete to draft report stage by 31 March 2017 and 100% completed by 19 June 2017. The Head of Business Assurance reported that 67 pieces of Internal Audit</p>

Work had been delivered as part of 2016/17 Internal Audit plan which had included 30 assurance reviews, 10 follow- up reviews, 15 consultancy reviews and 12 grant claim audits. Reference was made to Appendix A of the report which provided greater detail on the Internal Audit work undertaken in the year.

The Head of Business Assurance also reported that the service was getting more efficient in how resources were being deployed and it was taking a risk based approach to work.

Following Member questions, the Head of Business Assurance advised that topics in Internal Audit were risk dependent and there was no pattern of certain topics. He advised that officers had been working together to manage risk assessments. The Committee was informed that management continued to propose positive action to address the risks Internal Audit work had highlighted.

RESOLVED –

- 1. That the contents of the Annual Internal Annual Report and Opinion Statement be noted.**

9. BUSINESS ASSURANCE - INTERNAL AUDIT PROGRESS REPORT FOR 2017/18 QUARTER 1 (INCLUDING THE QUARTER 2 INTERNAL AUDIT PLAN)

The Senior Internal Audit Manager presented the report which provided summary information on all Internal Audit work covered in relation to the 2017/18 Quarter 1, together with assurance in this respect.

The Committee was informed that since the last Internal Audit Progress Report to Audit Committee on 7 March 2017, 14 assurance reviews has been concluded, two follow up reviews and two consultancy reviews had been finalised and one grant claim certified.

The Committee was informed that good progress was being made on the Internal Audit work for 2017/2018 Quarter 1 with three Internal Audit assurance reviews at an advanced stage of reporting and a further four assurance reviews at fieldwork stage. Positive feedback was also being provided in relation to the advisory and consultancy work being delivered to the Council.

The Committee noted that there have been three amendments to the Quarter 1 Internal Audit Operation Plan.

RESOLVED -

- 1. That the Internal Audit Progress Report for 2017/18 Quarter 1 be noted and approval be given to the Quarter 2 Internal Audit Plan.**
- 2. That the Audit Committee noted the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.**

**10. CORPORATE FRAUD INVESTIGATION TEAM PROGRESS REPORT 2016/17
FINANCIAL YEAR AND APRIL TO MAY 2017**

The Committee was provided with a report which provided details of the work undertaken by the Corporate Fraud Investigation Team (CFIT) from April 2016 to May 2017.

Members were informed that Corporate Fraud Investigation Team activities since April 2016 included the following:

- Social Housing Fraud
- Council Tax/Business Rates inspections
- Single Person Discount (SPD)
- Residency and Verification checks
- Right to Buy investigations
- Proceeds of Crime investigations
- Housing Waiting List
- National Fraud Initiative (NFI)
- Trading Standards
- Blue Badge
- Bad debts
- Unaccompanied Asylum Seekers
- Benchmarking

Reference was made to the good progress made by the CFIT in relation to Social Housing Fraud and identifying incorrect claims for Single Person Discount. Checks were being made through reviewing applications for the Hillingdon First Card. Reference was also made to the good work being carried out by a project set up by CFIT in removing 2,329 applications from the Housing Register Waiting List. This process had also allowed the CFIT to identify 38 cases where the household has been incorrectly claiming Single Person Discount for Council Tax totalling £16,000.

Discussion took place on the work being carried out in relation to benchmarking. Members were informed that currently there was no readily available benchmarking data as this had not been a government requirement.

Generally this has been a good year and the results are good. A Business case was being worked on to obtain more resources to work in the housing area, in verification and application checks.

RESOLVED -

- 1. That the Committee considered and noted the Corporate Fraud Investigation Team report; and**
- 2. That the Committee be provided with comparative data showing the changes from 2014/15 to 2016/17.**

11.	<p>AUDIT COMMITTEE FORWARD PROGRAMME 2017/18</p> <p>Noted.</p>
12.	<p>BUSINESS ASSURANCE - CORPORATE RISK REGISTER FOR QUARTER 4 2016/17</p> <p><i>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).</i></p> <p>The report presented to Members the Corporate Risk Register for Quarter 4 (January to March 2017). The report provided evidence about how identified corporate risks were being managed and the actions which were being taken to mitigate against those risks.</p> <p>RESOLVED –</p> <p>That the Committee reviewed the Corporate Risk Register for Quarter 4 (January to March 2017), as part of the Committee's role to independently assure the risk management arrangements in the Council.</p>

These are the minutes of the above meeting. For more information on any of the resolutions please contact Anisha Teji on 01895 277655. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

APPROVAL OF THE 2016/17 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2017

Committee name	Audit Committee
Officer reporting	Sian Kunert, Finance
Papers with report	EY Audit Results Report EY Pension Fund Audit Results Report Statement of Accounts 31 March 2017

HEADLINES

The attached two reports summarise the findings of EY, the External Auditor, on the audit of the 2016/17 Statement of Accounts including the Pension Fund Accounts. The first report summarises the main financial statements and the second the Pension Fund accounts audit.

The auditor has indicated that, subject to completion of the remaining area of work, 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 statement of accounts is inclusive of the Pension Fund accounts however the Pension Fund accounts are audited separately due to the specialist nature. Subject to completion of the outstanding areas the auditor has indicated that this part of the Financial Statements will receive an unqualified opinion.

The report addresses Key Audit risks that were identified prior to audit and reported to Audit Committee on 16 March 2017.

RECOMMENDATIONS:

That Audit Committee:

1. Approve the audited Statement of Accounts for 2016/17.

SUPPORTING INFORMATION

The arrangements for keeping and publishing the Council's accounts are set out in the Accounts and Audit (England) Regulations 2015. Under these regulations the Corporate

Audit Committee 27 September 2017

PART I – MEMBERS, PUBLIC & PRESS

Director of Finance is responsible for determining the Council's accounting system, form of accounts and supporting accounting records.

In accordance with the requirements of the Accounts and Audit (England) Regulations 2015 the Corporate Director of Finance approved the Statement of Accounts on 30 June 2017, prior to the accounts release to the Council's external auditor, EY.

Once the accounts are audited the regulations require the Audit Committee consider and approve the audited Statement of Accounts by 30 September 2017 and for these accounts to be signed and dated by the Committee Chairman and Corporate Director of Finance.

Scope of external audit

The Council's auditor, EY, is responsible for undertaking an audit of the Statement of Accounts. The outcome of the audit is set out in the attached 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 E of the EY main audit report and Appendix D of the EY Pension Fund audit report. The letter has to include representations from management on matters material to the statements where sufficient appropriate evidence cannot reasonably be expected to exist.

Comment on the contents of the report

Main Accounting Statements

The report highlights one corrected misstatement in the draft accounts in relation to a comparator figure in the Narrative report which support the financial statements as an overview from management of the financial position of the Council. EY will discuss the findings of their audit work in detail at Committee. There were no uncorrected misstatements in the accounts to report at and no recommendations at this stage. There are currently a number of areas of audit work outstanding.

Pension Fund Statements

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 three amendments to disclosure notes within the Pension Fund accounts from the draft version.

Audit Committee 27 September 2017

PART I – MEMBERS, PUBLIC & PRESS

Accounts Summary

The Balance Sheet of the Council sets out the assets and liabilities at the end of the financial year and is a guide to the financial health of the Council. There was an overall decrease on the Balance sheet of £102.9m, mainly caused by the increase in future liabilities for Pension obligations and an increase in the Revaluation Reserve from the valuation of Property Plant and Equipment.

The Comprehensive Income and Expenditure Statement shows a deficit of £12.7m on the provision of services however much of this deficit is reversed out due to accounting requirements, to represent the statutory cost of the general fund and HRA for Council Tax and rent setting purposes.

The General Fund had an in year deficit of £2.3m prior to a planned drawdown from General Fund balances to help fund to 2016-17 budget. The HRA had an in year surplus of £11.9m. Earmarked reserves also increased by £1.8m.

Post Balance Sheet Events

There are no post balance sheet events since 31 March 2017 to report.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

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

BACKGROUND PAPERS

None

Audit Committee 27 September 2017

PART I – MEMBERS, PUBLIC & PRESS

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London Borough of
Hillingdon
Audit results report

Year ended 31 March 2017

Private and Confidential

5 September 2017

Dear Audit Committee Members

We have substantially completed our audit of London Borough of Hillingdon (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Appendix 3, before the statutory deadline of 30th September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Maria Grindley
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Audit Committee, other members of the Authority and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Authority and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01 Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 16 March 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. We note the following changes:

- We involved our EY Property Valuation Team to a greater extent in assisting the on-site local audit team with some specific support in respect of assets valued using the Depreciated Replacement Cost (DRC) method.

We planned our procedures using a materiality of £13.193m. We reassessed this using the actual year-end figures, which has increased this amount to £14.286m. The thresholds for reporting corrected and uncorrected audit differences have increased from £9.894m to £10.714m and £660k to £714k respectively. The basis of our assessment of materiality has remained consistent with prior years at 2% of Gross Revenue Expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

Status of the audit

We have substantially completed our audit of London Borough of Hillingdon's financial statements for the year ended 31st March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Appendix 3. However until work is complete, further amendments may arise:

- completion of EY Property Valuation team review of depreciated replacement cost (DRC) assets;
- completion of starters and leavers review completed by Internal Audit;
- review of final audited statement of accounts;
- completion of subsequent events review; and
- receipt of the signed management representation letter.



Executive Summary

Executive summary (continued)

Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

Objections

We received correspondence from a member of the public but have received no objections to the 2016/17 accounts from members of the public.

Audit differences

There are currently no unadjusted audit differences arising from our audit.

We have also identified a number of audit differences. The majority of these were under our reporting threshold for corrected mis-statements. Further details of all adjustments over the threshold can be found in Section 4 Audit Differences.



Executive summary (continued)

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of London Borough of Hillingdon's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. We carried out the work outlined in our Audit Plan which was presented to the Audit Committee on 16th March 2017. In addition to the work outlined in the Audit Plan we also asked our EY Property Valuation Team to assist us with a review of Depreciated Replacement Cost Assets.

We ask you to review these and any other matters in this report to ensure:

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

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

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we did not identify a VFM significant risk. This did not change following our review of VFM at the conclusion of the audit.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Executive summary (continued)

Other reporting issues

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

We have substantially completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have no significant issues to report from the work completed to date.

We have no other matters to report.

Control observations

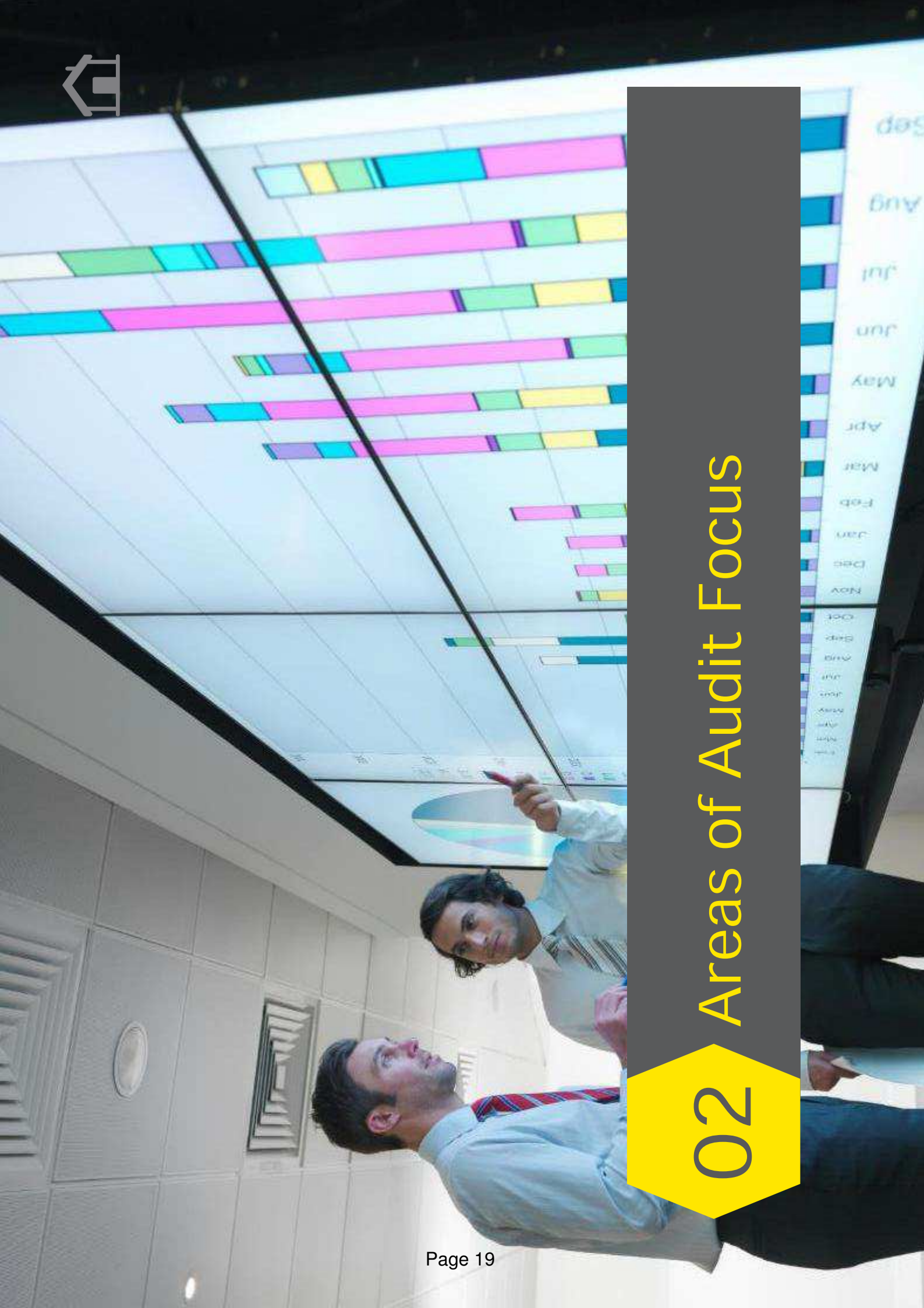
We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Our colleagues in our IT team supported us during the audit. They raised some items for consideration and these are currently with key officers for consideration.

Independence

Please refer to Appendix B for our update on Independence.





02 Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach: Revenue and Expenditure Recognition

Revenue and Expenditure Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

What is the risk?

Risk of fraud in revenue recognition

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

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Significant Risk



What did we do?

Our approach focused on:

- ▶ reviewing and testing revenue and expenditure recognition policies, to see if they would of themselves lead to over or understatement of amounts;
- ▶ reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We concentrated on estimates requiring more judgement by management, e.g. IAS 19, Property, Plant and Equipment and accruals;
- ▶ developing a testing strategy to test material revenue and expenditure streams. We looked at all material streams individually and completed sample testing tailored for the individual streams (e.g. where higher risk, more testing performed);
- ▶ reviewing and testing revenue and expenditure cut-off at the period end date to ensure that transactions were entered in the relevant year (e.g. items were not deferred into the following year to improve the financial position; and
- ▶ reviewing and testing a selection of capital additions to ensure that these were correctly capitalised.



Areas of Audit Focus

Audit issues and approach: Management Override

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied.

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

What is the risk?

Risk of management override

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

For local government bodies, the potential for the incorrect classification of revenue spend as capital, in the form of additions to property, plant and equipment, is a particular area where there is a risk of management override.



Significant Risk

What did we do?

Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale. We did not identify any significant unusual transactions.

We reviewed accounting estimates for evidence of management bias. We undertook audit procedures on accruals, provisions and prepayments and did not identify any evidence of management override.

We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised.

We performed sample testing on the existence and valuation of prepayments, the completeness and valuation of accruals and completeness of provisions and found no indication of management bias.

We reviewed the postings in the Movement in Reserves Statement (MIRS) to ensure that all postings to and from the General Fund and Housing Revenue Accounts were correctly accounted for.



Areas of Audit Focus

Audit issues and approach: SERCOP Re-Statement

SERCOP Re-Statement

What are our conclusions?

From the work completed we found that:

- the disclosures were in line with the CIPFA Code; and
- the restated comparative figures agreed to the London Borough of Hillingdon segmental analysis and supporting working papers with no issues noted.

Significant Risk



What is the risk?

Financial statement presentation Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year, changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS). They also include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the organisation operates. We expect this to show the Group, PCC and CC segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

What did we do?

We reviewed the draft expenditure and funding analysis, restated CIES, restated MIRS and associated notes. We have nothing to report from this work.



Areas of Audit Focus

Audit issues and approach: Reliance on experts

Reliance on experts

Reliance on experts highlighted in the Audit Plan

We identified two major areas in our Audit Plan where we place reliance on experts: Pensions Valuation and Property Valuation. In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the London Borough of Hillingdon's environment and processes and our assessment of audit risk in the particular area. As part of this work we have performed the following procedures:

- ▶ Analysed source data and made inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assessed the reasonableness of the assumptions and methods used;
- ▶ Considered the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assessed whether the substance of the specialist's findings are properly reflected in the financial statements.

We set out our findings in relation to the two specialists we have relied on below:

Pension disclosures

We have assessed and are satisfied with the competency and objectivity of the London Borough of Hillingdon actuaries: Hymans Robertson and Barnett Waddingham. EY Pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.

Barnett Waddingham:

We have noted that PwC as part of their central review have reported that the discount rate applied by Barnett Waddingham falls outside the top end of their expected range. Our EY Pensions team agree with this conclusion. In respect of Barnett Waddingham EY Pensions concluded that the methodologies used to derive the discount rate and RPI inflation assumptions are not robust as they do not take adequate account of the duration of the schemes liabilities. In future years this could lead to unacceptable assumptions. Given the size of the Barnett Waddingham element of the Pension Liability this is not considered to be a significant consideration for London Borough of Hillingdon. It should also be noted that the Barnett Waddingham issues noted are a national issue and not just specific to London Borough of Hillingdon.

Hymans Robertson:

PwC note that the discount rate and RPI inflation assumptions are determined using a cash flow matching approach to derive 3 separate rates (short, medium and long) with a duration of approximately 15, 20, and 25 years respectively. The use of the nearest duration rather than the actual duration of a particular employer makes the methodology slightly less robust. Our EY Pensions team agree with the reservations on the actuary's methodology used to derive the discount rates but note that overall other assumptions appear reasonable.



Areas of Audit Focus

Reliance on experts

Reliance on experts highlighted in the Audit Plan

Property Valuations

We have assessed and are satisfied with the objectivity of the London Borough of Hillingdon valuers: Wilkes Head and Eve (WHE) and Jones Laing LaSalle (JLL).

We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the external valuers in relation to the property, plant and equipment, focusing in particular on specialist assets which are valued on a depreciated replacement costs (DRC) basis valued by WHE. This is because DRC valuations are the most subjective of all of the valuation methodologies.

Our EY Property Valuations team is currently concluding their work in this area and we will provide a verbal update to the Audit Committee.



03 Audit Report



Draft audit report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- London Borough of Hillingdon Movement in Reserves Statement,
- London Borough of Hillingdon Comprehensive Income and Expenditure Statement,
- London Borough of Hillingdon Balance Sheet,
- London Borough of Hillingdon Cash Flow Statement, and
- Related notes 1 to 50,
- London Borough of Hillingdon Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement 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 2016/17.

This report is made solely to the members of London Borough of Hillingdon, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Hillingdon and the London Borough of Hillingdon's members as a body, for our audit work, for this report, or for the opinions we have formed.



Draft audit report (continued)

Our opinion on the financial statements

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities set out on page 10, 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 2016/17, 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 Statement of Accounts 2016/17 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 London Borough of Hillingdon as at 31 March 2017 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 2016/17.



Draft audit report (continued)

Our opinion on the financial statements

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 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 is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

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

Authority's responsibilities

The London Borough of Hillingdon 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.



Draft audit report (continued)

Our opinion on the financial statements

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the London Borough of Hillingdon has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the London Borough of Hillingdon 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 London Borough of Hillingdon'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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the London Borough of Hillingdon had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Hillingdon put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Hillingdon had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, 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 2017.



Draft audit report (continued)

Our opinion on the financial statements

Pension Fund financial statements

On 25th September 2017 we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2017 included within the Statement of Accounts.

Certificate

We certify that we have completed the audit of the accounts of London Borough of Hillingdon in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

*Maria Grindley (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
27th September 2017*

The following foot note should be added to the audit report when it is published or distributed electronically:
The maintenance and integrity of the London Borough of Hillingdon web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.



04 Audit Differences



Audit Differences

Audit differences

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

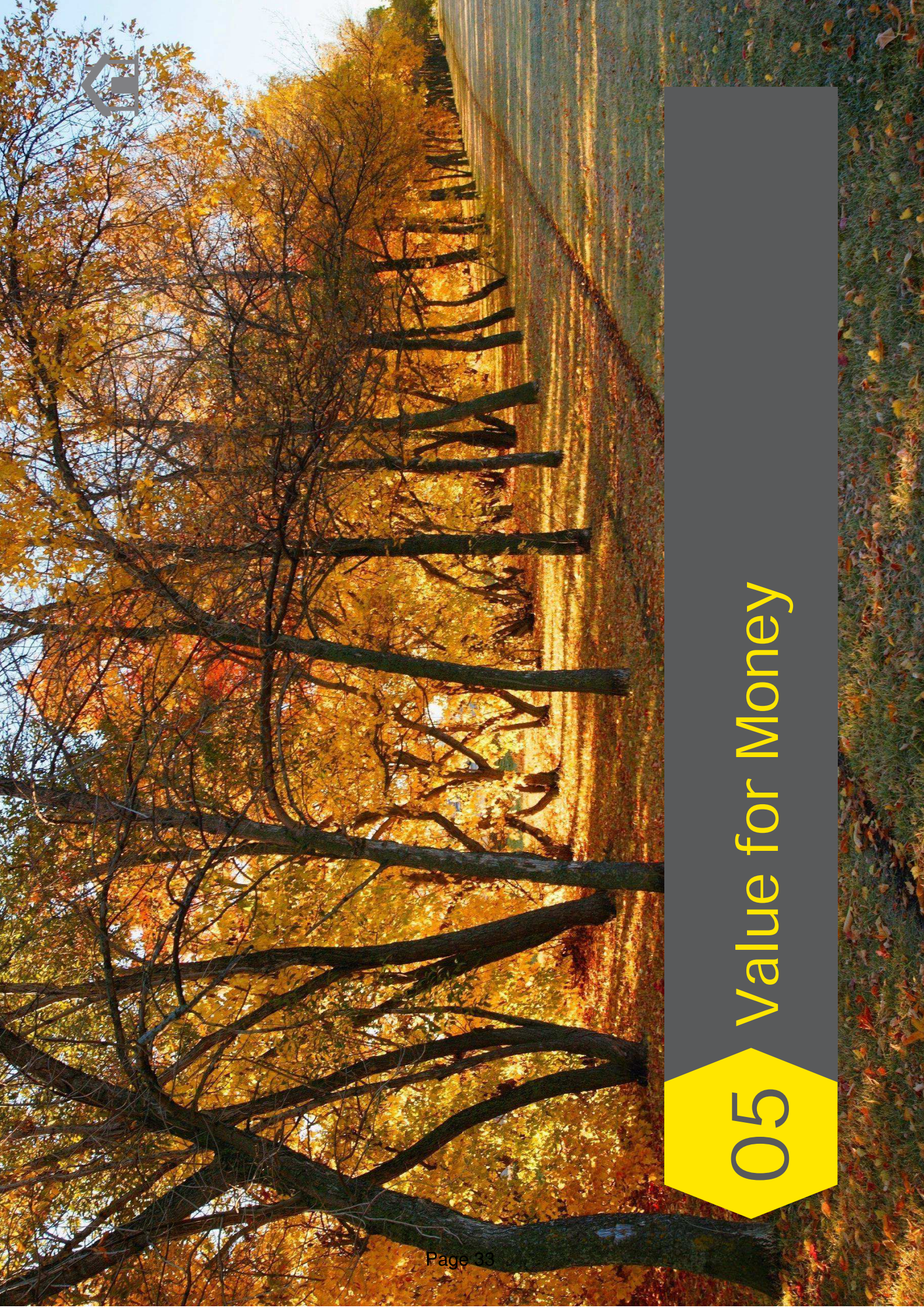
Summary of adjusted differences

We have included all known amounts greater than £10.714m relating to London Borough of Hillingdon in our summary of misstatements table below. This is the threshold over which it was determined that we would report corrected mis-statements. Further information on how these thresholds have been determined can be found in the Executive Summary.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

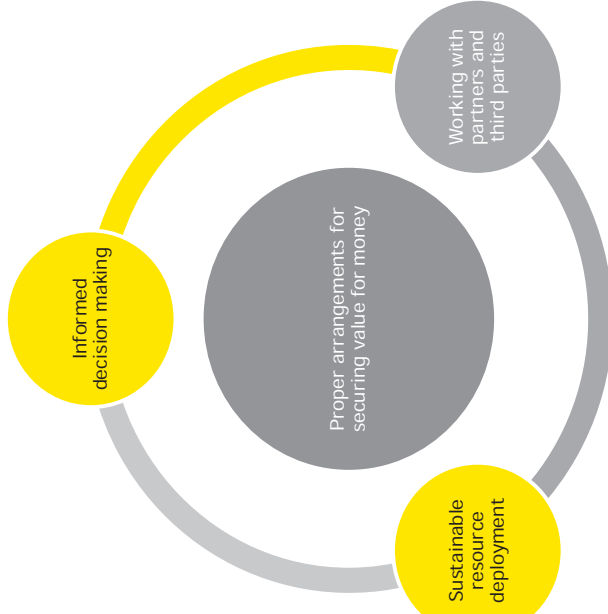
- The Narrative Report incorrectly stated that the net worth of the London Borough of Hillingdon in the prior year was £883.2m. The correct figure should have been £833.2m. This is a disclosure adjustment only and has no impact on the primary statements or the bottom line.

There are currently no uncorrected misstatements.



05 Value for Money

Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We did not identify any significant risks around these criteria

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money

VFM risks

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

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

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

We did not identify any significant risks in our risk assessment.

Other matters to bring to your attention

We noted the following issues as part of our value for money conclusion assessment

London Borough of Hillingdon continues to perform well given the financial challenges they continue to face from austerity. The successful delivery of the Council's Business Improvement Delivery Transformation Programme has enabled London Borough of Hillingdon to manage to continue to deliver for local residents whilst delivering the financial savings necessary year on year. Usable Reserves have remained stable year on year at approximately £180m. Investments and Cash Assets also account for an additional £100m as at end of March 2017.

These reserves and balances give the Council a good degree of certainty and security in uncertain times.

The Council has continued its use of internal borrowing where possible to continue to invest in capital initiatives. The borrowing position in year was also significantly improved with a reduction of approximately £48m or 15% of the long term borrowing value having been repaid in year. Furthermore no new debt was entered into in 2016/17.

The next few years will undoubtedly bring further challenges including, but not limited to, a further reduction in core Government grants such as the Revenue Support Grant and New Homes Bonus as well as further continued pressures on social care provision. Other challenges and uncertainty include the proposed retention of NDR which was announced by the then Chancellor at the time George Osborne. Recent performance has highlighted that the Council continues to respond well to the challenges it faces and will need to apply such an aptitude in the coming years as well. The Corporate Risk Register details those risks with the Risk Register being used effectively to manage the risk environment in which the Council operates.



06 Other reporting issues



Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters arising to the Audit Committee.



Other reporting issues

Other reporting issues

Other powers and duties

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

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

Other matters

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

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

We have nothing significant to report.



07 Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

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

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

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

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

Our colleagues in IT assisted us with some work and raised some findings. These are currently with senior officers for consideration.



08 Appendices



Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

Required communications		What is reported?	When and where
Terms of engagement		Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach		Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan presented to the 16 March 2017 Audit Committee.
Significant findings from the audit		<ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits (delete if not an initial audit) 	Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Going concern		<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about London Borough of Hillingdon's ability to continue for the 12 months from the date of our report.
Misstatements		<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	Audit Results Report to be presented to the 27 September 2017 Audit Committee.



Our Reporting to you



When and where



Appendix A

Required communications		What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.</p>	
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>We have no matters to report.</p>	
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements. 	<p>We have asked management and those charged with governance. We have no matters to report.</p>	
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	<p>We have no matters to report.</p>	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations.</p>	
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee. 	<p>We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.</p>	



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	Audit Plan presented to the 16 March 2017 Audit Committee; and Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	Audit Plan presented to the 16 March 2017 Audit Committee; and Audit Results Report to be presented to the 27 September 2017 Audit Committee.
Certification work	Summary of certification work	Grant Certification Report to be presented to the December 2017 Audit Committee.



Appendix B

Independence



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 16 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 27 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements in 2016/17.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
LBH Audit Fee - code work	£157,268	£157,268	£157,268	£157,268
Additional Fee*	£TBC	£0	£0	£0
Total Audit fee	£TBC	£157,268	£157,268	£157,268

Additional Fee* We completed some additional work in respect correspondence from a member of the public. As per the Code this work is billed as additional. We are considering the final engagement fee and will discuss this with key officers before billing. In line with the requirements of the Public Sector Audit Appointments Ltd (PSAA) we will need to seek PSAA's approval before confirming any additional fee.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
EY Property Valuations review of Depreciated Replacement Cost (DRC) Assets	EY Property Valuations is reviewing key assumptions and a small sample of DRC assets. They have requested some additional supporting information in respect of the assets being tested and will conclude when all of the required information has been received.	EY and management
Starters and Levers Review	EY to review starters and leavers testing undertaken by Internal Audit (completed by Mazars).	EY
Final checks of final statement of accounts	EY local team to check through the final set of financial statements for casting and consistency. Will also check that all agreed amendments have been correctly actioned.	EY and management
Management representation letter	Receipt of signed management representation letter	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management




Appendix D

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on London Borough of Hillingdon 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. • Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact. 	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D

<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none"> • There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be. 	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> • Disaggregate revenue into appropriate categories • Identify relevant performance obligations and allocate income to each • Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>



Appendix D

Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

In previous reports to the Audit Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<ul style="list-style-type: none"> The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council will need to take a number of steps as outlined below:</p> <ul style="list-style-type: none"> Critically review and amend the closedown process to achieve draft accounts production by 31st May for 2017/18; Brought forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; Provided training to departmental finance staff regarding the requirements and implications of earlier closedown; Re-ordered tasks from year-end to monthly/quarterly timing, reducing year-end pressure; Established and agreed working materiality amounts with auditor <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> Issued a thought piece on early closedown As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we will:</p> <ul style="list-style-type: none"> Have regular discussions through the year on the Council's proposals to bring forward the closedown timetable and agree on areas where early work can be completed.
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Appendix E

Management representation letter

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

[To be prepared on the entity's letterhead]

27th September 2017

Ernst & Young

Apex Plaza

Forbury Road
Reading
RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Hillingdon ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of the London Borough of Hillingdon as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

- Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committees held through the period to the most recent meeting on the following date: 27th September 2017.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 42 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement 2016/17.
2. We confirm that the content contained within the other information is consistent with the financial statements.



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

H. SERCOP Re-statement

Comparative information – comparative financial statements

In connection with your audit of the comparative financial statements for the year ended 31st March 2107, we represent, to the best of our knowledge and belief, the following:

1. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.
2. There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31st March 2017 are solely the result of reclassifications for comparative purposes.

I. Ownership of Assets

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



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

J. Reserves

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

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
 - (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities) none of which involves any allegations of non-compliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment and the Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates

Property, Plant and Equipment and Pension Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the property, plant and equipment and pensions estimates appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix E

Management representation letter (continued)

London Borough of Hillingdon Management Representation Letter 2016-17

Management Rep Letter

N. Retirement benefits

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

Yours faithfully,

Paul Whaymand (Corporate Director of Finance)

Scott Seaman-Digby (Vice-Chairman and Acting Chair of the Audit Committee)

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ey.com

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London Borough of
Hillingdon Pension Fund
Audit results report

Year ended 31 March 2017

01 September 2017

Private and Confidential

Dear Committee Members

We have substantially completed our audit of Hillingdon Pension Fund for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 30 September 2017.

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

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

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

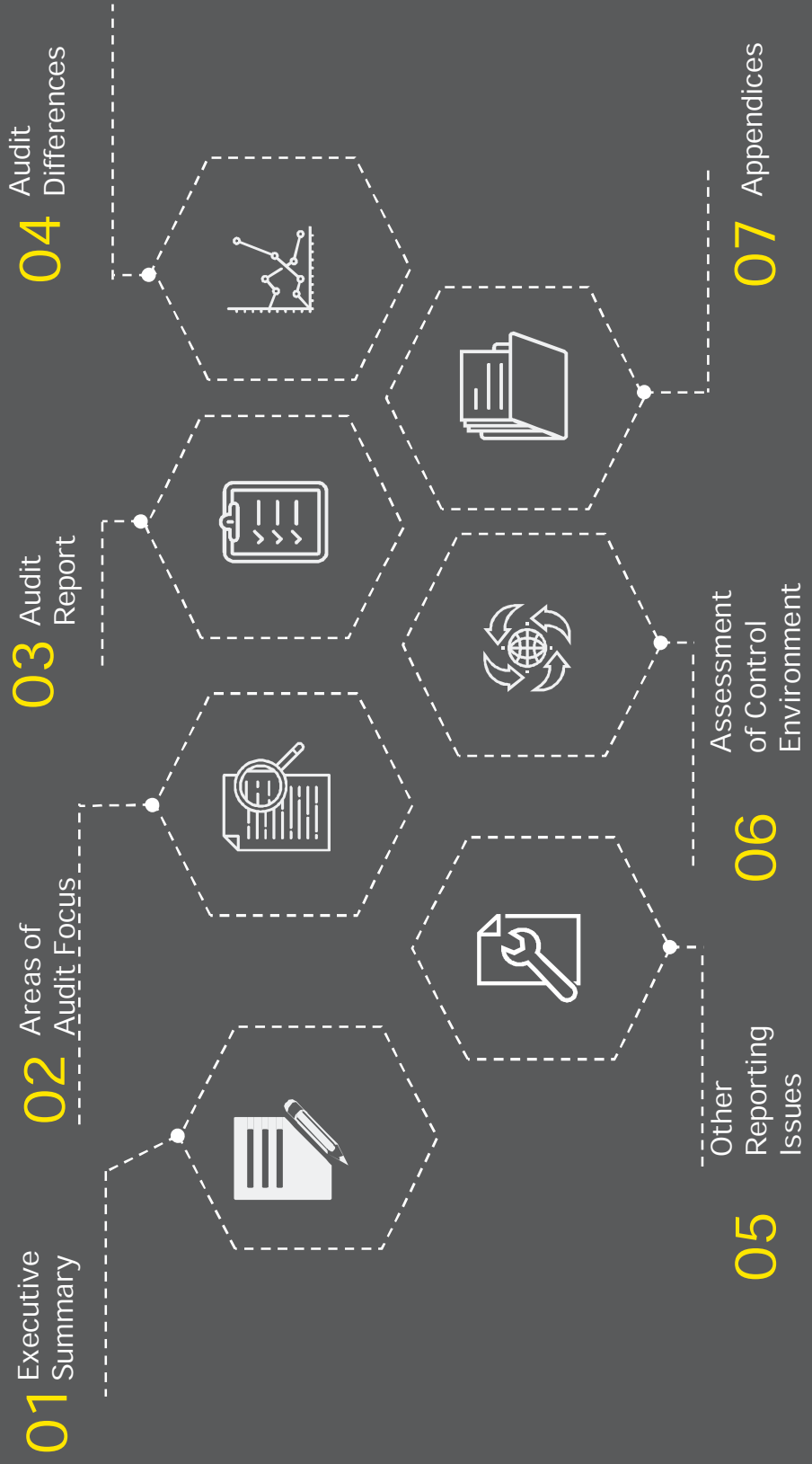
Tim Sadler

Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01 Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 16 March 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £8.012m. We reassessed this using the actual year-end figures, which has increased this amount to £9.567m. The threshold for reporting audit differences has also increased from £6.077 m to £7.715 m for corrected misstatements. The basis of our assessment of materiality has remained consistent with prior years at 1 % of Net Assets.

Status of the audit

We have substantially completed our audit of London Borough of Hillingdon's Pension Fund financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- completion of subsequent events review
- review of the final version of the financial statements and annual report
- receipt of the signed management representation letter
- clearance of any outstanding review comments



Executive Summary

Executive summary (continued)

Objections

We have not received any objections to the 2016/17 accounts from members of the public.

Audit differences

We currently have no unadjusted audit differences.

We have identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of London Borough of Hillingdon Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

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

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Pension Fund Committee or the Audit Committee.



Executive Summary

Executive summary (continued)

Other reporting issues

We have reviewed the information presented in the Annual Report for consistency with the audited financial statements and our knowledge of the Fund. We have no matters to report as a result of this work.

We have no other matters to report.

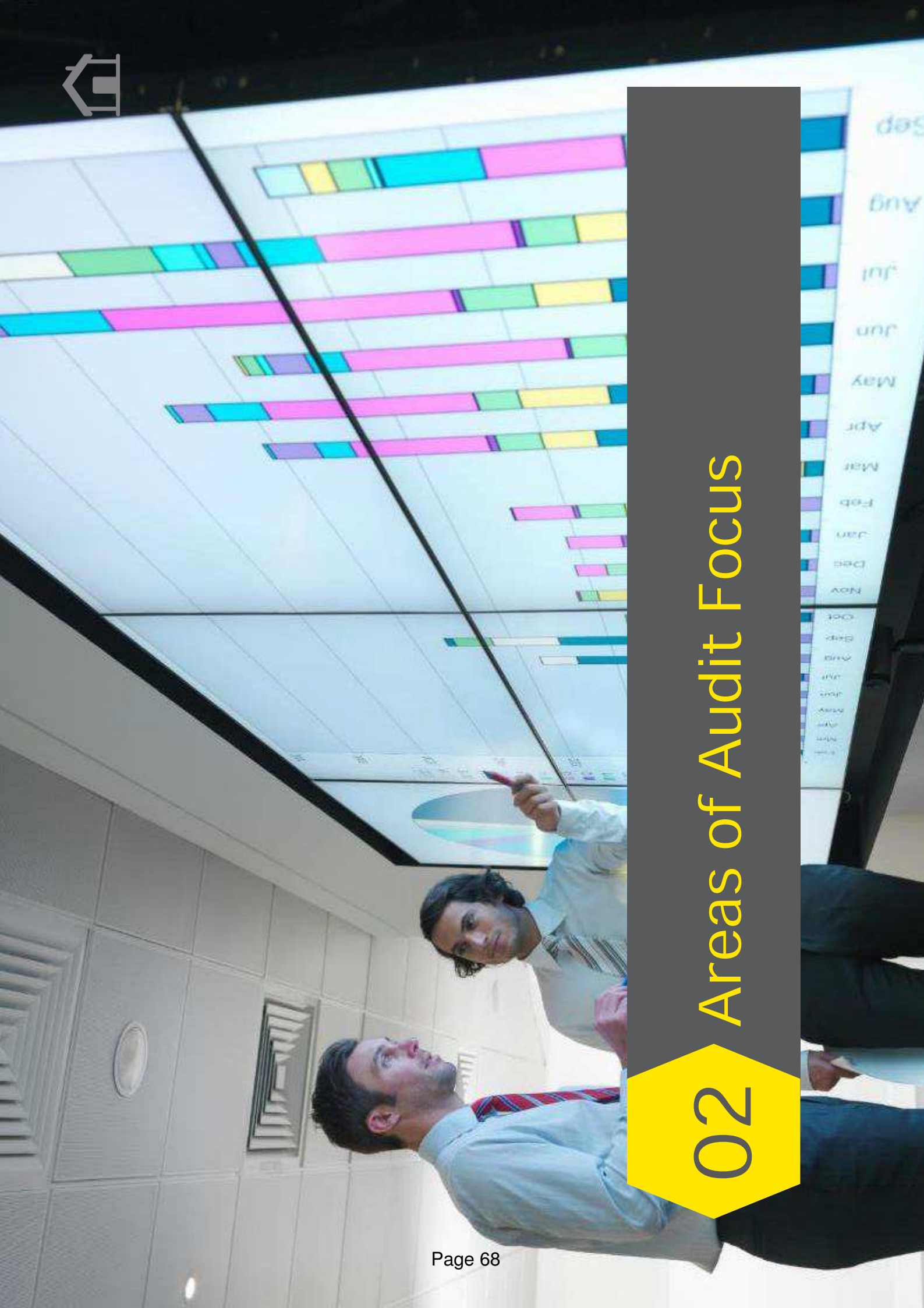
Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements. We did however note that as part of our review of the bank reconciliations that we were unable to comment upon the timeliness of the reconciliations as they were not dated. There was no clear evidence that they had been reviewed.

We would recommend that all reconciliations are signed off as dated and reviewed as evidence of timely review.

Independence

Please refer to Appendix B for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach: Risk of Incorrect Valuation of Investments

Risk of Incorrect Valuation of Investments

What are our conclusions?

We have concluded our work in respect of this Significant Risk and have not identified any material errors.

What is the risk?

Based on initial planning work on the Pension Fund and discussions with management we note that the Pension Fund holds a significant balance of investments in alternative investments, including Private Equity funds.

By their very nature these investments are more difficult to value and their valuation includes an element of judgement.

Significant Risk



What did we do?

Our approach to Investment Valuation included the following:

- We obtained third party confirmations for investment valuations from both the custodian and the investment manager;
- We obtained the latest audited accounts for these funds and reviewed any comments made by their auditors;
- We compared the valuations as at the date of the audited reports and as at 31 March 2017 and we investigated any unexpected fluctuations;
- We reviewed investment valuation policies used by Northern Trust on whose valuation the PF primarily relies;
- We obtained the latest available ISAE 3402 reports for the custodian and the investments managers and reviewed the controls environment in place around those policies.



Areas of Audit Focus

Audit issues and approach: Management Override

Management override

What are our conclusions?

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

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

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

What is the risk?

Risk of management override

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



Significant Risk

What did we do?

Our approach to Management Override included the following:

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions.



Areas of Audit Focus

Audit issues and approach: Pensions Administrator Transition

Pensions Administrator Transition

What are our conclusions?

As a result of the work performed we did not identify any material issues in respect of the transition.

What is the risk?

Pensions Administrator Transition

The Pension Fund changed the provider of pensions' administration services from Capita to Surrey County Council in year.

Given the size of the Fund and the number of members there is a risk that not all data was correctly transferred to the new administrator.

There is a further risk that, in the first few months as new administrator, procedures and controls may not yet been embedded and thus errors may be more likely to occur.



Significant Risk

What did we do?

Our approach to the transition of pensions administrator included the following:

- We reviewed the nature of the new agreement with Surrey County Council;
- We reviewed project planning documents and minutes in respect of the transition. This included reviewing correspondence from the external organisation (Aquila Heywood) who oversaw the data transfer;
- We completed analytical procedures to establish any deviations in membership numbers and values of benefits payments from expected values;
- We reviewed minutes of Pensions Committee meetings to understand any potential issues arising from the transition.
- We tested an extensive sample of benefits payments made to members back to supporting documentation and the system.



Areas of Audit Focus

Audit issues and approach: Investment Manager Transitions

Investment Manager Transitions

What are our conclusions?

We have completed our work in this area and have not identified any material issues.

What is the risk?

Investment Manager Transitions

We understand the significant changes to investments are:

- ▶ Transfer of investment portfolio from State Street to Legal and General;
- ▶ Transfer of investment portfolio from Kempen to Newton;
- ▶ Transfer of investment portfolio from GMO to Legal and General;
- ▶ Transfer of the Ruffer portfolio into the London Collective Investment Vehicle

With any investment changes there is an audit risk that transactions may be omitted from the financial statements or not be reported fairly.

What did we do?

Our approach to investment manager transitions included the following:

- ▶ We reviewed the audit trail of these movements and proceeds and verified significant transactions to external audit evidence;
- ▶ We obtained adequate assurance to support that the changes have been accounted for and disclosed as expected;
- ▶ We obtained and reviewed the investment manager's contracts to understand the nature of the new investments, and any relevant audit risks
- ▶ We obtained external confirmations to support the investment valuation.



03 Audit Report



Draft audit report

Our opinion on the financial statements

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise:
the Fund Account;
the Net Assets Statement; and
the related notes 1 to 24.

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 2016/17.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Responsibilities of the Director of Finance set out on page 10, the 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 2016/17, 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.



Draft audit report (continued)

Our opinion on the financial statements

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 Director of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 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 pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the London Borough of Hillingdon Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.



Draft audit report (continued)

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

*Tim Sadler (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
25 September 2017.*

The maintenance and integrity of the London Borough of Hillingdon web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences



Audit Differences

Audit differences

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

Summary of adjusted differences

We have included all known amounts greater than £7.175m relating to Hillingdon Pension Fund in our summary of misstatements table below.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

- In Note 15 (Fair Value) there was an adjustment between Level 1 and Level 2 in the Fair Value Hierarchy. The total transfer between these categories is as follows:
2016/17: Level 1 £725.423m to £140.936m & Level 2 £114.916m to £699.403m.
2015/16: Level 1 £592.570m to £176.478m & Level 2 £106.368 m to £522.459m.
These are disclosure adjustments only and there is no impact on the primary statements.
 - In Note 17 (Nature and Extent of Exposure to Risks Arising from Financial Instruments) the prior year table 'Assets exposed to currency risk' was amended from £8.512m to £139.996m. This error arose as a result of an error in one of the formula computation fields. This is a disclosure adjustment only and there is no impact on the primary statements.
 - In Note 17 (Nature and Extent of Risks Arising from Financial Instruments) the amount for Bonds (Pooled Funds) was amended from £133.160m to £148.817m. This error was identified by officers. Officers identified an error in the classification of an asset by the custodian and restated this Note. This is a disclosure adjustment only and there is no impact on the primary statements.
- There are currently no uncorrected misstatements.



05 Other reporting issues



Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

Other powers and duties

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

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



Other reporting issues

Other reporting issues

Other matters

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

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

We have nothing to report in respect of these areas.



06 Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

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

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

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

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

We did however note that as part of our review of the bank reconciliations that we were unable to comment upon the timeliness of the reconciliations as they were not dated. There was no clear evidence that they had been reviewed.

We would recommend that all reconciliations are signed off as dated and reviewed as evidence of timely review.



07 Appendices

07



Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee of UK clients. We have done this by:

Required communications		What is reported?	When and where
Terms of engagement		Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSA's appointed auditors and audited bodies.
Planning and audit approach		Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan presented to the Audit Committee on 16 March 2017.
Significant findings from the audit		<ul style="list-style-type: none"> Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Any significant difficulties encountered during the audit Any significant matters arising from the audit that were discussed with management Written representations we have requested Expected modifications to the audit report Any other matters significant to overseeing the financial reporting process 	Audit Results Report presented to the Pension Fund Committee on 25 September 2017 and Audit Committee on 27 September.
Going concern		<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about London Borough of Hillingdon's ability to continue for the 12 months from the date of our report.
Misstatements		<ul style="list-style-type: none"> Uncorrected misstatements and their effect on our audit opinion The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Significant corrected misstatements, in writing 	Audit Results Report presented to the Pension Fund Committee on 25 September 2017 and Audit Committee on 27 September.



Appendix A

Required communications		What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Fund ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit</p>	
Related parties	<p>Significant matters arising during the audit in connection with the Fund's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>We have no matters to report.</p>	
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements. 	<p>We have asked management and those charged with governance. We have no matters to report.</p>	
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	<p>We have no matters to report.</p>	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations.</p>	
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee. 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>	



Appendix A

		Our Reporting to you	
		When and where	
Required communications	What is reported?		
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Plan presented to the Audit Committee on 16 March 2017. Audit Results Report presented to the Pensions Committee on 25 September and Audit Committee on 27 September.	
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	Audit Plan presented to the Audit Committee on 16 March 2017. Audit Results Report presented to the Pensions Committee on 25 September and Audit Committee on 27 September.	
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	Audit Plan presented to the Audit Committee on 16 March 2017. Audit Results Report presented to the Pensions Committee on 25 September and Audit Committee on 27 September.	



Appendix B

Independence



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 16 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Pensions Committee on 25 September 2017 or at the Audit Committee on 27 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31st March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work	TBC*	21,000	21,000

- Additional fee in respect of Significant Risks identified in Audit Plan. Proposed additional fee not yet determined. In line with the requirements of the Public Sector Audit Appointments Ltd (PSAA) any additional fee will need to be approved by the PSAA before being invoiced. We will discuss the additional fee with key officers before submitting this to the PSAA.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
Receipt and checking of final version of the financial statements incorporating agreed audit adjustments	Receipt and checking of final version of the financial statements incorporating agreed audit adjustments	EY and management
Management representation letter	Receipt of signed management representation letter	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Clearance of any outstanding review comments	Team to work through remaining open review comments and close down	EY and management



Appendix D

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

25 September 2017

Tim Sadler
Executive Director
Ernst & Young LLP
19 Threefield Lane
Southampton
SO14 3QB

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Hillingdon Pension Fund ("the Fund") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, in accordance with the CIPFALASAAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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



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Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



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Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Fund.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
3. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.



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London Borough of Hillingdon Management Rep Letter 2016-17

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D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Fund and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings on the following dates: 14 June 2017 for the Pensions Committee and 29 June 2017 for the Audit Committee.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.



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Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

E. Liabilities and Contingencies

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

F. Subsequent Events

1. As described in Note 24 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.



Appendix D

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises The London Borough of Hillingdon Pension Fund Annual Report 2016/17.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Derivative Financial Instruments

1. We confirm the Fund's statement of investment principles has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions.
2. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the Fund at the year end and the terms and conditions relating thereto.
3. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2017 and dated 28 April 2017 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.



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Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

J. Ownership of Assets

1. The Fund has satisfactory title to all assets appearing in the Net Asset Statement, and there are no liens or encumbrances on the Fund's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the financial statements. All assets to which the Fund has satisfactory title appear in the Net Asset Statement.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

K. Purchase and Sales Commitments

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the financial statements.
2. At the year end, the Fund had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the Fund (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfillment of, or inability to fulfil, sales commitments, etc.).



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Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

L. Use of the Work of a Specialist

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

M. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix D

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

Yours faithfully,

Paul Whaymand
Corporate Director of Finance

Cllr Philip Corthorne
Chairman of Pensions Committee

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None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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London Borough of Hillingdon

Statement of Accounts for the year to 31 March 2017

DRAFT



London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2017

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1. Leader's Statement

Introduction by Councillor Ray Puddifoot, Leader of the Council

Councillor Ray Puddifoot
Leader of the Council

DRAFT

2. Narrative Report

This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31 March 2017. The accounts are in the format for local authority accounts set by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The purpose of this narrative report is to provide a guide to the most significant matters reported in the financial statements. Included within this document are a number of technical terms that are specific to local government finance and a glossary has been provided on page 138 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 statement reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed through income from taxpayers and general government grants. The income and expenditure is split by Council department. The surplus or deficit on this account represents the amount by which income is greater than or less than expenditure.

The statement shows a deficit of £12.7 million (£51.7 million surplus 2015/16) on the provision of services for 2016/17. Of this a deficit of £40.6 million relates to the General Fund Balance and a surplus of £29.5 million relates to the Housing Revenue Account. Additional reserve movements include a drawdown of £3.4m on Schools Balances and a transfer of £1.8m to Earmarked Reserves.

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 they are accounting items and do not affect the funding of services. As a result these items of expenditure are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Movement in Reserves Statement

This statement reconciles the outturn on the Comprehensive Income and Expenditure Statement to the balance on the Council Reserves, established by complying with relevant statutory provisions, showing the true economic cost of providing the Council's services. The statement splits the Council's reserves into usable and unusable balances, and shows movement to and from them during the year. Usable reserves are those which 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 £179.7 million in 2015/16 to £183.2 million in 2016/17. Within this movement there was an £11.9 million increase in House Revenue Account balances and a £9.0 million decrease in the Major Repairs Reserve which can only be used for capital works or paying debt relating to Council Dwellings. Unusable reserves decreased from £653.6 million in 2015/16 to £547.1 million in 2016/17 mainly due to the movement in valuation for accounting purposes of the Council's Pension Fund liabilities and the upwards movement in property values to the Revaluation Reserve.

To support the Movement in Reserves Statement, note 4 to the accounts shows the Adjustments between Accounting Basis and Funding Basis under Regulations. This note reverses the items of income and expenditure that are required to be credited or charged to the Comprehensive Income and Expenditure Statement, that do not affect the General Fund balance for Council Tax purposes. Total adjustments for 2016/17 were £38.3 million within the General Fund reducing the General Fund deficit to £2.3 million

Balance Sheet

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

The total net worth of the Council in 2016/17 was £730.3 million (£833.2 million 2015/16). The largest items within the Balance Sheet consist of long term assets valued at £1,489.4 million, net pension liabilities of £521.2 million and long-term borrowing of £246.9 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 2017 the Council has £38.7 million General Fund balances and £30.5 million Earmarked Reserves held for specific purposes. Further details on Earmarked Reserves can be seen in note 5 to the accounts.

Cash Flow Statement

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

There was a decrease in cash and cash equivalents in 2016/17 of £6.8 million which reflects the overall reduction in investments held at year-end.

Supplementary accounting statements comprise:

Housing Revenue Account (HRA) Comprehensive Income and Expenditure Statement

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

There was a surplus in 2016/17 on HRA services of £29.6 million (£96.3 million 2015/16).

Statement of Movement on the Housing Revenue Account Balance

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

The overall HRA surplus for the year, after adjustments made in the Statement of Movement on the HRA Balance, was £11.9 million in 2016/17 (£3.4 million 2015/16).

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 surplus of £0.1 million is reported on Council Tax as a result of releasing £3.3 million of prior year surpluses to the Council and Greater London Authority, with a carried-forward surplus of £3.1 million available for release to preceptors from 2017/18. An in-year surplus of £8.0 million is reported on Business Rates as a result of releasing excess contributions set aside prior to confirmation of values for new properties at Heathrow Terminal 2 at the later end of 2015/16. 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. 79% 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 members during the year, together with pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund at the end of the year. These accounts do not include any liabilities relating to payment of pensions and benefits in future years. The activity of the Pension Fund is not incorporated within the activity of the Council in the core accounting statements which begin on page 38.

This document also includes the following:

Notes to the Accounts

The notes provide further explanation of figures contained in the core and supplementary accounting statements. The notes to the accounts include the Expenditure Funding Analysis which precedes the core financial statements on page 36 within this document to help the flow of information.

Statement of Accounting Policies

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

Annual Governance Statement

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

Glossary of Terms

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

2.2 Changes to the Financial Statements

A change to the requirements in reporting of the financial statements introduces a new note to the accounts in 2016/17 - the Expenditure and Funding Analysis. The new Expenditure and Funding Analysis brings together local authority performance, as reported to Cabinet throughout the year, through to the core financial statements which are measured under proper accounting practices. As a result of this change the Council is now required to produce the Comprehensive Income and Expenditure Statement (CIES) under the Council's reportable departments. This enables the financial statements to reflect on financial performance, under proper accounting practices, to match the way as the Council departments are structured and operate. The Council is no longer required to report the income and expenditure of individual services as specified in the Service Reporting Code of Practice (SeRCOP). The Expenditure and Funding Analysis precedes the core financial statements in the layout of the accounts and provides a link from the management outturn reported position to the CIES.

To inform users of the accounts that the changes in the 2016/17 affect the comparator figures as published in 2015/16, the Council have produced a note showing the restatement of the 2015/16 CIES. This restatement can be seen on page 34 in advance of the core statements.

The new Expenditure and Funding Analysis is presented to help stakeholders understand how the management outturn position reported to Cabinet is adjusted with statutory accounting items which are outside of management control to represent the financial position of the Council within the core financial statements.

At its meeting on 9 November 2016 CIPFA/LASAAC Local Accounting Code Board postponed the implementation of Highways Network Assets which was expected to come into effect for the 2016/17 financial statements which would have required the Council to account for all roads, carriageways, footpaths structures and street furniture at depreciated replacement cost instead of the current method

of depreciated historic cost. This change in accounting standard would have increased the Councils balance sheet by approximately £5 billion in highways assets. On 8 March 2017 CIPFA/LASAAC decided not to proceed with the implementation of the Highways Network Assets into the reporting requirements of local authorities. The decision was made due to the costs of implementation outweighing the benefits for local authorities. As a result there have been no material changes to this set of financial statements in implementation of new accounting standards.

2.3 Financial Performance

The financial challenges facing the Council as a result of the Government's austerity programme and the wider economic environment continued through 2016/17 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 services to the public, as well as managing significant increases in demand for those services.

Despite the challenges faced by the Council as a result of government funding cuts, savings targets were achieved and a smaller draw on balances than planned to smooth out funding cuts was required.

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 £13.3 million savings to balance the budget while driving improvement in service quality across the Council.

The Council sold 99 Council Dwellings in 2016/17 (130 in 2015/16) under the Right-to-Buy Regulations, which resulted in a gain on sale of assets when comparing the sale price to the Social Housing value in the Council's accounts. This offsets the loss on Academy transfers representing a net gain in the Comprehensive Income and Expenditure Statement.

2.4 Non Financial Performance

Hillingdon is the second largest of London's 33 boroughs, located 14 miles from central London; and with Heathrow Airport within its boundary it is a gateway to the UK. Hillingdon has more Green Flags than any other local authority, having the highest number of top quality parks and green spaces in the UK. Hillingdon is where town and country meet, boasting 800 acres of woodland, country parks, fields and farms, several rivers and the Grand Union Canal. Hillingdon is also home to RAF Northolt airport as well as a number of historic landmarks including medieval churches and pubs linked to the English Civil War. Now under the ownership of the Council is the underground operations room used during the Battle of Britain, where in 1940 Winston Churchill proclaimed 'Never was so much owed by so many to so few'. The operations room, which is a series of rooms on two levels some 60 feet underground reached by 76 steps, was the location of key decisions which would decide the fate of the nation throughout the Second World War in the 1940s.

The Council has invested in a programme of refurbishment of parks and outdoor gyms and creation of several bowling clubs. More than 100 leisure activities took place in the Council's parks and open spaces as part of the ParkLife programme, which gave residents the opportunity to keep fit and healthy.

Hillingdon has a large selection of excellent primary and secondary schools, and has undertaken a flagship schools expansion programme. This programme included the £35 million rebuild of Northwood secondary school, which opened its doors in October 2016 offering 1,080 places in total. The expansion programme continues on secondary schools with works being carried out on Abbotsfield School.

As well as continuing to invest in current services, there are new incentives to support the health and wellbeing of residents of all ages, such as the introduction of the H4ALL wellbeing service. The Council will continue to defend residents and the environment against the potential damage caused by infrastructure projects such as HS2 and an expanded Heathrow. The Council continues to maintain weekly recycling and waste collections and make improvements to the waste and recycling services available to residents, enabling Hillingdon to continue recycling record amounts of waste.

Looking forward, in April 2017 the Council replaced its current mobile library van with a brand new custom built model. The mobile library visits 23 roadside sites across the borough on a weekly basis and also makes stops at schools, nurseries, day centres, and residential and sheltered homes. The mobile library service is extremely well used, with 9,000 visitors last year borrowing more than 20,000 items.

2.5 Revenue Budget

The Council's net revenue budget for 2016/17 totalled £201 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, 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 improved position against budget at outturn of £3.9 million. The outturn position for the General Fund revenue budget is set out below:

General Fund Services	Budget £'000	Outturn £'000	Variance £'000
Administration	9,138	9,014	(124)
Finance	13,057	12,612	(445)
Residents Services	54,542	52,899	(1,643)
Social Care	102,331	100,980	(1,351)
Net Directorate Operating Budgets	179,068	175,505	(3,563)
Development and Risk Contingency	16,572	17,590	1,018
Priority Growth	746	400	(346)
Financing Costs	5,620	4,649	(971)
Levies & other corporate budgets	(937)	(1,024)	(87)
Housing Benefit Subsidy	(560)	(560)	0
Total Net Expenditure	200,509	196,560	(3,949)
Budget Requirement	(196,293)	(196,293)	0
Movement on General Fund Balances for 2016/17	4,216	267	(3,949)

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 (CIES) surplus for the year, in accordance with accounting standards, can be seen the new Expenditure and Funding Analysis (EFA) note which precedes the CIES on page 36. The monthly budget monitoring reports separately on areas different funding streams such as General Balances, Housing Revenue Account and other reserve moments. The starting position on the EFA is adapted from the breakdown above as the directorate income and expenditure includes both the Directorate Operating budget and the Contingency funds applied to the individual directorates. Both views are in the detail provided to Cabinet for the outturn position.

The Council planned to drawdown £4.2 million from general balances in 2016/17 to smooth the government funding cuts. The Council was able to perform better than planned showing a favourable variance of £3,949k surplus against the Council's budget. The reported year end position is a £267k drawdown against general balances. Improved outturn position in 2016/17 was in part due to an under spend on staffing budgets arising from vacant posts and the change in regulations which gave the Council flexibility to apply capital receipts to fund transformation projects. There was also a favourable position in the Council's Interest and Investment income and financing costs.

An in-year surplus of £11.9 million was reported on the Housing Revenue Account (HRA) against the budgeted surplus of £9.8 million due to reduced spending on planned maintenance. 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 2017/18 and beyond.

Capital Investment

The Council's programme of capital investment for 2016/17 totalled £81.2 million (£68.4 million in 2015/16) and was funded from a range of sources. These sources of funding included grants, contributions from revenue resources, proceeds from asset sales and prudential borrowing (details in note 39 to the accounts).

Investment during 2016/17 focused heavily on the Council's flagship programme of school expansions to meet the increasing requirements of school places over the next few years. There was also significant spend on the Battle of Britain Education and Visitors Centre and the road networks in the borough within the overall capital programme.

Treasury Management

The Council takes a very prudent strategic approach in investing its cash balances to ensure money is invested at a very low level of risk. The strategy for investing funds first considers the security of the deposit, the liquidity of investments and then the return on the investment. The economic environment has continued to be very tight with limited returns available on investments, with the Bank of England base rate falling from the historic low of 0.5% since March 2009 to 0.25% in August 2016. The Council adheres strictly to counterparties which have been agreed through the Treasury Management Strategy consisting of other local authorities, instant access funds and institutions with a credit rating BBB+ or above. Investment income returns for the year on internally managed cash yielded 0.57% (0.57% 2015/16), resulting in total investment income this year of £0.9 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 an average rate of 3.37%. The portfolio was reduced by £7.2 million with debt that matured naturally and early repayment of £40.0 million, saving the Council approximately £1m in future interest costs, leaving a nominal balance at year end of £267.4 million. The total interest paid over the year totalled £9.3 million.

At the beginning of 2016/17 the Council had unpaid investments of £0.3 million with Icelandic bank Heritable. There were no further dividend payouts in 2016/17.

Looking Ahead

Looking forward, the main challenge the Council faces financially is the development of further revenue savings in light of continuing funding cuts from Central Government, estimated to be a further 19% in 2017/18 alone. In addition the Council has seen a reduction in the New Homes Bonus intended to fund further investment in Social Care; however this has left Hillingdon with a further shortfall in funding. Within this restrained funding environment the Council also has to operate with a broad range of demographic and service pressures; resulting in a growing population driving increased demand on services. Despite the funding risks, the Council aims to incorporate these strains with minimal impact on the delivery of front line services via transformation of service delivery, continuing to 'put 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 flexibility. Prudent management of reserves and sound budgetary control will provide a buffer over the medium term as further cuts in Central Government funding are forecast with ongoing efficiencies established within processes.

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 2017/18 for all residents whilst avoiding the introduction of the Social Care Precept. 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 2017/18.

In 2017/18 the Council's Schools Expansion Programme will remain at the centre of the Capital Programme, ensuring that sufficient school places are made available to meet rising demand throughout the borough. The Council is committed to ensuring there will be no reduction to service delivery and there will be continued investment in facilities. The Council continues to operate preferential rates for residents through the Hillingdon First card and benchmark its fees and charges to keep fees lower than neighbouring authorities. Major schemes within the Capital Programme beyond

the schools programme are the development of a new theatre, a borough museum and bunker visitor centre, alongside continuing investment in the existing local infrastructure.

There are a range of initiatives in the pipeline for Local Authorities including the move to 100% Business Rates Retention from 2019/20 and the fair funding review considering distribution of resources between authorities from 2020/21, along with further Health and Social care integration. These will all effect the Council's funding position; however the Council is continually identifying a number of opportunities for transformation under the Council BID programme to deal with the future uncertainties and to keep on top of the funding gap.

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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 2016/17 ('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 United Kingdom ('the Code'), as at 31 March 2017 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
September 2017

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 27 September 2017.

Signed on behalf of London Borough of Hillingdon
AUDIT COMMITTEE
September 2017

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

Opinion on the Authority's financial statements

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- London Borough of Hillingdon Movement in Reserves Statement,
- London Borough of Hillingdon Comprehensive Income and Expenditure Statement,
- London Borough of Hillingdon Balance Sheet,
- London Borough of Hillingdon Cash Flow Statement, and
- Related notes 1 to 50,
- London Borough of Hillingdon Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement 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 2016/17.

This report is made solely to the members of London Borough of Hillingdon, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Hillingdon and the London Borough of Hillingdon's members 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 set out on page 10, 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 2016/17, 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 Statement of Accounts 2016/17 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 London Borough of Hillingdon as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 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 is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the London Borough of Hillingdon has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the London Borough of Hillingdon 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 London Borough of Hillingdon'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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the London Borough of Hillingdon had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Hillingdon put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Hillingdon had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, 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 2017.

Pension Fund financial statements

On 25th September 2017 we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2017 included within the Statement of Accounts.

Certificate

We certify that we have completed the audit of the accounts of London Borough of Hillingdon in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

*Maria Grindley (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
27th September 2017*

The maintenance and integrity of the London Borough of Hillingdon web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise:
the Fund Account,
the Net Assets Statement,
and the related notes 1 to 24.

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 2016/17.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of the Responsibilities of the Corporate Director of Finance set out on page 10, 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 2016/17, 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 Statement of Accounts 2016/17 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 pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the London Borough of Hillingdon Statement of Accounts 2016/17 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:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

*Tim Sadler (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
25 September 2017.*

The maintenance and integrity of the London Borough of Hillingdon's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

5. Statement of Accounting Policies

The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2016/17 financial year and its position as at the year-end of 31 March 2017. The Statement of Accounts must be prepared in accordance with proper accounting practices as per the Accounts and Audit Regulations 2015. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 directly to service revenue accounts when incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the balance sheet valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and guidance notes issued by the Royal Institution of Chartered Surveyors (RICS). Property, Plant and Equipment are included in the balance sheet on the following basis:

- Infrastructure assets, community assets and assets under construction are included in the balance sheet at depreciated historical cost;
- Dwellings are carried at fair value, determined using the basis of existing use value for social housing;
- Surplus assets and investment properties are measured at fair value, estimated at highest and best use from a market participants perspective;

- All other asset classes are measured at fair value in its existing use. For land, buildings and assets which are not held for the purpose of generating cash flows, the fair value represents the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value due to the specialised nature of the asset, the asset is valued at its depreciated replacement cost;
- Plant and machinery forming an integral part of the property is included in the valuation of the buildings. Other plant and machinery has been given a value on the basis of historical costs as a proxy for current value.

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

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 maximum useful life up to 60 years
Other Land & Buildings	Useful life varies depending on the condition, type and usage of the asset, up to 60 years for buildings and infinite life for Land.
Surplus Assets	Useful life varies depending on the condition, type and usage of the asset
IT Equipment	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. The Council have recently taken ownership of the Battle of Britain Bunker which consists of the underground operations room used in World War II and visited by Winston Churchill which has also been classified as a heritage asset due to its historical significance.

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.

During the period 1 April 2016 to 31 March 2019 the Council are allowed under Guidance published by DCLG to flexible use of capital receipts on areas of revenue cost to reform which generate ongoing savings to the Council. In the case where revenue spend is identified as meeting the criteria to use flexible capital receipts the Council will meet the cost of the reform through capital receipts generated during the same financial year. Where the Council has determined to meet this cost from capital receipts a transfer to the Capital Adjustment Account reverses the amounts charged to the Comprehensive Income and Expenditure Statement via the Movement in Reserves Statement so there is no impact on the level of Council Tax.

6. Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are re-valued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Net Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

7. Leases

Assets are acquired under finance leases when the risks and rewards relating to the asset transfer to the Council. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have a legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the Property, Plant or Equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the 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 years to 31 March 2017 or 31 March 2016.

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. Any accrued interest will be treated in the same manner as the principal investment except for long-term investments with remaining terms in excess of 365 days; in these cases accrued interest will be shown as short-term investments.

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

11. Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

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

12. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Account when the Council is demonstrably committed to either terminating the employment of an officer or group of officers. Where an employee is subject to redeployment there is no commitment to termination of employment.

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

Post Employment Benefits

The Council participates in four defined benefit pension schemes-

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

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

Teachers' Pension Scheme

- The Teachers' Pension Scheme is unfunded and administered on behalf of the Department of Education (DfE) by Capita 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 was a defined contribution scheme and no liability for future payment has been recognised in the Council's Balance Sheet. The Schools Budget line in the Council's Comprehensive Income and Expenditure Statement is charged with the employers contributions made into this scheme.

NHS Pensions Scheme

- The NHS Pension Scheme is unfunded and is administered by NHS Business Services Authority. The arrangements for the NHS scheme mean that liabilities for the benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Council's Balance Sheet. The Residents 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 under the LGPS are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices.
- The pension fund assets attributable to the Council is included in the Balance Sheet at fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in the net pensions liability is analysed into the following components:
 - Service cost comprising:
 - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Operating Budgets.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time – debited to the Financing and

Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
 - The return on assets – excluding amounts included in net interest on the net defined benefit liability (asset) the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return– debited to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to pension funds – cash paid as employer’s contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as a finance lease)

15. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions where conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grant Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grant Unapplied reserve are then transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

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. Schools

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

18. Fair Value

Fair value measurement is defined by IFRS13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition is applied to all fair value measurements for non-operational property plant and equipment, investment property as well as for financial instruments. Operational property, plant and

equipment continue to be valued in line with its existing use. Fair value assumes the transaction to sell the asset takes place in the principle market for the asset or liability or in the absence of the principle market in the most advantageous market. When measuring non-operational property, plant and equipment, the fair value at highest and best use is adopted. Valuation techniques maximise known data and minimise the use of estimates or unknowns. This takes into account three levels of valuation inputs

- Level 1 - Quoted prices
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability.

19. 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.

20. 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.

21. Provisions and Reserves

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

Provisions

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

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

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When a payment for expenditure against a provision is made, the expenditure is charged directly to that provision. All provisions are reviewed each year.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provision for bad and doubtful debts

No provision is made for debts that are secured except in exceptional circumstances. Of all remaining debts, the Council makes a provision for bad debts based upon continuous reviews of 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 1 st April 2007. It had a nil balance at 1 st 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

22. Financial Assets

The Council holds Financial Assets classified into two classes.

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market. They are accounted for using the amortised cost model.
- Available-for-sale assets – covers all other assets that do not meet the 'loans and receivables' criteria. They are accounted for using the fair value model

Loans and Receivables

The asset is maintained in the Balance Sheet at amortised cost.

- Initial measurement will be at fair value, normally the amount of the originating transaction, plus transaction costs where material. The effective interest rate is then calculated, the rate of interest that will discount the estimated cash flows that will take place over the life of the instrument. Annual income to the Comprehensive Income and Expenditure Statement are made for interest received and are based upon the carrying amount of the instrument, multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal receivable plus any accrued interest

Available-For-Sale Financial Assets

The asset is maintained in the Balance Sheet at fair value:

- Initial measurement will be at fair value, normally the amount of the originating transaction, such as the payment for an equity share or the purchase of a bond, plus transaction costs where material. For assets with fixed or determinable payments, the effective interest rate is then calculated, the rate of interest that will discount the estimated cash flows that will take place over the life of the instrument to the amount in the Balance Sheet at initial measurement. This results in a carrying amount (the amortised cost) and an effective interest rate that might be different from those specified in the contract (although for most assets, such as loans at fixed

interest or at variable rates linked to base rates, and without significant transaction costs, the two should be the same). The amortised cost is then used as the basis for calculating interest income and as a benchmark against which to assess the accounting treatment of movements in fair value. The asset carried in the Balance Sheet is then updated as fair value changes to measure available-for-sale financial assets.

- Interest/dividend income is recognised in the Comprehensive Income & Expenditure Statement. Gains and losses arising on movements in fair value are posted to Other Comprehensive Income and Expenditure, and the change in the amount of the investment in the Balance Sheet is matched with an entry in the Available-for-Sale Reserve.
- When the asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure shall be transferred from the Available-for-Sale Reserve and recognised in the Comprehensive Income & Expenditure Statement.

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.

23. Financial Liabilities

The Council holds Financial Liabilities classified as Amortised Cost.

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

Financial Liabilities - Amortised Cost: The liability is maintained in the Balance Sheet at amortised cost: Initial measurement will be at fair value, normally the amount of the originating transaction, less transaction costs where material. The effective interest rate is then calculated, the rate of interest that will discount the estimated cash flows that will take place over the life of the instrument. Annual charges to the Comprehensive Income and Expenditure Statement are made for interest payable and are based upon the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal payable plus any accrued interest.

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the 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. Minimum Revenue Provision

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

26. 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.

27. 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.

28. 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.

29. 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.

30. 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 2017 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	<p>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.</p> <p>Assets are subject to a 5 year rolling valuation and assumptions are made by the specialist valuer regarding market indicators and other data available to assess an asset's value.</p>	<p>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 £3.8m for every year that useful lives had reduced.</p> <p>A fall in value of the Council's Property, Plant and Equipment would impact on the net worth of the Council, however would not impact on the Council's usable balances. Fluctuations in the value of assets will not correlate with normal market conditions; however a 1% movement in asset values would move the Council's balance sheet position by £14.7m.</p>
Provisions	<p>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.</p>	<p>If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.</p>
Arrears	<p>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.</p>	<p>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.</p>

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 50 to the accounts on page 96.
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31. Carbon Reduction Commitment (CRC)

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is in 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.

32. 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 2017 for 2016/17). Disclosure requirements are expected to be included in a subsequent edition of the Code.

Changes in the 2017/18 Code of practice that will be introduced in future versions of the accounts include -

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

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 the United Kingdom. Further details of these requirements are detailed in the Statement of Accounting Policies.

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

Restatement of 2015/16 Published Accounts (page 34)

This note provides an overview of changes to the Financial Statements from the published Statement of Account in 2015/16 as a result of changes in reporting requirements. This statement reconciles the position reported to management and that reported in the CIES.

Expenditure and Funding Analysis (page 36)

This statement shows how Council funding has been used in providing services in comparison to those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

Comprehensive Income and Expenditure Statement (page 38)

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

Balance Sheet (page 39)

This sets out the assets and liabilities of the Council as at 31 March 2017, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 40)

This statement sets out the reserves held by the Council, split into usable and unusable reserves, and shows how they have moved during the year.

Cash Flow Statement (page 42)

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

Supporting notes to the Accounts (page 43)

A selection of notes provided to support the information in the main financial statements with additional detail of movement breakdown and analysis.

Restatement of 2015/16 Published Accounts

Following a review of the presentation of local authority financial Statements the CIPFA 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement (CIES) and introduced a new Expenditure and Funding Analysis. Both statements under the new reporting requirements necessitates the Council to report its performance based on how it is structured rather than a predetermined service based structure as per previously published Financial Statements. As a result the Council has to restate the Income and Expenditure within the CIES for the Cost of services into its departmental headings.

The tables below show the 2015/16 published Net Cost of Services which were based on the 2015/16 Code of Practice and Service Reporting Code of Practice which defined the services to be shown within this statement. The restated comparator is based on the 2016/17 Code of Practice which requires the same income and expenditure to be categorised under the Council's directorates.

Comprehensive Income and Expenditure Statement			
31 March 2016			
Expenditure	Income	Net Expenditure	
£000's	£000's	£000's	
Net Cost of Services based on 2015/16 Code of Practice			
EXPENDITURE ON SERVICES			
Central Services to the Public	9,433	(3,175)	6,258
Culture and Related Services	23,633	(3,080)	20,553
Environmental and Regulatory Services	36,516	(8,610)	27,906
Planning Services	7,494	(6,998)	496
Education and Children's Services	256,719	(173,171)	83,548
Highways and Transport Services	32,714	(9,688)	23,026
Local Authority Housing (HRA)	(28,840)	(67,698)	(96,538)
Other Housing Services	169,868	(157,760)	12,108
Adult Social Care	100,092	(32,510)	67,582
Public Health	15,801	(16,814)	(1,013)
Corporate and Democratic Core	5,512	(435)	5,077
Non-Distributed Costs	(1,538)	(49)	(1,587)
TOTAL COST OF SERVICES	627,404	(479,988)	147,416

Comprehensive Income and Expenditure Statement			
31 March 2016			
Expenditure	Income	Net Expenditure	
£000's	£000's	£000's	
Restated Net Cost of Services based on the 2016/17 Code of Practice			
EXPENDITURE ON SERVICES			
Administration	10,428	(844)	9,584
Finance	17,440	(2,303)	15,137
Residents Services	162,628	(56,851)	105,777
Adult Social Care	154,033	(40,983)	113,050
Corporate Operating Budgets	150,528	(152,621)	(2,093)
Priority Growth	484	0	484
Schools Budget	160,703	(158,688)	2,015
Housing Revenue Account	(28,840)	(67,698)	(96,538)
TOTAL COST OF SERVICES	627,404	(479,988)	147,416

Restatement of 2015/16 Published Accounts

The 2016/17 CIPFA Code of Practice incorporates a new note to the accounts; the Expenditure and Funding Analysis (EFA), which aims to demonstrate to council tax and rent payers how the funding available to the Council for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates and other service departments.

Since the introduction of the revived Code, the Council structure has altered with certain service departments now reporting to different directorates. As such the statement below shows the movement of funding used to provide services relating to the General Fund, from the originally published management outturn position to the new Council structure.

The reported outturn position to Cabinet in June 2016 is reflected in the table below alongside the restatement required to align the comparator cost of service to the management structure as at 31 March 2017, for the opening EFA position on page 36. The EFA then shows how these figures feed through to the Comprehensive Income and Expenditure Statement.

Expenditure Funding and Analysis			
31 March 2016			
	Published Outturn - Net Expenditure Charged to GF & HRA Balances	Movement between directorates	Restated - Net Expenditure Charged to GF & HRA Balances
	£000's	£000's	£000's
Administration	9,832	(329)	9,503
Finance	13,984	329	14,313
Residents Services	60,744	41	60,785
Adult Social Care	114,976	(41)	114,935
Corporate Operating Budgets	6,095	0	6,095
Priority Growth	1,420	0	1,420
Budget Requirement	(208,954)	0	(208,954)
Exceptional & Ring-fenced	(1,663)	0	(1,663)
Total	(3,566)	0	(3,566)

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	Total Net Expenditure Charged to GF & HRA Balances	Adjustments between the Funding & Accounting Basis (Note 1A)	Earmarked Reserve Adjustments (Note 5)	Adjustments between Funding & Other Income and Expenditure on the Provision of Services (Note 1B)	Net Expenditure in Comprehensive Income and Expenditure Statement
	£000's	£000's	£000's	£000's	£000's
2016/17					
General Fund					
Administration	9,015	180	125	0	9,320
Finance	12,901	(158)	272	0	13,015
Residents Services	57,749	48,878	402	9,116	116,145
Social Care	113,426	685	379	(5,938)	108,552
Corporate Operating Budgets	3,069	828	(1,485)	(1,214)	1,198
Priority Growth	400	(10)	(105)	0	285
Budget Requirement*	(196,293)	(2,520)	(1,342)	200,155	0
Total General Fund	267	47,883	(1,754)	202,119	248,515
Other Funds					
Schools Budget	3,424	305	0	(668)	3,061
Housing Revenue Account	(11,882)	(8,343)	0	(7,317)	(27,542)
Total Other Funds	(8,458)	(8,038)	0	(7,985)	(24,481)
Net Cost of Services	(8,191)	39,845	(1,754)	194,134	224,034
Other Income and Expenditure on the Provision of Services	0	(19,274)	0	(192,089)	(211,363)
(Surplus)/Deficit on Provision of Services	(8,191)	20,571	(1,754)	2,045	12,671

Movement in Balances 2016/17

	£000's
Opening General Fund and HRA Balance	117,038
General Fund declared deficit	(267)
Timing differences	(2,045)
General Fund Deficit	(2,312)
HRA Surplus	11,882
Schools Reserve Movements	(3,424)
Other Earmarked Reserve Movements	1,754
Closing General Fund and HRA Balance at 31 March 2017	124,938

*Budget Requirement reflects the Council's funding streams required to support the net expenditure budget from Council tax, Business rates and Corporate grant income

Note- there may be rounding discrepancies on this presentation to the presentation in the management reported position due to the level of reporting in the differing statements

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	Total Net Expenditure Charged to GF & HRA Balances	Adjustments between the Funding & Accounting Basis (Note 1A)	Earmarked Reserve Adjustments (Note 5)	Adjustments between Funding & Other Income and Expenditure to the Provision of Services (Note 1B)	Net Expenditure in Comprehensive Income and Expenditure Statement
	£000's	£000's	£000's	£000's	£000's
2015/16					
General Fund					
Administration	9,503	266	(184)	(1)	9,584
Finance	14,313	91	735	(2)	15,137
Residents Services	60,785	40,966	(3,552)	7,578	105,777
Social Care	114,935	2,903	2,819	(7,607)	113,050
Corporate Operating Budgets	6,095	(6,513)	(484)	(1,191)	(2,093)
Priority Growth	1,420	0	(883)	(53)	484
Budget Requirement*	(208,954)	1,115	565	207,274	0
Exceptional Items**	(1,663)	0	0	1,663	0
Total General Fund	(3,566)	38,828	(984)	207,661	241,939
Other Funds					
Schools Budget	3,325	(571)	0	(739)	2,015
Housing Revenue Account	(3,368)	(85,746)	0	(7,424)	(96,538)
Total Other Funds	(43)	(86,317)	0	(8,163)	(94,523)
Net Cost of Services	(3,609)	(47,489)	(984)	199,498	147,416
Other Income and Expenditure on the Provision of Services	0	(4,141)	0	(194,998)	(199,139)
(Surplus)/Deficit on Provision of Services	(3,609)	(51,630)	(984)	4,500	(51,723)

Movement in Balances 2015/16

	£000's
Opening General Fund and HRA Balance	116,945
General Fund declared surplus	3,566
Planned Reserve Drawdown	(5,000)
Timing differences	500
General Fund Deficit	(934)
HRA Surplus	3,368
Schools Reserve Movements	(3,325)
Other Earmarked Reserve Movements	984
Closing General Fund and HRA Balance at 31 March 2016	117,038

*Budget Requirement reflects the Council's funding streams required to support the net expenditure budget from Council tax, Business rates and Corporate grant income

** Exceptional items include unbudgeted income and capitalisation of costs allocated within the service lines.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. Councils raise taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Note	31 March 2017			31 March 2016			
	Expenditure	Income	Net Expenditure	Expenditure	Income	Net Expenditure	
	£000's	£000's	£000's	£000's	£000's	£000's	
EXPENDITURE ON SERVICES							
	Administration	10,537	(1,217)	9,320	10,428	(844)	9,584
	Finance	15,432	(2,417)	13,015	17,440	(2,303)	15,137
	Residents Services	173,948	(57,803)	116,145	162,628	(56,851)	105,777
	Social Care	143,310	(34,758)	108,552	154,033	(40,983)	113,050
	Corporate Operating Budgets	149,409	(148,211)	1,198	150,528	(152,621)	(2,093)
	Priority Growth	285	0	285	484	0	484
	Schools Budget	165,038	(161,977)	3,061	160,703	(158,688)	2,015
	Housing Revenue Account	34,536	(62,078)	(27,542)	(28,840)	(67,698)	(96,538)
	NET COST OF SERVICES	692,495	(468,461)	224,034	627,404	(479,988)	147,416
6	Other Operating Expenditure	1,815		1,815	1,763		1,763
	Net (gain)/loss on disposal of non-current assets		(11,029)	(11,029)	4,413		4,413
7	Net Financing and Investment Income and Expenditure	23,485	(930)	22,555	26,050	(1,409)	24,641
8	Taxation and Non-Specific Grant		(224,704)	(224,704)		(229,956)	(229,956)
	Other Income and Expenditure on the Provision of Services (SURPLUS)/DEFICIT ON PROVISION OF SERVICES	25,300	(236,663)	(211,363)	32,226	(231,365)	(199,139)
		717,795	(705,124)	12,671	659,630	(711,353)	(51,723)
25D	(Surplus)/Deficit on revaluation of Property, Plant and Equipment			(32,919)			(73,594)
48	Actuarial (gain)/loss on pension assets and liabilities			123,128			(115,524)
25G	(Surplus)/Deficit on revaluation of available for sale financial assets			41			(31)
	TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			102,921			(240,872)

Balance Sheet

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

Reserves are reported in two categories:

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

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

		Note	
		31 March 2017	31 March 2016
		£000's	£000's
Property, Plant & Equipment	9	1,467,400	1,425,203
Heritage Assets	12	531	501
Intangible Assets	13	726	469
Investment Properties	14	5,624	5,629
Long Term Investments	15	10,044	39
Long Term Debtors	18	5,082	6,340
LONG TERM ASSETS		1,489,407	1,438,181
Inventories	16	265	296
Short Term Debtors	17	39,186	45,454
Short Term Investments	15	50,099	100,249
Cash and Cash Equivalents	21	36,776	43,637
Assets Held for Sale	22	41	120
Current Intangible Assets	23	210	397
CURRENT ASSETS		126,577	190,153
Short Term Provisions	24	(6,174)	(5,030)
Short Term Borrowing	15	(18,480)	(8,515)
Short Term Creditors	19	(79,871)	(74,384)
CURRENT LIABILITIES		(104,525)	(87,929)
Long Term Provisions	24	(806)	(1,663)
Deferred Credits		(17)	(29)
Long Term Borrowing	15	(246,894)	(304,142)
Long Term Creditors	20	(2,796)	(4,034)
Capital Grant Receipts in Advance	38	(8,037)	(9,104)
Deferred Liabilities	40	(1,412)	(1,702)
Net Liabilities Related to Defined Benefit Pension Schemes	49	(521,170)	(386,483)
LONG TERM LIABILITIES		(781,132)	(707,157)
NET ASSETS		730,327	833,248
Usable Reserves		183,225	179,690
Unusable Reserves	25	547,102	653,558
TOTAL RESERVES		730,327	833,248

Paul Whaymand
Corporate Director of Finance
September 2017

Movement in Reserves Statement

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

Note	General Fund Balance	Schools Balances	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	41,050	13,281	28,763	33,944	32,144	1,672	28,836	179,690	653,558	833,248
	(40,569)	(3,424)	1,754	29,568	0	0	0	(12,671)	(90,250)	(102,921)
4	38,257	0	0	(17,686)	(8,996)	1,075	3,556	16,206	(16,206)	0
	(2,312)	(3,424)	1,754	11,882	(8,996)	1,075	3,556	3,535	(106,456)	(102,921)
	38,738	9,857	30,517	45,826	23,148	2,747	32,392	183,225	547,102	730,327

Balance at 31 March 2016

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & funding basis under regulations

Increase/(Decrease) in Year

Balance at 31 March 2017

Note	General Fund Balance	Schools Balances	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	41,984	16,606	27,779	30,576	24,774	1,712	30,030	173,461	418,915	592,376
	(42,232)	(3,325)	984	96,296	0	0	0	51,723	189,149	240,872
4	41,298	0	0	(92,928)	7,370	(40)	(1,194)	(45,494)	45,494	0
	(934)	(3,325)	984	3,368	7,370	(40)	(1,194)	6,229	234,643	240,872
	41,050	13,281	28,763	33,944	32,144	1,672	28,836	179,690	653,558	833,248

Balance at 31 March 2015

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & funding basis under regulations

Increase/(Decrease) in Year

Balance at 31 March 2016

Movement in Unusable Reserves

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

Note	Revaluation Reserve £000'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
	130,785	912,251	(330)	(386,483)	508	(3,258)	85	653,558	833,248
	32,919	0	0	(123,128)	0	0	(41)	(90,250)	(102,921)
4	(3,321)	(1,919)	13	(11,559)	2,519	(1,939)	0	(16,206)	0
	29,598	(1,919)	13	(134,687)	2,519	(1,939)	(41)	(106,456)	(102,921)
	160,383	910,332	(317)	(521,170)	3,027	(5,197)	44	547,102	730,327

Balance at 31 March 2016

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & funding basis under regulations

Increase/(Decrease) in Year

Balance at 31 March 2017

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Note	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
	59,001	847,800	(343)	(485,178)	1,623	(4,042)	54	418,915	592,376
	73,594	0	0	115,524	0	0	31	189,149	240,872
4	(1,810)	64,451	13	(16,829)	(1,115)	784	0	45,494	0
	71,784	64,451	13	98,695	(1,115)	784	31	234,643	240,872
	130,785	912,251	(330)	(386,483)	508	(3,258)	85	653,558	833,248

Balance at 31 March 2015

Total Comprehensive Income & Expenditure

Adjustments between accounting basis & funding basis under regulations

Increase/(Decrease) in Year

Balance at 31 March 2016

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	2016/17 £000's	2015/16 £000's
Net (surplus) on the provision of services	26	12,671	(51,723)
Adjust net (surplus) on the provision of services for non cash movements	26	(100,988)	(45,134)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	26	61,301	42,785
Net cash flows from operating activities	26	(27,016)	(54,072)
Net cash flows from investing activities	27	5,870	73,399
Net cash flows from financing activities	28	28,007	17,535
(Increase)/Decrease in cash and cash equivalents		6,861	36,862
Cash and cash equivalents at the beginning of the reporting period		(43,637)	(80,499)
Cash and cash equivalents at the end of the reporting period		(36,776)	(43,637)

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Notes to Main Financial Statements

1A. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

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

2016/17	Adjustments for Capital Purposes (1)	Net Change for the Pensions Adjustment (2)	Other Differences (3)	Total Adjustments between Funding & Accounting Basis
	£000's	£000's	£000's	£000's
Administration	0	(81)	261	180
Finance	0	(157)	(1)	(158)
Residents Services	32,613	(732)	16,997	48,878
Social Care	459	(588)	814	685
Corporate Operating Budgets	(2,662)	1,123	2,367	828
Priority Growth	(10)	0	0	(10)
Budget Requirement	0	0	(2,520)	(2,520)
Schools Budget	(195)	(1,404)	1,904	305
Housing Revenue Account	(8,206)	(57)	(80)	(8,343)
Net Cost of Services	21,999	(1,896)	19,742	39,845
Other Income & Expenditure on the Provision of Services from the Expenditure and Funding Analysis	(33,925)	13,455	1,196	(19,274)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services	(11,926)	11,559	20,938	20,571

2015/16	Adjustments for Capital Purposes (1)	Net Change for the Pensions Adjustment (2)	Other Differences (3)	Total Adjustments between Funding & Accounting
	£000's	£000's	£000's	£000's
Administration	0	59	207	266
Finance	0	96	(5)	91
Residents Services	21,398	426	19,142	40,966
Social Care	2,049	260	594	2,903
Corporate Operating Budgets	(6,522)	4	5	(6,513)
Priority Growth	0	0	0	0
Budget Requirement	0	0	1,115	1,115
Schools Budget	(179)	408	(800)	(571)
Housing Revenue Account	(72,836)	74	(12,984)	(85,746)
Net Cost of Services	(56,090)	1,327	7,274	(47,489)
Other Income & Expenditure on the Provision of Services from the Expenditure and Funding Analysis	(20,889)	15,502	1,246	(4,141)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services	(76,979)	16,829	8,520	(51,630)

Notes to Main Financial Statements

(1) Adjustments for Capital Purposes

Net Cost of Services

This column adds depreciation, impairment and revaluation gains and losses in the services line

Other Income and Expenditure on the Provision of Services

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from Other Income and Expenditure on the Provision of Services as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

(2) Net Change for the Pensions Adjustments

Net Cost of Services

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

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

Other Income and Expenditure on the Provision of Services

Financing and investment income and expenditure – the net interest on the defined benefit liability which is charged to the CIES.

(3) Other Differences

Net Cost of Services

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

Other Income and Expenditure on the Provision of Services

Financing and investment income and expenditure - the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Taxation and non-specific grant income and expenditure - represents the difference between what is chargeable under statutory regulations for Council Tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Notes to Main Financial Statements

1B. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

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

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

	Precepts and Levies	Interest Payable	Interest Receivable	Taxation & Non Specific Grant Income (excl Capital)	Transfers	Total Adjustments
	£000's	£000's	£000's	£000's	£000's	£000's
2016/17						
Residents Services	0	(67)	0	9,183	0	9,116
Social Care	0	0	0	0	(5,938)	(5,938)
Corporate Operating Budgets	(625)	(2,691)	718	454	930	(1,214)
Budget Requirement	0	0	0	192,172	7,983	200,155
Schools Budget	0	(668)	0	0	0	(668)
Housing Revenue Account	0	(6,599)	212	0	(930)	(7,317)
Net Cost of Services	(625)	(10,025)	930	201,809	2,045	194,134
Timing differences					(2,045)	
Total Transfers					0	

	Precepts and Levies	Interest Payable	Interest Receivable	Taxation & Non Specific Grant Income (excl Capital)	Transfers	Total Adjustments
	£000's	£000's	£000's	£000's	£000's	£000's
2015/16						
Administration	0	0	0	0	(1)	(1)
Finance	0	0	0	0	(2)	(2)
Residents Services	0	(70)	0	8,086	(438)	7,578
Social Care	0	0	0	0	(7,607)	(7,607)
Corporate Operating Budgets	(620)	(2,787)	1,110	683	423	(1,191)
Priority Growth	0	0	0	0	(53)	(53)
Budget Requirement	0	0	0	195,886	11,388	207,274
Exceptional Items	0	0	0	0	1,663	1,663
Schools Budget	0	(739)	0	0	0	(739)
Housing Revenue Account	0	(6,850)	299	0	(873)	(7,424)
Net Cost of Services	(620)	(10,446)	1,409	204,655	4,500	199,498
Planned Reserve Drawdown					(5,000)	
Timing differences					500	
Total Transfers					(4,500)	

Notes to Main Financial Statements

2. SEGMENTAL INCOME AND EXPENDITURE

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

Segmental Income & Expenditure 2016/17	Fees charges and other service income	Interest Receivable	Depreciation	Interest Payable
	£000's	£000's	£000's	£000's
Administration	(1,047)	0	0	0
Finance	(1,705)	0	0	0
Residents Services	(32,575)	0	0	67
Social Care	(10,797)	0	0	0
Corporate Operating Budgets	(122)	(718)	0	2,691
Schools Budget	(9,081)	0	0	668
Housing Revenue Account	(62,078)	(212)	9,610	6,599
Net Cost of Services	(117,405)	(930)	9,610	10,025

Segmental Income & Expenditure 2015/16	Fees charges and other service income	Interest Receivable	Depreciation	Interest Payable
	£000's	£000's	£000's	£000's
Administration	(744)	0	0	0
Finance	(1,639)	0	0	0
Residents Services	(32,987)	0	0	70
Social Care	(10,723)	0	0	0
Corporate Operating Budgets	(1,289)	(1,110)	0	2,787
Schools Budget	(8,596)	0	0	739
Housing Revenue Account	(67,698)	(299)	11,270	6,850
Net Cost of Services	(123,676)	(1,409)	11,270	10,446

Notes to Main Financial Statements

3. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2016/17	2015/16
	£000's	£000's
Expenditure		
Employee benefits expenses	187,522	181,682
Employee benefits of Voluntary Aided & Foundation Schools*	35,334	34,447
Other services expenses	410,891	423,772
Support service recharges	15,415	16,991
Depreciation, amortisation, impairment	43,333	(29,488)
Interest payments	23,480	25,948
Precepts and levies	625	620
Payments to Housing Capital Receipts Pool	1,190	1,143
Loss on the disposal of assets	0	4,413
Change in the Fair Value of Investment Properties	5	102
Total Expenditure	717,795	659,630
Income		
Fees, charges and other service income	(117,405)	(123,676)
Interest and investment income	(930)	(1,409)
Income from council tax, non domestic rates	(156,549)	(149,411)
Government grants and contributions	(419,211)	(436,857)
Gain on the disposal of assets	(11,029)	0
Total Income	(705,124)	(711,353)
(Surplus)/Deficit on the Provision of Services	12,671	(51,723)

*Employee benefits of Voluntary Aided & Foundation Schools

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

Notes to Main Financial Statements

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Notes to Main Financial Statements

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2016/17	General Fund Balance £000's	Housing Revenue Account £000's	Major Repairs Reserve £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	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	Unusable Reserves £000's
Amortisation of intangible assets	(72)		(2)			(74)		74					74
Depreciation of non current assets	(22,604)		(9,607)			(32,211)	2,224	29,987					32,211
Revaluation and impairment of non current assets	(10,453)	(595)				(11,048)		11,048					11,048
Statutory provision for the financing of capital investment	2,673	8,801				11,474		(11,474)					(11,474)
Revenue expenditure funded from capital under statute	(20,454)	(2)				(20,456)		20,456					20,456
Capital grants and contributions applied	22,895			(1,075)		21,820		(21,820)					(21,820)
Capital expenditure charged in year to the General Fund balance	56		18,670			18,726		(18,726)					(18,726)
Use of Capital Receipts Reserve to finance new capital expenditure					14,133	14,133		(14,133)					(14,133)
Assets	1,278	9,751			(18,879)	(7,850)	1,097	6,753					7,850
Liabilities	251					251		(251)					(251)
Finance Lease Principal	(5)					(5)		5					5
Gain/Loss Investment Property													
Transfer from capital receipts reserve to meet statutory requirements to the housing capital receipts pool	(1,190)				1,190	0							0
Premiums and discounts	(3)	16				13			(13)				(13)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(36,509)	(1,143)				(37,652)				37,652			37,652
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	25,301	792				26,093				(26,093)			(26,093)
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	2,519					2,519					(2,519)		(2,519)
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	(1,940)	1				(1,939)						1,939	1,939
Transfer to Reserve for Capital projects		65	(65)			0							0
Total Adjustments	(38,257)	17,686	8,996	(1,075)	(3,556)	(16,206)	3,321	1,919	(13)	11,559	(2,519)	1,939	16,206

Notes to Main Financial Statements

4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2015/16	General Fund Balance £000's	Housing Revenue Account £000's	Major Repairs Reserve £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	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	Unusable Reserves £000's
Amortisation of intangible assets	(40)		(2)			(42)		42					42
Depreciation of non current assets	(20,649)		(11,268)			(31,917)	1,431	30,486					31,917
Revaluation and impairment of non current assets	(2,840)	64,287				61,447		(61,447)					(61,447)
Statutory provision for the financing of capital investment	6,523	8,549				15,072		(15,072)					(15,072)
Revenue expenditure funded from capital under statute	(20,185)					(20,185)		20,185					20,185
Capital grants and contributions applied	25,301			40		25,341		(25,341)					(25,341)
Capital expenditure charged in year to the General Fund balance	265		16,864			17,129		(17,129)					(17,129)
Use of Capital Receipts Reserve to finance new capital expenditure					22,442	22,442		(22,442)					(22,442)
Amounts written off on disposal of non current assets	(12,462)	8,050			(22,391)	(26,803)	379	26,424					26,803
Gain/Loss Investment Property	259					259		(259)					(259)
Gain/Loss Investment Property	(102)					(102)		102					102
Other Income						0							0
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,143)				1,143	0							0
Premiums and discounts	(3)	16				13			(13)				(13)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(38,346)	(2,268)				(40,614)				40,614			40,614
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	22,459	1,326				23,785				(23,785)			(23,785)
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	(1,115)					(1,115)					1,115		1,115
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	780	4				784						(784)	(784)
Transfer to Reserve for Capital projects		12,964	(12,964)		1,194	0	1,810	(64,451)	(13)	16,829	1,115		(45,494)
Total Adjustments	(41,298)	92,928	(7,370)	40	1,194	45,494	1,810	(64,451)	(13)	16,829	1,115	(784)	(45,494)

Notes to Main Financial Statements

5. EARMARKED RESERVE TRANSFERS

	31 March 2017 £000's	Transfers Out 2016/17 £000's	Transfers In 2016/17 £000's	31 March 2016 £000's	Transfers Out 2015/16 £000's	Transfers In 2015/16 £000's	31 March 2015 £000's
Earmarked Reserves:							
Grants Unapplied	3,791	(2,215)	3,094	2,912	(4,219)	1,126	6,005
Member Initiatives	13,226	(1,183)	1,242	13,167	(1,201)	3,233	11,135
Other Reserves	8,814	(3,512)	4,192	8,134	(2,667)	3,733	7,068
Barnhill PFI	512	(547)	355	704	(168)	387	485
Public Health Reserve	2,705	0	94	2,611	0	158	2,453
Parking Revenue Account / New Roads & Street Works Reserve	1,469	(654)	888	1,235	0	602	633
Total Earmarked Reserves	30,517	(8,111)	9,865	28,763	(8,255)	9,239	27,779

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 2017 include monies in respect of the Education Services 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, Highways maintenance and Leader's Initiatives amongst other balances. These monies are expected to be drawn down over the life of these initiatives.

Other Reserves

Funds set aside to manage cyclical or irregular expenditure, including 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.

Barnhill PFI

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

Public Health Reserve

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

Parking Revenue Account / New Roads & Street Works Reserve

A statutory reserve earmarking monies primarily raised from on-street parking operations to support related investment in local infrastructure, further details on these operations are set out in note 30.

Notes to Main Financial Statements

6. OTHER OPERATING EXPENDITURE

	2016/17 £000's	2015/16 £000's
Payments to Government Housing Capital Receipts Pool	1,190	1,143
Precepts and Levies	625	620
Total	1,815	1,763

7. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2016/17 £000's	2015/16 £000's
Interest payable and similar charges	10,025	10,446
Interest receivable	(930)	(1,409)
Net interest on the net defined benefit liability	13,455	15,502
Changes in the fair value of investment properties	5	102
Total	22,555	24,641

8. TAXATION AND NON-SPECIFIC GRANT INCOME

	2016/17 £000's	2015/16 £000's
Council Tax Income	(109,329)	(102,907)
Non-Domestic Rates Income	(112,558)	(111,205)
Non-Domestic Rates Tariff payable to Central Government	60,791	60,288
Non-Domestic Rates Levy (receivable)/payable to Central Government	4,547	4,413
Non-Ringfenced Government Grants	(45,260)	(55,244)
Capital Grants & Contributions	(22,895)	(25,301)
Total	(224,704)	(229,956)

Notes to Main Financial Statements

9. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2016/17

	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 2016	689,988	495,598	60,658	253,611	13,524	15,733	19,308	1,548,420
Additions	19,335	970	3,671	10,506	0	10,760	0	45,242
Enhancements	2,512	4,554	771	0	0	7,270	0	15,107
Revaluation increases/(decreases) recognised in Revaluation Reserve	13,460	9,289	(4,761)	0	0	274	0	18,262
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	2,397	(12,032)	0	0	0	(6,375)	0	(16,010)
Derecognition - Disposals	(6,658)	(819)	(435)	0	0	(97)	0	(8,009)
Derecognition - Other	0	0	(42)	0	0	0	0	(42)
Assets reclassified within Property Plant and Equipment	0	(168)	0	0	0	1,827	(1,659)	0
Assets reclassified (to) & from Held for Sale & Investment Properties	(41)	0	0	0	0	0	0	(41)
Other Movements in Cost Valuation	0	0	0	0	0	0	0	0
Cost or Valuation as at 31 March 2017	720,993	497,392	59,862	264,117	13,524	29,392	17,649	1,602,929

Accumulated Depreciation & Impairment at 1 April 2016

Depreciation charge in 2016/17	(9,089)	(11,533)	(5,224)	(6,323)	(460)	(58)	(1)	(123,217)
Depreciation written out to Revaluation Reserve	5,673	4,219	4,761	0	0	5	0	(32,211)
Depreciation written out to Surplus/Deficit on Services	3,329	1,579	0	0	0	54	0	14,658
Derecognition - Disposals	86	24	161	0	0	0	0	4,962
Derecognition - Other	0	0	8	0	0	0	0	271
Assets reclassified within Property Plant and Equipment	0	6	0	0	0	(24)	18	8
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0
Accumulated Depreciation & Impairment at 31 March 2017	(1)	(15,713)	(13,838)	(105,469)	(460)	(23)	(25)	(135,529)

Balance Sheet amount 1 April 2016

Balance Sheet amount 31 March 2017	689,988	485,590	47,114	154,465	13,064	15,675	19,307	1,425,203
Nature of asset holding	720,992	481,679	46,024	158,648	13,064	29,369	17,624	1,467,400

Owned

Finance Lease

Balance Sheet amount 31 March 2017

Owned	720,992	481,679	45,814	158,648	13,064	29,369	17,624	1,467,190
Finance Lease	0	0	210	0	0	0	0	210
Balance Sheet amount 31 March 2017	720,992	481,679	46,024	158,648	13,064	29,369	17,624	1,467,400

Notes to Main Financial Statements

9. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2015/16

	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 2015	598,810	482,556	55,311	246,038	14,554	6,287	12,632	1,416,188
Additions	3,721	1	4,763	7,573	0	10,813	0	26,871
Enhancements	4,241	10,072	982	0	0	5,837	0	21,132
Revaluation increases/(decreases) recognised in Revaluation Reserve	36,246	21,346	0	0	0	0	6,160	63,752
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	55,583	(8,406)	0	0	0	0	516	47,693
Derecognition - Disposals	(8,493)	(4,796)	(234)	0	0	(10,020)	0	(23,543)
Derecognition - Other	0	0	(3,553)	0	0	0	0	(3,553)
Assets reclassified within Property Plant and Equipment	0	(5,175)	3,389	0	(1,030)	2,816	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	(120)	0	0	0	0	0	0	(120)
Other Movements in Cost Valuation	0	0	0	0	0	0	0	0
Cost or Valuation as at 31 March 2016	689,988	495,598	60,658	253,611	13,524	15,733	19,308	1,548,420

	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
Accumulated Depreciation & Impairment at 1 April 2015	0	(12,962)	(12,270)	(93,013)	(460)	0	(81)	(118,786)
Depreciation charge for 2015/16	(10,816)	(10,418)	(4,512)	(6,133)	0	0	(38)	(31,917)
Depreciation written out to Revaluation Reserve	1,974	7,790	0	0	0	0	78	9,842
Depreciation written out to Surplus/Deficit on Services	8,842	4,872	0	0	0	0	40	13,754
Derecognition - Disposals	0	103	234	0	0	0	0	337
Derecognition - Other	0	0	3,553	0	0	0	0	3,553
Assets reclassified within Property Plant and Equipment	0	607	(549)	0	0	(58)	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0
Accumulated Depreciation & Impairment at 31 March 2016	0	(10,008)	(13,544)	(99,146)	(460)	(58)	(1)	(123,217)
Balance Sheet amount 1 April 2015	598,810	469,594	43,041	153,025	14,094	6,287	12,551	1,297,402
Balance Sheet amount 31 March 2016	689,988	485,590	47,114	154,465	13,064	15,675	19,307	1,425,203
Nature of asset holding								
Owned	689,988	485,590	46,849	154,465	13,064	15,675	19,307	1,424,938
Finance Lease	0	0	265	0	0	0	0	265
Balance Sheet amount 31 March 2016	689,988	485,590	47,114	154,465	13,064	15,675	19,307	1,425,203

NB: Of the £23.2m written out for disposals, £14.2m relates to community schools converting to academy status.

Notes to Main Financial Statements

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

The Council undertakes a rolling programme that ensures all of its Property, Plant and Equipment is carried at current value or fair value as prescribed in the Code of Practice and that every asset is valued at least every 5 years. During 2016/17 20% of the Council's General Fund assets were valued by external independent valuers Wilks Head & Eve LLP as part of the rolling programme with the addition of the highest value assets also being revalued to ensure no material swings in value. The Housing Stock was uplifted in value to reflect market conditions for all Council Dwellings by Jones Lang LaSalle Limited to reflect the value at 31 March 2017 through a desktop valuation. Valuations are carried out in accordance with professional standards of the Royal Institution of Chartered Surveyors.

During 2016/17, the Council has recognised total revaluation losses of £43,955k (£18,449k in 2015/16) from downwards revaluations, which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. The Council recognised valuation gains of £32,907k (£79,896k in 2015/16) 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.

Fair Value Hierarchy

Investment property and surplus properties are measured at fair value in accordance with IFRS13 Fair Value Measurement. In estimating the fair value the valuation has taken into account the highest and best use of the assets estimating the price at which an orderly transaction to sell the asset would take place under current market conditions. IFRS13 also seeks to increase consistency and comparability within the valuation process and categorises valuations under a fair value hierarchy which considers methodology of the valuation using levels of observable and unobservable inputs.

Property within the borough is actively purchased, sold or leased on the open market and there are a number of comparables. As such, the level of observable inputs are significant, leading to all properties being categorised as level 2 on the fair value hierarchy.

There have been no changes in asset methodology which resulted in moving asset fair values between levels on the fair value hierarchy during the year.

11. COMMITMENTS UNDER CAPITAL CONTRACTS

As at March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2017/18 and future years budgeted to cost £42,542k. Similar commitments at 31 March 2016 were £23,124k. The major commitments are:

Scheme	31 March 2017 £000's	31 March 2016 £000's
Schools Expansions Programme	2,009	16,593
New Vehicles	117	142
Housing	32,961	0
Other Capital Projects	7,455	6,389
Total	42,542	23,124

12. HERITAGE ASSETS

At 31 March 2017 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 is now the owner of the Battle of Britain Bunker which is held at cost. The Council also 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 2017 £000's	31 March 2016 £000's
Balance at start of year	501	501
Increase/(Decrease) in value	30	0
Balance at end of year	531	501

Notes to Main Financial Statements

13. 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 (Restated to reflect the new reported Services in the CIES):

	2016/17 £000's	2015/16 (Restated) £000's
Service		
Residents Services	74	42
Total	74	42

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

	2016/17 £000's	2015/16 £000's
Software		
Gross carrying amounts	514	2,077
Accumulated amortisation	(45)	(1,788)
Net carrying amount at the start of the year	469	289
Purchases	331	222
Gross Book Value Derecognition Other as fully depreciated	0	(1,785)
Amortisation Derecognition Other	0	1,785
Amortisation for the period	(74)	(42)
Net carrying amount at end of year	726	469
Comprising:		
Gross carrying amounts	845	514
Accumulated amortisation	(119)	(45)
Total	726	469

14. INVESTMENT PROPERTIES

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

	2016/17 £000's	2015/16 (Restated) £000's
Rental income from investment property	(525)	(519)
Direct operating expenses arising from investment property	61	55
Net gain	(464)	(464)

Note: 2015/16 rental income from investment property has been updated

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 Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

	2016/17 £000's	2015/16 £000's
Opening Balance	5,629	5,731
Net gain/(loss) from fair value adjustments	(5)	(102)
Closing Balance	5,624	5,629

Notes to Main Financial Statements

15. FINANCIAL INSTRUMENT BALANCES

	Note	Current		Long-Term		Total	
		31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's
Investments and Cash Equivalents							
Loans and receivables		49,599	87,096	10,000	0	59,599	87,096
Loans and receivables - shown as cash equivalents	21	1	400	0	0	1	400
Available-for-sale financial assets		500	13,153	44	39	544	13,192
Available-for-sale financial assets - shown as cash equivalents	21	23,203	29,609	0	0	23,203	29,609
Total investments		73,303	130,258	10,044	39	83,347	130,297
Trade Debtors							
Financial assets carried at contract amounts		3,487	8,613	0	0	3,487	8,613
Total included in Trade Debtors		3,487	8,613	0	0	3,487	8,613
Borrowings							
Financial liabilities at amortised cost	46	(18,480)	(8,515)	(246,894)	(304,142)	(265,374)	(312,657)
Total included in borrowings		(18,480)	(8,515)	(246,894)	(304,142)	(265,374)	(312,657)
Other Long-Term Liabilities							
PFI and finance lease liabilities	40	(248)	(250)	(1,412)	(1,702)	(1,660)	(1,952)
Total Other Long-Term Liabilities		(248)	(250)	(1,412)	(1,702)	(1,660)	(1,952)
Trade Creditors							
Financial liabilities carried at contract amount		(15,244)	(27,409)	0	0	(15,244)	(27,409)
Total Trade Creditors		(15,244)	(27,409)	0	0	(15,244)	(27,409)

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:

	2016/17				2015/16			
	Financial Liabilities measured at amortised cost £000's	Financial Assets: Loans and Receivables £000's	Financial Assets: Available for Sale £000's	Total £000's	Financial Liabilities measured at amortised cost £000's	Financial Assets: Loans and Receivables £000's	Financial Assets: Available for Sale £000's	Total £000's
Interest Expense	9,284	0	0	9,284	9,626	0	0	9,626
Total Expense in Surplus or Deficit on the Provision of Services	9,284	0	0	9,284	9,626	0	0	9,626
Interest Income	0	(611)	(174)	(785)	0	(583)	(364)	(947)
Gain on Derecognition	0	0	(132)	(132)	0	(450)	(9)	(459)
Total Income in Surplus or Deficit on the Provision of Services	0	(611)	(306)	(917)	0	(1,033)	(373)	(1,406)
Gain (Loss) / Loss on Revaluation	0	0	41	41	0	0	(31)	(31)
(Surplus)/Deficit arising on Revaluation of Financial Assets in Other Comprehensive Income and Expenditure	0	0	41	41	0	0	(31)	(31)
PFI Interest	667	0	0	667	738	0	0	738
Other	74	(13)	0	61	82	(3)	0	79
Net (Gain)/Loss for the year	10,025	(624)	(265)	9,136	10,446	(1,036)	(404)	9,006

Notes to Main Financial Statements

FAIR VALUES OF ASSETS AND LIABILITIES

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments. Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at the Balance Sheet date.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or other financial asset to another entity, or exchange a financial asset or liability with another entity under conditions which are potentially unfavourable to the Council.

The fair value of an instrument is determined by calculating the Net Present Value of future cash flows that are scheduled to take place over the remaining life of the instrument. This provides an estimate of the value of payments in the future in today's terms.

Fair values shown in the tables below are split by their level in the fair value hierarchy:

Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.

Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.

Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

There were no transfers between levels during the year.

FAIR VALUE OF LIABILITIES CARRIED AT AMORTISED COST

	Fair Value	31 March 2017		31 March 2016	
		Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
Financial Liabilities Held at Amortised Cost					
PWLB Loans	2	(216,759)	(256,408)	(264,037)	(286,419)
Market Loans	2	(48,615)	(85,616)	(48,620)	(75,857)
Lease & PFI Liabilities	3	(1,660)	(4,005)	(1,952)	(4,896)
Trade Creditors	N/A	(15,244)	(15,244)	(27,409)	(27,409)
		(282,278)	(361,273)	(342,018)	(394,581)

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 2017) arising from a commitment to pay interest to lenders above current market rates.

Financial Liabilities

- Public Works Loan Board (PWLB)

Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.

- Market Loans

Included within Market Loans are: £36m of Lender's Option Borrower's Option (LOBO) loans - The value of LOBO loans has been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate. Also included are £12m of Barclays Bank PLC Market loans. Last year these loans were classified as LOBO loans. However, on 22 June 2016, Barclays Bank PLC wrote to the Council advising they had waived their right to change the applicable interest rate, changing their classification from LOBO to fixed-rate loans. These have been valued on the same bases as LOBO loans but with the option premium removed.

- Creditors

The fair value of Trade Creditors is assumed to approximate the carrying value.

- PFI/Finance Lease

The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

Notes to Main Financial Statements

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

Financial assets classified as available for sale are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at the Balance Sheet date, using the following methods and assumptions:

Financial assets classified as loans and receivables are carried in the Balance Sheet at Amortised Cost.

Certificates of deposit and forward loan contracts have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

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 tradable instruments maturing within 12 months have been updated to show their fair value.

FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

	Fair Value	31 March 2017		31 March 2016	
		Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
Financial Assets Held at Fair Value					
Money Market Funds	1	23,703	23,703	30,109	30,109
Pooled Funds	1	0	0	10,046	10,046
Covered Bonds	2	0	0	2,607	2,607
Shares in Listed Companies (Long-Term)	1	44	44	39	39
Financial Assets Held at Amortised Cost					
Long-Term Deposits	2	10,000	10,065	0	0
Short-Term Deposits & Deposit Accounts	N/A	49,599	49,599	87,096	87,096
Instant Access Bank Accounts	N/A	1	1	400	400
Trade Debtors	N/A	3,487	3,487	8,613	8,613
		86,834	86,899	138,910	138,910

Offsetting Financial Assets and Liabilities

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

Notes to Main Financial Statements

16. INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2016/17 £000's	2015/16 £000's	2016/17 £000's	2015/16 £000's	2016/17 £000's	2015/16 £000's
Balance outstanding at start of year	50	62	246	293	296	355
Purchases	913	895	286	613	1,199	1,508
Recognised as expense in year	(909)	(907)	(321)	(660)	(1,230)	(1,567)
Balance outstanding at year-end	54	50	211	246	265	296

17. SHORT TERM DEBTORS

	31 March 2017 £000's	31 March 2016 £000's
Central Government bodies	6,514	12,451
Allowance for Impairment	0	(19)
Central Government Bodies net of Impairment	6,514	12,432
Other local authorities	2,266	1,734
Allowance for Impairment	(1)	(6)
Other local authorities	2,265	1,728
NHS bodies	2,097	472
Allowance for Impairment	(293)	(53)
NHS bodies	1,804	419
Housing rents	2,608	2,899
Allowance for Impairment	(1,743)	(2,161)
Housing rents net of Impairment	865	738
Council Taxpayers	14,492	14,109
Allowance for Impairment	(5,777)	(8,186)
Council taxpayers net of Impairment	8,715	5,923
Non-domestic rate payers	3,804	5,580
Allowance for Impairment	(1,018)	(1,346)
Non-domestic rate payers net of Impairment	2,786	4,234
Other entities and individuals	33,352	36,916
Allowance for Impairment	(17,115)	(16,936)
Other entities and individuals net of Impairment	16,237	19,980
Total Debtors	65,133	74,161
Less: Provision for doubtful debts	(25,947)	(28,707)
	39,186	45,454

18. LONG TERM DEBTORS

	31 March 2017 £000's	New Debtors £000's	To Short Term £000's	Repayments £000's	31 March 2016 £000's
Housing advances & associations	6	0	0	0	6
Sale of Council houses	17	0	0	12	29
Other loans & advances	236	0	0	6	242
Developer Contributions	4,823	0	1,240	0	6,063
	5,082	0	1,240	18	6,340

Notes to Main Financial Statements

19.SHORT-TERM CREDITORS

	31 March 2017 £000's	31 March 2016 £000's
Council Taxpayers	(4,213)	(3,841)
Central Government Departments	(19,906)	(10,420)
NHS Bodies	(1,936)	(2,391)
Housing Rents	(1,016)	(666)
Non-Domestic Ratepayers	(6,777)	(2,150)
Other Local Authorities	(7,494)	(4,330)
Sundry Creditors	(38,529)	(50,586)
	(79,871)	(74,384)

20. LONG-TERM CREDITORS

Long Term Creditors consist of balances held under Section 106 and 278 Agreements and deposits which would become repayable after more than 1 year. These amount to £2,796k at 31 March 2017 (£4,034k at 31 March 2016).

21. CASH AND CASH EQUIVALENTS

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

	31 March 2017 £000's	31 March 2016 £000's
Cash held by the Council	13,572	13,628
Liquid deposits	23,204	30,009
Total Cash and Cash Equivalents	36,776	43,637

22. ASSETS HELD FOR SALE

At 31 March 2017 the Council held £41k (£120k at 31 March 2016) 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 2017 £000's	31 March 2016 £000's
Balance outstanding at start of year	120	3,585
Assets newly classified as held for sale	41	120
Enhancements	0	11
Assets sold	(120)	(3,596)
	41	120

23. CURRENT INTANGIBLE ASSETS

At 31 March 2017 the Council held £210k (£397k at 31 March 2016) of current intangible assets through pre-purchase of carbon emission allowances as part of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme.

Notes to Main Financial Statements

24. PROVISIONS

	1 April 2016	Additional provisions made in 2016/17	Amounts used in 2016/17	Unused amounts reversed in 2016/17	31 March 2017	Short-Term Provisions	Long-Term Provisions
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Housing Repairs Claim	729	0	0	0	729	729	0
CRC Allowance Purchase	189	169	(187)	(2)	169	169	0
Dilapidation Provision	956	27	(130)	(60)	793	793	0
Non Domestic Rates Appeal Losses	1,350	784	(116)	(624)	1,394	1,394	0
Ordinary Residency Disputes	472	230	0	0	702	702	0
Personal Searches	40		(19)	(21)	0	0	0
Insurance Provision	2,335	1,606	(222)	(1,269)	2,450	1,715	735
MMI	71	40	(38)	(2)	71	0	71
Other provisions	551	453	(213)	(119)	672	672	0
Total Provisions	6,693	3,309	(925)	(2,097)	6,980	6,174	806

Housing Repairs Claim

Outstanding legal costs relating to a Housing contract claim. This provision is expected to be settled in full during 2017/18.

CRC Allowance Purchase

The 2016/17 financial year was the sixth 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 during the financial year 2014-15. The Council is required to surrender to the scheme by the last working day in July 2017, the proportion of reported emissions for the preceding scheme year (2016-17). The obligation to transfer the allowances to the scheme is represented as a provision in the accounts to comply with accounting standards. The pre-purchased allowances are accounted for as intangible current assets.

Non Domestic Rates Appeal Losses

See note 3 to the Collection Fund Accounts on page 104. 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 sought. If it is determined that the Ordinary Residence for these cases is within the London Borough of Hillingdon then payments will have to be made for the back dated costs of the placements. This provision is based on paying for the placements from the date the cases were originally referred to the Social Work teams.

Notes to Main Financial Statements

24. PROVISIONS (Continued)

Dilapidation Provision

The Council is contractually obliged to fund dilapidation costs on a number of leased properties. During the year provisions were released and drawn upon. The latest schedule of works has resulted in an increased estimate in other areas. Works are expected to be carried out during 2017/18.

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 2017.

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

Municipal Mutual Insurance (MMI)

Municipal Mutual Insurance (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 01 January 2014, LBH are required to pay 15% of settlement payments and solicitors costs. Deterioration in the assessment of the number and value of future claims, particularly in respect of abuse and mesothelioma claims as stated in the company's Annual Report and Accounts for the year ended 30 June 2015, has resulted in a substantial deficit in MMI's financial position. The Scheme Administrator has subsequently imposed a second levy with effect from April 2016, requiring a further 10% (total 25%) of settlement payment and solicitors costs applicable to transactions from 01 April 2016. 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.

Other provisions

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

Notes to Main Financial Statements

25. UNUSABLE RESERVES

25A. 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.

	2016/17		2015/16	
	£000's	£000's	£000's	£000's
Balance at 1 April		912,251		847,800
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	(32,211)		(31,917)	
- Revaluation gains/(losses) on Property, Plant and Equipment	(11,048)		61,447	
- Amortisation of intangible assets	(74)		(42)	
- Revenue expenditure funded from capital under statute	(20,456)		(20,185)	
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,849)	(71,638)	(26,803)	(17,500)
Adjusting amounts written out of the Revaluation Reserve		3,321		1,810
Net written out amount of the cost of non-current assets consumed in the year		(68,317)		(15,690)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	14,133		22,442	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	22,895		25,301	
- Application of grants to capital financing from the Capital Grants Unapplied Account	(1,075)		40	
- Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	11,473		15,072	
- Finance Lease Principal	251		259	
- Capital expenditure charged against the General Fund and HRA balances	18,726	66,403	17,129	80,243
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(5)		(102)
Balance at 31 March		910,332		912,251

Notes to Main Financial Statements

25B. 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.

Balance at 1 April

Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements

Proportion of discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements

Balance at 31 March

2016/17 £000's	2015/16 £000's
(330)	(343)
99	99
(86)	(86)
(317)	(330)

25C. 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.

Balance at 1 April

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

Balance at 31 March

31 March 2017 £000's	31 March 2016 £000's
508	1,623
2,519	(1,115)
3,027	508

Notes to Main Financial Statements

25D. 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.

	2016/17		2015/16	
	£000's	£000's	£000's	£000's
Balance at 1 April		130,785		59,001
Upward revaluation of assets				
- Land & Buildings	26,443		35,860	
- Council Dwellings	21,086		38,220	
- Assets Under Construction	887			
- Surplus Assets		48,416	6,320	80,400
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(12,935)		(6,723)	
- Council Dwellings	(1,954)			
- Assets Under Construction	(608)			
- Surplus Assets		(15,497)	(83)	(6,806)
Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or (Deficit) on the Provision of Services		32,919		73,594
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(1,669)		(1,416)	
- Surplus Assets	(38)		(14)	
- Plant and Equipment	(4)			
- Council Dwellings	(513)	(2,224)	(1)	(1,431)
Accumulated gains on assets sold or scrapped				
- Land & Buildings	(706)		(112)	
- Council Dwellings	(391)	(1,097)	(267)	(379)
Amount written off to the Capital Adjustment Account		(3,321)		(1,810)
Balance at 31 March		160,383		130,785

Notes to Main Financial Statements

25E. 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. Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2016/17 £000's	2015/16 £000's
Balance at 1 April	(386,483)	(485,178)
Actuarial gains/(losses) on pensions assets and liabilities	(123,128)	115,524
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	(37,652)	(40,614)
Employer's pension contributions and direct payments to pensioners payable in the year	26,093	23,785
Balance at 31 March	(521,170)	(386,483)

25F. 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.

	2016/17 £000's	2015/16 £000's
Balance at 1 April	(3,258)	(4,042)
Settlement or cancellation of accrual made at the end of the preceding year	3,258	4,042
Amounts accrued at the end of the current year	(5,197)	(3,258)
Balance at 31 March	(5,197)	(3,258)

Notes to Main Financial Statements

25G. AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains made by the Council 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.

	2016/17		2015/16	
	£000's	£000's	£000's	£000's
Balance as at 1 April		85		54
Recognition of New Assets	0		45	
Derecognition of Assets	(46)		(17)	
Change in Fair Value in year	5	(41)	3	31
Balance as at 31 March		44		85

26. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2016/17 £000's	2015/16 £000's
(Surplus)/Deficit on the provision of services	12,671	(51,723)
Depreciation and impairment of non-current assets	(43,259)	29,530
Amortisation of intangible fixed assets	(74)	(42)
Revenue Expenditure Funded from Capital under Statute	(20,456)	(20,185)
Pension Fund adjustments	(11,559)	(16,829)
(Increase)/Decrease in impairment for provision for bad debts	2,760	(2,481)
(Increase)/Decrease in creditors	(4,249)	(5,430)
Increase/(Decrease) in debtors	(10,286)	7,000
Increase/(Decrease) in inventories	(31)	(59)
Carrying amount of non-current assets sold	(7,849)	(26,803)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(5,985)	(9,835)
Total adjusting items	(100,988)	(45,134)
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	18,879	22,391
Capital Grants and other contributions credited to Surplus or Deficit on the Provision of Services	22,895	25,301
Billing Authorities - Council Tax and NNDR adjustments	19,527	(4,907)
Total included elsewhere on Cash Flow Statement	61,301	42,785
Net cash flows from operating activities	(27,016)	(54,072)

Interest received, interest paid and dividends received

	2016/17 £000's	2015/16 £000's
Interest paid	(10,025)	(10,446)
Interest received	930	1,409

Notes to Main Financial Statements

27. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2016/17 £000's	2015/16 £000's
Cash Outflows		
Purchase of property, plant and equipment	60,680	48,236
Other payments for investing activities	20,456	20,185
	81,136	68,421
Cash Inflows		
Sale of property, plant and equipment	(18,879)	(22,391)
Capital grants received	(9,421)	(14,186)
Other receipts from investing activities	(6,821)	(2,367)
	(35,121)	(38,944)
Net Cash Outflow	46,015	29,477
Net Increase/(Decrease) in Short-Term Investments	(50,150)	51,393
Net Increase/(Decrease) in Long-Term Investments	10,005	(7,471)
Net cash flows from investing activities	5,870	73,399

28. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2016/17 £000's	2015/16 £000's
Cash Outflows		
Repayments of amounts borrowed	47,283	12,369
Capital element of finance lease rental and on-balance sheet PFI payments	251	259
Cash Inflows		
Billing Authorities - Council Tax and NNDR adjustments	(19,527)	4,907
Net cash flows from financing activities	28,007	17,535

Notes to Main Financial Statements

29. 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:

	2016/17 £000's	2015/16 £000's
Fees payable in regard to external audit services carried out by the appointed auditor	157	157
Fees payable for the certification of grant claims and returns	29	37
Total External Audit costs	186	194

Non Audit Fees - The Council did not incur any non audit costs in 2016/17 or 2015/16 with Ernst and Young.

30. 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.

	2016/17 £000's	2015/16 £000's
Income	(4,778)	(4,386)
Expenditure	3,059	2,944
(Surplus)/ Deficit	(1,719)	(1,442)
Contribution to transport services	1,486	840
Total (Surplus)/ Deficit	(233)	(602)

31. MEMBER ALLOWANCES

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

	2016/17 £000's	2015/16 £000's
Salaries & Allowances	1,347	1,342
Total	1,347	1,342

Further details on Members' allowances on [website](#).

Notes to Main Financial Statements

32. 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 2016-17 this service provided support to approximately 619 clients at a gross cost of £34,136k which included approximately 38 HCCG clients for which the council received £3,538k.

Better Care Fund Pooled Budget

The Better Care Fund Pooled Budget was set up in 2015-16. London Borough of Hillingdon and Hillingdon CCG have Pooled Funds to work on joint services for Hillingdon residents. There is a compulsory contribution that each party must contribute but additional funds can be pooled. In 2016-17 £2,516k additional contributions were added to the Pooled Budget. The aims of the Pooled Budget is to reduce Emergency Hospital Admissions and Delayed Transfers of Care; to increase the effectiveness of the Reablement Service and other community services and improving the lives of Hillingdon Residents in need of these services. Under the terms of the Pooled Budget each party is responsible for risks associated with their own share of the Pooled Budget with the exception of the Community Equipment Funding which is risk shared on a 50:50 basis.

The table below sets out the allocation received by each party for inclusion in the Better Care Fund.

	2016/17 £000's	2015/16 £000's
Government Allocation to CCG	(16,558)	(15,642)
Voluntary Contribution to CCG	(1,344)	0
Government Allocation to LBH	(3,457)	(2,349)
Voluntary Contribution to LBH	(1,172)	0
	(22,531)	(17,991)

This funding was then pooled and split out between the partners as set out below:

	2016/17 £000's	2015/16 £000's
Hillingdon CCG	(11,965)	(10,032)
London Borough of Hillingdon	(10,566)	(7,959)
	(22,531)	(17,991)

Notes to Main Financial Statements

33. 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 38.

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 2016/17 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 2016/17 was £21,635k (£21,866k in 2015/16). A precept of £351k was paid to the London Pension Fund Authority in 2016/17 (£346k in 2015/16).

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 2016/17 is shown in note 31.

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 and North West London NHS Foundation Trust	Councillor Nick Denys	8,174,615.27
Age UK	Councillor David Simmonds	707,781.68
Age UK	Councillor Ian Edwards	707,781.68
Hillingdon Carers	Councillor Becky Haggar	649,133.10
Hillingdon Carers	Councillor Beulah East	649,133.10
Central Middlesex Skills Development Centre	Councillor Tony Burles	410,866.80
Central Middlesex Skills Development Centre	Councillor John Morgan	410,866.80
Hillingdon and Ealing Citizens Advice	Councillor John Riley	213,189.00
Hillingdon and Ealing Citizens Advice	Councillor Raymond Graham	213,189.00
Hillingdon and Ealing Citizens Advice	Councillor Tony Burles	213,189.00
Yiewsley Cornerstone Centre	Councillor Shehryar Ahmad-Wallana	158,716.59
Hillingdon Aids Response Trust	Councillor Peter Curling	125,333.28
Hillingdon Outdoor Activities Centre	Councillor Henry Higgins	113,657.00
Hillingdon Outdoor Activities Centre	Councillor Jane Palmer	113,657.00
Ruislip and Northwood Old Folks Association	Councillor Catherine Dann	83,400.00
Ruislip and Northwood Old Folks Association	Councillor Michael White	83,400.00
Carers Trust Hillingdon	Councillor Judith Cooper	83,041.65
Groundwork South Trust Ltd	Councillor George Cooper	53,000.00
Imperial College Healthcare Trust	Councillor June Nelson	36,506.00
Hillingdon Shopmobility	Councillor Beulah East	24,000.00
Hillingdon Shopmobility	Councillor John Hensley	24,000.00
Hillingdon Shopmobility	Councillor Teji Barnes	24,000.00
Community Cancer Centre	Councillor Becky Haggar	21,500.00
Relate London North West Family Mediation	Councillor Beulah East	15,270.00
Relate London North West Family Mediation	Councillor Tony Burles	15,270.00
Relate London North West Family Mediation	Councillor Jem Duducu	15,270.00
Colne Valley CIC	Councillor George Cooper	15,000.00
Colne Valley CIC	Councillor Peter Davis	15,000.00
Friends of No 11 Group Operations Rooms	Councillor Ray Puddifoot	6,000.00

Notes to Main Financial Statements

34. RELATED PARTY TRANSACTIONS (Continued)

Precepts/Levies

In 2016/17 the following precepts and levies are considered related party transactions:

	2016/17 £000s	2015/16 £000s
Business Rate Retention - DCLG	217,603	219,003
Business Rate Retention - GLA	73,438	73,525
Greater London Authority Precept	27,129	27,417
Greater London Authority Crossrail	13,669	12,810
West London Waste Authority Levy	10,275	10,612
TFL Concessionary Fares	8,219	8,198
Lee Valley Regional Park Authority	274	274
Environment Agency	218	209

35. OFFICER EMOLUMENTS

The number of employees in 2016/17 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.

Remuneration Band	LBH EMPLOYEES (Excluding Senior Employees)				SCHOOL EMPLOYEES			
	2016/17		2015/16		2016/17		2015/16	
	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum
£50,000 - £54,999	49	(3)	64	(3)	59	0	48	(1)
£55,000 - £59,999	34	(4)	27	(1)	22	0	23	0
£60,000 - £64,999	15	(3)	12	(2)	6	0	12	(1)
£65,000 - £69,999	8	(1)	2	0	17	0	17	0
£70,000 - £74,999	7	0	7	(1)	11	0	12	0
£75,000 - £79,999	2	0	3	(1)	7	0	11	0
£80,000 - £84,999	1	0	2	0	8	0	5	0
£85,000 - £89,999	3	(1)	2	0	4	0	4	0
£90,000 - £94,999	1	0	1	0	2	0	1	0
£95,000 - £99,999	0	0	1	0	0	0	1	0
£100,000 - £104,999	1	0	0	0	1	0	0	0
£105,000 - £109,999	0	0	0	0	1	0	1	0
£110,000 - £114,999	0	0	0	0	0	0	0	0
£115,000 - £119,999	0	0	0	0	0	0	0	0
	121	(12)	121	(8)	138	0	135	(2)

Disclosure of Remuneration for Senior Employees (Schools):-

Details of school employees in the above table earning over £100,000 during 2016/17 is listed below.

Job Title	Pensionable Pay 2016/17	Pensionable Pay 2015/16	Due to Lump Sum
Headteacher - Harlington Community School	£109,280	£106,734	No
Headteacher - Meadow High School	£101,751	£99,781	No

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 2016/17.

Group	Job Title	2016/17				Total
		Pensionable Pay	Compensation for loss of employment	EER's pension Contributions	Total	
Administration	1	£223,713	£0	£0	£223,713	
	Chief Executive and Corporate Director of Administration (F Beasley)	£95,153	£0	£21,980	£117,133	
	Head of Democratic Services	£124,792	£0	£28,827	£153,619	
	Head of Legal Services	£88,810	£0	£20,515	£109,325	
Finance	Corporate Director of Finance (P Whaymand)	£175,610	£0	£0	£175,610	
	Head of Business Assurance	£99,769	£0	£0	£99,769	
	Deputy Director Corporate Finance and Head of Operational Finance	£106,691	£0	£24,646	£131,337	
	Head of Revenues & Benefits	£84,845	£0	£19,599	£104,444	
Residents Services	Deputy Director Strategic Finance	£94,026	£0	£21,720	£115,746	
	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)	£217,923	£0	£0	£217,923	
	Deputy Director Residents Services	£131,084	£0	£30,280	£161,364	
	Deputy Director Development & Assets, Head of Corporate Procurement & Commissioning	£134,929	£0	£31,169	£166,098	
	Head of Estates & Tenancy Management	£84,845	£0	£19,599	£104,444	
	Deputy Director Planning, Transportation & Community Projects	£118,500	£0	£27,374	£145,874	
	Head of Planning & Enforcement	£96,682	£0	£22,334	£119,016	
	Head of Green Spaces, Sport & Culture	£95,748	£0	£22,118	£117,866	
	Head of Business & Technical Support	£91,013	£0	£21,024	£112,037	
	Head of Business Performance Policy & Standards	£106,843	£0	£24,681	£131,524	
	Head of Special Projects	£83,259	£0	£19,233	£102,492	
	Director of Public Health	£62,920	£0	£14,535	£77,454	
Social Care	Head of Business Improvement & HR	£132,908	£0	£30,702	£163,610	
	Director of Adults Services and Interim Director of Children & Young People's Services (T Zaman)	£156,261	£0	£36,096	£192,357	
Leavers	Assistant Director Children's Services	£108,514	£0	£25,067	£133,581	
	Head of Adult Early Intervention and Prevention	£72,399	£0	£16,724	£89,123	
	Head of Disability Services	£88,810	£0	£20,515	£109,325	
	Head of Children's Safeguarding & QA	£75,157	£0	£17,361	£92,518	
	Head of Children's Early Intervention	£88,017	£0	£20,332	£108,349	
Leavers	2	£35,322	£31,623	£7,267	£74,212	
	3	£47,942	£40,304	£7,632	£95,878	

1. Pensionable Pay includes a small element of pay relating to 2015/16 which was in arrears
2. Employment ended 30/06/2016
3. Employment ended 31/08/2016

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 2015/16

Group	Job Title	2015/16				Total
		Pensionable Pay	Compensation for loss of employment	EER's pension Contributions		
Administration	Chief Executive and Corporate Director of Administration (F Beasley)	£198,571	£0	£43,874	£242,445	
	Head of Democratic Services	£98,429	£0	£21,753	£120,182	
	Head of Legal Services	£121,479	£0	£26,847	£148,326	
	Head of Policy & Partnerships	£87,145	£0	£19,259	£106,404	
Finance	Corporate Director of Finance (P Whaymand)	£153,568	£0	£19,758	£173,326	
	Deputy Director Corporate Finance and Head of Operational Finance	£103,828	£0	£22,946	£126,774	
	Deputy Director Strategic Finance	£93,334	£0	£20,558	£113,892	
	Head of Business Assurance	£86,086	£0	£0	£86,086	
	Head of Revenues & Benefits	£82,434	£0	£18,218	£100,652	
Residents Services	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)	£192,084	£0	£0	£192,084	
	Deputy Director Development & Assets, Head of Corporate Procurement & Commissioning	£129,242	£0	£28,562	£157,804	
	Deputy Director ICT, Digital Strategy & Communication	£63,335	£0	£13,997	£77,332	
	Deputy Director Planning, Transportation & Community Projects	£68,124	£0	£14,991	£83,115	
	Deputy Director Residents Services	£129,785	£0	£28,682	£158,467	
	Director of Public Health	£60,576	£0	£13,387	£73,963	
	Head of Business & Technical Support	£80,439	£0	£17,741	£98,180	
	Head of Business Improvement & HR	£131,125	£0	£28,958	£160,083	
	Head of Estates & Tenancy Management	£78,544	£0	£17,246	£95,790	
	Head of Green Spaces, Sport & Culture	£92,994	£0	£20,552	£113,546	
Social Care	Head of Business Performance Policy & Standards	£98,411	£0	£21,749	£120,160	
	Head of Planning & Enforcement	£106,211	£0	£23,473	£129,684	
	Head of Special Projects	£84,125	£0	£18,592	£102,717	
	Director of Adults Services and Interim Director of Children & Young People's Services (T Zaman)	£145,213	£0	£32,092	£177,305	
	Assistant Director Children's Services	£8,953	£0	£1,979	£10,932	
	Head of Adult Early Intervention & Prevention	£70,317	£0	£15,540	£85,857	
	Head of Adult Safeguarding, Quality Partnership	£78,509	£0	£17,350	£95,859	
	Head of Children's Early Intervention	£90,971	£0	£20,086	£111,057	
	Head of Children's Safeguarding & QA	£72,795	£0	£16,088	£88,883	
	Head of Disability Services	£87,145	£0	£19,259	£106,404	
Leavers	Deputy Director Asset Management	£77,143	£0	£9,726	£86,869	
	Deputy Director Policy, Highways & Community Engagement	£25,904	£0	£5,691	£31,595	
	Head of Communications	£13,477	£72,567	£2,979	£89,023	

1. New post title from 1 December 2015
2. Employee in dual post from 14 October 2015
3. Employee in post from 28 September 2015
4. Employee in post from 1 September 2015
5. Employee in post from 8 April 2015
6. New post title from 1 August 2015
7. Employee in post from 1 March 2016
8. Employee in post from 31 July 2015
9. Employment ended 12 June 2015
10. Employment ended 30 May 2015

Notes to Main Financial Statements

36. EXIT PACKAGES

The number of exit packages that have been agreed by the Council during the year are listed below. These packages include redundancy costs, pension strain costs, ex gratia payments and other departure costs. The Council does not award added years pension contributions but pension strain is incurred where a pension is taken early without actuarial reduction and is a cost to the Council, not a direct payment to the employee.

Exit package costs by banding which include special payments and pension strain costs.

LBH EMPLOYEES						
Cost Band	2016/17 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	66	0	66	778	38	816
£20,001 - £40,000	40	0	40	675	399	1,074
£40,001 - £60,000	12	0	12	196	394	590
£60,001 - £80,000	5	0	5	156	193	349
Over £80,001	9	0	9	237	725	962
	132	0	132	2,042	1,749	3,791

LBH EMPLOYEES						
Cost Band	2015/16 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	64	0	64	594	22	616
£20,001 - £40,000	21	0	21	436	131	567
£40,001 - £60,000	11	0	11	251	360	611
£60,001 - £80,000	5	0	5	152	469	621
	101	0	101	1,433	982	2,415

SCHOOL EMPLOYEES						
Cost Band	2016/17 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	10	0	10	31	0	31
£40,001 - £60,000	0	0	0	0	0	0
	10	0	10	31	0	31

SCHOOL EMPLOYEES						
Cost Band	2015/16 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	7	0	7	54	0	54
£40,001 - £60,000	1	0	1	52	0	52
	8	0	8	106	0	106

Notes to Main Financial Statements

37. DEDICATED SCHOOLS GRANT

The Dedicated Schools Grant has been credited to Education and Children's Services in the Comprehensive Income and Expenditure Statement.

The Council's expenditure on schools is funded by grant monies provided by the Department for Education through the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budgets as defined in the School and Early Years Finance (England) Regulations 2014. The Schools Budget includes elements for a restricted range of services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of the DSG receivable for 2016/17 are as follows:

Schools Budget Funded by Dedicated Schools Grant		
Central Expenditure £000's	Individual Schools Budget £000's	Total £000's
		260,789
		(120,058)
		140,731
		866
		(415)
Agreed initial budgeted distribution in 2016/17	32,910	108,047
In year adjustments	(226)	451
Final budgeted distribution for 2016/17	32,684	108,498
Less actual central expenditure	33,994	33,994
Less actual ISB deployed to schools		108,737
Plus Local Authority contribution for 2016/17		0
Carry-forward to 2017/18 agreed in advance	1,310	239
		1,134

Notes to Main Financial Statements

38. GRANT INCOME

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

	2016/17 £000's	2015/16 £000's
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	29,431	39,508
Education Services Grant	2,570	2,775
Council Tax Freeze Grant	0	1,149
Housing Benefit Administration Subsidy	1,190	1,310
Local Council Tax Support Administration Subsidy	352	316
New Homes Bonus	9,183	8,085
Other Grants	2,534	2,101
Total Non-Specific Revenue Grants	45,260	55,244
Revenue Grant Income Credited to Services		
<u>Department for Education</u>		
Dedicated Schools Grant (DSG)	140,728	137,355
Pupil Premium	6,447	6,507
Sixth Form & Adult Learning Grants	2,367	2,595
Universal Infant Free School Meals Grant	2,857	2,542
Private Finance Initiative	1,778	1,778
Adult & Community Learning	1,684	1,602
PE & Sports Grant	497	492
<u>Department for Communities and Local Government:</u>		
Troubled Families Grant	1,180	647
Business Rates Cost of Collection Allowances	598	586
<u>Department of Health</u>		
Public Health Grant	18,452	16,742
Better Care Fund	16,558	15,642
Care Act Implementation Grant	0	1,277
Independent Living Fund	543	429
<u>Arts Council</u>		
Music Education Hub	450	441
<u>Department for Work and Pensions:</u>		
Housing Benefit Subsidy	147,258	150,213
Discretionary Housing Payments	831	673
<u>Home Office:</u>		
Asylum Funding	4,825	4,655
Other Grants	11,269	12,309
Total Grants Credited to Services	358,322	356,485
Total Revenue Grant Income	403,582	411,729

Notes to Main Financial Statements

Capital Grant Income credited to the Comprehensive Income and Expenditure Statement

	2016/17 £000's	2015/16 £000's
Disabled Facilities Grant	3,457	1,769
Education Funding Agency	5,905	10,105
Transport for London	5,947	3,576
West London Housing Grant	0	110
British Cycling	11	0
GLA London Regeneration	62	0
DH Community Capacity	0	580
Total Capital Grant Income	15,382	16,140
Schools Capital Contributions	1,204	1,370
S106 Contributions	2,453	5,336
Community Infrastructure Levy	3,679	1,920
Other Capital Contributions	177	535
Total Capital Grants and Contributions Received	22,895	25,301

Of the capital grant income applied to the Comprehensive Income and Expenditure account within Taxation and Non Specific Grant income, £14,307k was used to fund the Capital Programme and £1,075k was 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:

Capital Grant & Contribution Receipts in Advance

	2016/17 £000's	2015/16 £000's
EFA Capital Grants	325	458
S106	7,712	8,646
Total Capital Grant & Contribution Receipts in Advance	8,037	9,104

Notes to Main Financial Statements

39. 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.

	2016/17 £000's	2015/16 £000's
Opening Capital Financing Requirement	389,132	400,961
Capital investment		
Property, Plant and Equipment	60,379	48,013
Intangible Assets	332	222
Revenue Expenditure Funded from Capital under Statute	20,457	20,185
Sources of finance		
Capital receipts	(14,133)	(22,442)
Government grants and other contributions	(21,820)	(25,341)
Sums set aside from revenue:		
Direct revenue contributions	(18,726)	(17,129)
Minimum Revenue Provision (MRP) / loans fund principal	(11,473)	(15,072)
Other Revenue Provision	(257)	(265)
Closing Capital Financing Requirement	403,891	389,132
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow :		
- unsupported by Government financial assistance	14,759	(11,829)
Increase/(Decrease) in Capital Financing Requirement	14,759	(11,829)

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.

Notes to Main Financial Statements

40. LEASES

In financial years prior to 2016/17 the Council acquired a private finance initiative (PFI) school and a contract for superloos under finance leases with the risks and rewards associated with ownership of such assets having transferred to the Council. Assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet. Since the initial transfer the PFI school moved to Academy status and the asset removed from the balance sheet, however the Council still holds the liability. In 2016/17 one superloo was returned with both the asset and the liability being removed.

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the asset and finance costs that will be payable by the Council in future years whilst the liability remains outstanding.

A number of vehicles and properties are also held under operating leases, for which regular rental payments are made but the risks and rewards of ownership of such asset do not lie with the Council.

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

Finance Leases - Lessee (including PFI)

Plant, Property and Equipment

Outstanding obligations on 31 March

Within 1 year (held in current liabilities)

2 - 5 years

More than 5 years

Total costs payable in future years

Total future lease payments

Finance Lease Liabilities		Minimum Lease Payments	
2016/17 £000's	2015/16 £000's	2016/17 £000's	2015/16 £000's
248	250	892	985
998	1,009	2,650	3,083
414	693	602	1,155
1,412	1,702	3,252	4,238
1,660	1,952	4,144	5,223

Operating Leases - Lessee

Plant, Property and Equipment

Outstanding obligations on 31 March

Within 1 year

2 - 5 years

Total future lease payments

Operating Lease	
2016/17 £000's	2015/16 £000's
825	821
969	1,402
1,794	2,223

Operating lease obligations include commitments held by Hillingdon maintained schools as well as those held by the Council. Operating lease expenditure of £124k (£157k in 15/16) relating to maintained schools is included within Cost of Services in the Comprehensive Income and Expenditure Statement.

Operating Leases - Lessor

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

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

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

Future Minimum Lease Payments:

Within 1 year

2 - 5 years

More than 5 years

Total future lease payments

Operating Lease	
2016/17 £000's	2015/16 £000's
763	890
2,550	2,762
8,561	9,188
11,874	12,840

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

Notes to Main Financial Statements

41. LONG TERM CONTRACTS AND PRIVATE FINANCE INITIATIVE

The Council has entered into a number of Long Term Contracts, committing itself to revenue expenditure over future years. However there is one contract which has a fixed annual sum over £1,000k and is over 4 years in length.

The following Long Term Contract has a term longer than 4 years but is variable in nature.

- O'Hara Brothers Surfacing Ltd - 01/04/2014 to 31/03/2019

The following Long Term Contract has a term longer than 4 years and is fixed in nature but has annual sums lower than £1,000k.

- Northgate Information Solutions (ICT Managed Services) - £784k pa, expires 31/03/2018.

The following Long Term Contract has a term in excess of 4 years and is fixed in nature with an annual sum in excess of £1,000k:

- Liberata UK Ltd (Revenues & Benefits) - 01/06/2017 to 31/05/2022

Year	Annual Cost £000's
2017/18	1,039
2018/19	1152
2019/20	1076
2020/21	1023
2021/22	941
2022/23	155

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 2016/17 the Council paid principal of £237k, interest of £687k and service charges of £2,242k. Current forecasts of future payments, assuming satisfactory performance over the remaining 7 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 (2017/18)	2,354	234	591	3,179
2 - 5 years	10,658	898	1,484	13,040
More than 5 years	6,251	318	150	6,719
Total	19,263	1,450	2,225	22,938

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 £237k matching the principal repayment. The outstanding liability of the capital value at 31 March 2017 is £1,450k, of this £234k is due within a year and therefore included in creditors and the remaining £1,216k is included as a deferred liability.

Notes to Main Financial Statements

42. CONTINGENT LIABILITIES AND ASSETS

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.

There are proceedings in relation to an employment tribunal, the claim could amount to £70k.

There are possible legal proceedings being threatened regarding an alleged misrepresentation. The claim could amount to £200k, to date no action has been received.

Arbitration proceedings have recently been concluded in relation to a claim for unpaid charges in a breach of contract case which the Council was awarded the sum of £358k. However, it still faces a claim in the sum of £7.5m which could be the subject of further arbitration proceedings.

43. EVENTS AFTER THE BALANCE SHEET DATE

There are no events to report after the balance sheet date.

44. AGENCY

Collection of Mayoral CIL

The Community Infrastructure Levy (CIL) is a planning charge, introduced by the Planning Act 2008, as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. The Levy was ratified on 29 February 2012 and applies to developments agreed after 1 April 2012. The CIL is charged on most developments in Central London and is charged at £35 per square metre in zone 2. The collection of the CIL is delegated to the relevant planning authority in each administrative area and the planning authority is able to retain 4% of the levy to cover the costs of administration and collection. Contributions of £4.622m have been received this year and £4,437m has been paid over to the charging authority (Transport for London). The balance of £0.185m has been retained by the Council to cover administrative expenses.

45. SUMMARY OF TREASURY MANAGEMENT POLICY

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

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

The Council's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement which represents the cumulative capital expenditure of the Council that has not been financed from internal resources (see note 39).

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

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

Notes to Main Financial Statements

46. 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 minimum long term credit criteria applicable during 2016/17 in respect of financial assets held by the Council are BBB+ (Fitch); Baa1 (Moody's); BBB+ (S&P) for UK counterparties, A+ (Fitch); A1 (Moody's); A+ (S&P) for Overseas counterparties and AA+ (Fitch); Aa1 (Moody's); AA+ (S&P) for non-UK sovereigns.

The 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.

Credit Rating Definitions

Long Term		Money Market Funds
AAA	Highest credit quality	Fitch: AAmmf : 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	

Notes to Main Financial Statements

The table below summarises the amortised value of the Council's investment portfolio at 31 March 2017, and demonstrates that all investments were made in line with the Council's approved credit rating criterion.

Outstanding Investments as at 31 March 2017							
	Rating at time of Deposit*	Rating at 31 March 2017*	Maturity of Investments				Total
			0-3 Months	3-6 Months	6-12 Months	Over 12 Months	
			£000's	£000's	£000's	£000's	
Fixed Term Deposits							
UK Banks & Building Societies							
Lloyds	A	A	0	0	2,008	0	2,008
Sub-Total			0	0	2,008	0	2,008
Government & Local Authorities							
Birmingham City Council	AA	AA	0	5,014	0	0	5,014
Blaenau Gwent County Borough Council	AA+	AA	18	0	2,400	0	2,418
Guildford Borough Council	AA	AA	0	5,014	0	0	5,014
Lancashire County Council	AA	AA	38	0	5,008	5,000	10,046
London Borough of Enfield	AA	AA	10,021	0	0	0	10,021
Northumberland County Council	AA	AA	0	0	5,040	5,000	10,040
Stockport Metropolitan Borough Council	AA+	AA	33	0	5,000	0	5,033
Sub-Total			10,110	10,028	17,448	10,000	47,586
Total			10,110	10,028	19,456	10,000	49,594
Instant Access Accounts							
UK Banks & Building Societies							
Santander Call Account	A	A	1				1
Sub-Total			1	0	0	0	1
Money Market Funds							
Aberdeen MMF	AAA	AAA	3,500	0	0	0	3,500
Amundi MMF	AAA	AAA	2,501	0	0	0	2,501
Blackrock MMF	AAA	AAA	5,000	0	0	0	5,000
Federated Prime MMF	AAA	AAA	5,001	0	0	0	5,001
Morgan Stanley MMF	AAA	AAA	5,000	0	0	0	5,000
Public Sector Deposit Fund	AAA	AAA	500	0	0	0	500
Standard Life MMF	AAA	AAA	2,201	0	0	0	2,201
Sub-Total			23,703	0	0	0	23,703
Total			23,704	0	0	0	23,704
Notice Accounts							
UK Banks							
Goldman Sachs 95 Day Notice Deposit	A	A	0	5,002	0	0	5,002
Santander UK 120 Day Notice Account	A	A	0	5,003	0	0	5,003
Total			0	10,005	0	0	10,005
Available for Sale Assets							
Available for Sales Trust Funds	N/a	N/a				44	44
Total Investments			33,814	20,033	19,456	10,044	83,347

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 31/03/2017 are the same as for when deposits are made due the ability to deposit or make withdrawals on a daily basis.

* Ratings provided are the Fitch Rating or lowest equivalent

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The table below summarises the amortised value of the Council's investment portfolio at 31 March 2016, and demonstrates that all investments were made in line with the Council's approved credit rating criterion.

Outstanding Investments as at 31 March 2016							
	Rating at time of Deposit*	Rating at 31 March 2016*	Maturity of Investments				Total
			0-3 Months	3-6 Months	6-12 Months	Over 12 Months	
Fixed Term Deposits			£000's	£000's	£000's	£000's	£000's
UK Banks & Building Societies							
Close Brothers	A	A	5,014				5,014
Nationwide Building Society	A	A	5,014				5,014
Lloyds Lending Community Report	A	A			4,008		4,008
Coventry Building Society	A	A	5,012				5,012
Sub-Total			15,040	0	4,008	0	19,048
Covered Bonds							
Lloyds Covered Bond	AAA	AAA			2,607		2,607
Sub-Total			0	0	2,607	0	2,607
Overseas Banks							
OCBC Bank Singapore	AA-	AA-	5,011				5,011
DBS Bank Singapore	AA-	AA-	5,010				5,010
Sub-Total			10,021	0	0	0	10,021
Government & Local Authorities							
Aberdeen CC	AA+	AA+	5,001				5,001
Blaenau Gwent CBC	AA+	AA+	2,420				2,420
Cornwall Council	AA+	AA+	5,001				5,001
Herefordshire Council	AA+	AA+		5,001			5,001
Lancashire CC	AA	AA		5,035			5,035
Leeds City Council	AA+	AA+	5,001				5,001
Monmouthshire CC	AA+	AA+			5,007		5,007
North Tyneside Council	AA+	AA+			5,001		5,001
Salford City Council	AA+	AA+			3,507		3,507
Wolverhampton Council	AA+	AA+		7,021			7,021
Sub-Total			17,423	17,057	13,515	0	47,995
Total			42,484	17,057	20,130	0	79,671
Instant Access Accounts							
UK Banks & Building Societies							
Santander Call Account	A	A	13				13
Lloyds Call Account	A	A	400				400
Sub-Total			413	0	0	0	413
Money Market Funds							
All funds held explicit money market fund equivalent ratings of AAA, with at least one of the rating agencies			30,109				30,109
Sub-Total			30,109	0	0	0	30,109
Pooled Funds							
Insight Liquidity PLUS Fund	AAA	AAA	5,024				5,024
Standard Life Sterling Short	AAA	AAA	5,022				5,022
Sub-Total			10,046	0	0	0	10,046
Notice Accounts - UK Banks							
Santander UK 120 Day Notice Account	A	A		5,004			5,004
Sub-Total			0	5,004	0	0	5,004
Notice Accounts - Overseas Banks							
Svenska Handelsbanken 35 Day Notice A/C	AA-	AA-	5,015				5,015
Sub-Total			5,015	0	0	0	5,015
Total			45,583	5,004	0	0	50,587
Available for Sale Assets							
Available for Sales Trust Funds	N/a	N/a				39	39
Total Investments			88,067	22,061	20,130	39	130,297

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 31/03/2016 are the same as for when deposits are made due the ability to deposit or make withdrawals on a daily basis.

* Ratings provided are the Fitch Rating or lowest equivalent

Notes to Main Financial Statements

Other Financial Instruments

Trade Debtors of £3,487k. Allowances are made for the provision of doubtful debt where there is a risk of non-payment.

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 2017			31 March 2016		
	PWLB £000's	Market £000's	Total £000's	PWLB £000's	Market £000's	Total £000's
Nominal Value	219,393	48,000	267,393	266,671	48,000	314,671
Premium	(3,221)	0	(3,221)	(3,251)	0	(3,251)
Accrued Interest	587	615	1,202	617	620	1,237
Amortised Value	216,759	48,615	265,374	264,037	48,620	312,657

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 2017	31 March 2017 £000's	31 March 2016 £000's
Less than 1 year	25%	6.96%	18,480	8,515
Between 1 and less than 2 years	25%	6.51%	17,278	17,278
Between 2 and less than 5 years	50%	13.06%	34,667	68,444
Between 5 and less than 10 years	75%	12.25%	32,500	47,500
Between 10 and less than 20 years	100%	21.48%	57,000	64,000
Between 20 and less than 30 years	100%	12.09%	32,071	33,571
Between 30 and less than 40 years	100%	9.56%	25,378	20,349
Between 40 and less than 50 years	100%	14.70%	39,000	31,000
Over 50 years	100%	3.39%	9,000	22,000
Total		100.00%	265,374	312,657

In addition to debt that falls out naturally in any year, the Council can choose to redeem debt early as part of its overall debt management policy. This assists in restructuring the Council's debt portfolio and although in the short term a premium charge may be incurred, longer term finance costs may be significantly reduced. LOBO loans have been included at their final maturity date.

Notes to Main Financial Statements

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 (based 2016/17 balances and with all other variables held constant) the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	268
Increase in interest receivable on variable rate investments	(1,471)
Impact on Surplus or Deficit on the Provision of Services	(1,203)
Share of overall impact credited to the HRA	(901)
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)	(135)
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)	41,929

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 £44k 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 (£219,393k nominal value 31 March 2017; £214,893k fixed rates, £4,500k 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.

Notes to Main Financial Statements

£36,000k of debt (nominal value) is held in "Lenders Option Borrowers Option" (LOBO) market loans. These have been set to provide varying periods of fixed rate ranges with subsequent options for the lender to change this rate on agreed dates. Over the next three years loans totalling £5,000k, £10,000k and £6,000k respectively are scheduled for rate change options. Prior to 2016/17 £48,000k of debt was classified as LOBO market loans, however on 22 June 2016, Barclays Bank PLC waived their right to change the applicable interest rate, changing the classification on their loans totalling £12m from LOBO to fixed-rate loans.

In order to minimise debt costs the Council did not take any new borrowing during 2016/17, instead utilising internal resources to finance its long term borrowing requirement. The loan portfolio reduced significantly this year with £40,000k of PWLB variable rate debt being prematurely repaid and naturally maturing debt of £7,278k.

Financial Assets

The Council had a weighted average balance of investments for 2016/17 of £153,385k. 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 no deposits with maturities extending one year and therefore all instruments are classified as variable.

47. 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 2017 £000's	31 March 2016 £000's
Education trusts - providing academic prizes	4	4
Library trusts - purchase of library books	14	14
Total	18	18

48. PENSION SCHEMES

Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits that include retirement pensions, dependent pensions, death grants and lump sum payments. Although these benefits will not actually be payable until employees retire, the Council's commitment to make future payments needs to be disclosed as the future entitlement is earned.

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

LGPS

The two LGPS scheme funds are:

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

For the London Borough of Hillingdon LGPS, contributions are made at a level intended to balance the pensions liabilities with investment assets. The adequacy of the funds' contributions and investments to resource future liabilities is reviewed tri-annually by actuaries appointed by the Council. Contribution rates are then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 2016/17 employer's contribution rate was 23.1%. Employees contributed at variable rates between 5.5% and 12.5% of pensionable salary. The employer's contribution rate set for 2017/18 is 23.1% with any pension strain costs being directly attributable to the service area, as was the case in 2016/17.

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.

Notes to Main Financial Statements

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 2016/17 was 16.48% (14.1% from 1 April 2015 to 31 August 2015, which increased to 16.48% for the period 1 September 2015 to 31 March 2016). The total contribution to the fund by the Council in 2016/17 was £7,123k (£6,738k in 2015/16), of this amount £593k was outstanding at 31 March 2017 (£591k at 31 March 2016).

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 £847k paid in respect of on-going early retirement payments in 2016/17 (£839k in 2015/16).

NHS Pension Scheme

The Health and Social Care Act 2012, made provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities. As a result of this transfer, the 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). 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 2016/17 LB Hillingdon paid a total of £36,256.48 (£35,382.69 in 2015/16) to the NHS Pension Scheme, representing 14.3% of pensionable pay. Contributions to the fund are expected to remain unchanged for 2017/18.

Notes to Main Financial Statements

Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and via the Movement in Reserves Statement during the year:

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's
Comprehensive Income and Expenditure Statement						
Cost of Services						0
Current Service Cost	23,029	26,593	0	0	23,029	26,593
Past Service Costs (Including curtailments)	1,166	493	0	0	1,166	493
(Gain)/Loss Settlements	0	(1,977)	0	0	0	(1,977)
Administration Expenses	0	0	2	3	2	3
Financing and Investment Income and Expenditure:						
Net Interest Expense	13,378	15,428	77	74	13,455	15,502
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	37,573	40,537	79	77	37,652	40,614
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	(110,415)	11,227	(289)	(104)	(110,704)	11,123
Actuarial gains and losses arising on changes in financial assumptions	222,265	(103,079)	0	0	222,265	(103,079)
Other	11,567	(23,568)	0	0	11,567	(23,568)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	123,417	(115,420)	(289)	(104)	123,128	(115,524)
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(11,484)	(16,756)	(75)	(73)	(11,559)	(16,829)
Actual amount charged against the General						
Employer's contributions payable to scheme	(23,897)	(21,615)	0	0	(23,897)	(21,615)
Contributions in respect of unfunded benefits	(2,192)	(2,166)	(4)	(4)	(2,196)	(2,170)
Total Employers Contributions Payable to Scheme	(26,089)	(23,781)	(4)	(4)	(26,093)	(23,785)

Notes to Main Financial Statements

In addition the Comprehensive Income and Expenditure Statement included an actuarial loss of £123,128k in 2016/17 (£115,524k actuarial gain in 2015/16).

The Council expects to make payments of £22,074k (£21,635k in 2016/17) in respect of contributions to the LBH Pension Fund during the financial year 2017/18.

49. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's
Opening Benefit Obligation	1,123,590	1,218,712	4,660	5,201	1,128,250	1,223,913
Current Service Cost	23,029	26,593	0	0	23,029	26,593
Interest on defined liability	39,032	38,858	111	119	39,143	38,977
Contributions by Members	6,383	6,289			6,383	6,289
Remeasurement (gains) and losses:						
- Actuarial (gains)/losses arising from changes in financial assumptions	222,265	(103,079)	431	(165)	222,696	(103,244)
- Other	11,567	(23,568)	(444)	1	11,123	(23,567)
Past Service Cost including Curtailments	1,166	493	0	0	1,166	493
Liabilities Extinguished on Settlements	0	(2,315)	0	0	0	(2,315)
Estimated Unfunded Benefits Paid	(2,192)	(2,166)	(4)	(4)	(2,196)	(2,170)
Estimated Benefits Paid	(43,754)	(36,227)	(471)	(492)	(44,225)	(36,719)
Closing Defined Benefit Obligation	1,381,086	1,123,590	4,283	4,660	1,385,369	1,128,250

Reconciliation of fair value of scheme assets

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's
Opening Fair Value of Employer Assets	740,154	736,612	1,613	2,123	741,767	738,735
Interest Income on Plan Assets	25,654	23,430	34	45	25,688	23,475
Contributions by Members	6,383	6,289	0	0	6,383	6,289
Contributions by the Employer	23,897	21,615	0	0	23,897	21,615
Contributions in respect of Unfunded Benefits	2,192	2,166	4	4	2,196	2,170
Remeasurement (gains) and losses:						
- The return on plan assets, excluding the amount in the net interest expense	110,415	(11,227)	276	(60)	110,691	(11,287)
Assets Distributed on Settlements	0	(338)	0	0	0	(338)
Administration Expenses	0	0	(2)	(3)	(2)	(3)
Estimated Unfunded Benefits Paid	(2,192)	(2,166)	0	0	(2,192)	(2,166)
Estimated Benefits Paid	(43,754)	(36,227)	(475)	(496)	(44,229)	(36,723)
Closing Fair Value of Employer Assets	862,749	740,154	1,450	1,613	864,199	741,767

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 16/17 £000's	Quoted Prices in Active Markets 15/16 £000's	Quoted Prices not in Active Markets 15/16 £000's	Quoted Prices in Active Markets 16/17 £000's	Quoted Prices not in Active Markets 16/17 £000's	Quoted Prices in Active Markets 15/16 £000's	Quoted Prices not in Active Markets 15/16 £000's	31 March 2017 £000's	31 March 2016 £000's
Equity Instruments									
Consumer	13,303	17,056		160		291		13,463	17,347
Manufacturing	0	26,650		90		95		90	26,745
Energy & Utilities	24,034	18,191		15		6		24,049	18,197
Financial Institutions	30,394	37,249		59		92		30,453	37,341
Health & Care	6,823	7,212		74		0		6,897	7,212
Information Technology	1,430	6,683		88		44		1,518	6,727
Other	34,670	60		20		82		34,690	142
Debt Securities									
UK Government	0	15,843						0	15,843
Other	0	38,223						0	38,278
Private Equity									
		26,874	27,950		151			27,025	28,090
Real Estate		105,874	102,225		74			105,948	102,283
Investment Funds & Unit Trusts									
Equities	431,490	278,522		7		19		431,497	278,541
Bonds	78,572	61,520		16		90		78,588	61,650
Hedge Funds				12		15		15	1,392
Commodities			1,307		3			0	1,154
Infrastructure			1,154					24,959	15,118
Other		24,884	15,031	7	68	5		59,444	65,891
		59,235	65,837	209		23		0	(13)
Derivatives									
Liability Driven Investments								0	164
Target Returns								266	0
Commodities								0	6
Cash & Cash Equivalents	25,166	19,441		240		210		25,297	19,659
	645,882	526,650	213,504	1,148	302	957	656	864,199	741,767

Notes to Main Financial Statements

Pensions Assets and Liabilities recognised in the Balance Sheet

	2016/17 £000's	2015/16 £000's	2014/15 £000's	2013/14 £000's	2012/13 £000's
Present value of liabilities:					
LBH	(1,381,086)	(1,123,590)	(1,218,712)	(1,051,794)	(1,026,344)
LPFA	(4,283)	(4,660)	(5,201)	(5,254)	(5,763)
Fair Value of Assets:					
LBH	862,749	740,154	736,612	672,603	656,243
LPFA	1,450	1,613	2,123	2,505	2,602
Deficit in the scheme:					
LBH	(518,337)	(383,436)	(482,100)	(379,191)	(370,101)
LPFA	(2,833)	(3,047)	(3,078)	(2,749)	(3,161)
Total	(521,170)	(386,483)	(485,178)	(381,940)	(373,262)

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,385m is offset by the scheme assets of £864m to give the net pension liability of £521m 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.

50. 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 2017	31 March 2016	31 March 2017	31 March 2016
<u>Financial Assumptions: (% p.a.)</u>				
Pension Increase Rate	2.4%	2.2%	2.1%	1.6%
Salary Increase Rate	2.8%	3.2%	3.6%	3.4%
Discount Rate	2.5%	3.5%	1.5%	2.5%
<u>Mortality Assumptions:</u>				
Longevity at 65 for current pensioners:				
- Men	22.6	22.7	22.1	22.3
- Women	24.6	24.7	24.4	25.3
Longevity at 65 for future pensioners:				
- Men	24.0	24.3	24.4	24.7
- Women	26.5	26.9	26.6	27.6
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%

Notes to Main Financial Statements

Sensitivity Analysis

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

	LBH Pension Fund		LPFA Pension Fund	
	% Increase to Employer Liability	Increase to Employer Liability £000's	% Increase to Employer Liability	Increase to Employer Liability £000's
Changes in Assumptions as at 31 March 2017				
0.5% Decrease in Real Discount Rate	9%	121,476	4%	155
1 Year Increase in Member Life Expectancy	3-5%	n/a*	5%	197
0.5% Increase in the Salary Increase Rate	1%	14,294	0%	0
0.5% Increase in the Pension Increase Rate	8%	105,649	4%	155

*The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption.

Scheme and Impact on the Authorities cash flows

The LBH Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of the Council. Policy is determined in accordance with the Pension Fund Regulations. The principal risks to the Council in relation to the scheme are the sensitivity of contribution rates to changes in assumptions; investment risk and regulatory risk. These risks are mitigated to an extent by the statutory requirements to charge amounts required by statute as described in the accounting policies note.

The objectives of the LBH LGPS Pension fund are to keep employer's contributions at a rate which is as constant as possible. The Council's Pension Fund undergoes a triennial valuation to set the contribution rates of the all the employers in the scheme to 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 2017, 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 16.4 years as established in the triennial valuation dated 31 March 2016.

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 98)

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 102)

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 105)

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.

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HRA Income And Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and other income. Council's charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

	Note	31 March 2017 £000's	31 March 2016 £000's
Expenditure			
Repairs and maintenance		6,360	7,169
Supervision and management		17,177	16,605
Rents, rates, taxes & other charges		72	24
Increase in provision for bad debts		722	379
Depreciation of non current assets	3	9,610	11,270
Impairment or Reversal of previous impairment / revaluation loss		595	(64,287)
		34,536	(28,840)
Income			
Gross dwelling rents		(56,470)	(62,111)
Gross non dwelling rents		(1,157)	(1,152)
Charges for services and facilities		(3,247)	(3,207)
Contributions towards expenditure		(1,204)	(1,228)
		(62,078)	(67,698)
Net Cost of HRA Services as included in the HRA Income and Expenditure Statement		(27,542)	(96,538)
HRA Services share of Corporate and Democratic Core		930	873
Net Cost of HRA services		(26,612)	(95,665)
(Gain) on sale of HRA non current assets		(9,751)	(8,050)
Interest payable and similar charges		7,007	7,718
Interest & Investment income		(212)	(299)
(Surplus)/Deficit for the year on HRA services		(29,568)	(96,296)

Movement on the Housing Revenue Account Statement

The Movement on Housing Revenue Account Statement shows how the HRA Income and Expenditure Statement (surplus) / deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.

	2016/17 £000's	2015/16 £000's
HRA Balance 31 March 2016	(33,944)	(30,576)
(Surplus)/Deficit for the year on HRA services	(29,568)	(96,296)
Adjustments between accounting basis & funding basis under regulations		
Gain/(Loss) on sale of HRA non current assets	9,751	8,050
Premium on early redemption of HRA debt	16	16
HRA share of contributions to or from the Pension Reserve	(351)	(942)
Revaluation of Non Current Assets	(595)	64,287
Annual Leave Accrual Adjustment	1	4
Revenue Expenditure funded by Capital Under Statute	(2)	
Provision for repayment of debt	8,801	8,549
Net Increase before transfer to reserves	(11,947)	(16,332)
Transfer to Major Repairs Reserve	65	12,964
(Increase)/Decrease in year on HRA	(11,882)	(3,368)
HRA Balance at 31 March 2017	(45,826)	(33,944)
Major Repairs Reserves	(23,148)	(32,144)
Total HRA Balances	(68,974)	(66,088)

Note

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Notes to Housing Revenue Account

1. HOUSING STOCK

The Council was responsible at 31 March 2017 for managing dwellings (including shared ownership).

The stock was as follows:

	Total Properties 31 March 2017	Total Properties 31 March 2016
1 Bed Properties	3,562	3,543
2 Bed Properties	3,460	3,499
3 Bed Properties	2,709	2,696
4 Bed plus Properties	235	232
Total	9,966	9,970

2. VALUE OF HRA ASSETS

	Net Book Value 31 March 2017 £000's	Net Book Value 31 March 2016 £000's
Council Dwellings	720,990	690,010
Other Land & Buildings	1,266	2,702
Vehicle, Plant & Equipment	4,653	5,012
Surplus Assets	427	435
Intangible Asset	4	6
Assets Held For Sale	40	120
Assets Under Construction	15,244	14,321
Total	742,624	712,606

The vacant possession value of dwellings within the authority's HRA as at 31 March 2017 was £2,883m, this differs from the balance sheet value of £721m which is based on the economic use value of social housing. The difference of £2,162m 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 2016/17 £000's	Depreciation 2015/16 £000's
Council Dwellings	9,089	10,816
Other Land & Buildings	21	14
Intangibles	2	2
Surplus Assets	8	433
Vehicle, Plant & Equipment	489	5
Total	9,609	11,270

Notes to Housing Revenue Account

4. CAPITAL EXPENDITURE

Capital Expenditure on HRA council dwellings during 2016/17 totalled £27,234k. This was financed by:

	31 March 2017 £000's	31 March 2016 £000's
Revenue Contribution	0	4,589
Capital Receipts	8,564	2,987
Transfer from Major Repairs Reserve	18,670	16,864
	27,234	24,440

Capital receipts from the sale of HRA RTB properties during 2016/17 totalled £15,565k of which £1,190k was paid to Central Government under the pooling arrangements, with £14,375k remaining with the Council.

5. RENT ARREARS

At 31 March 2017 the gross HRA rent arrears amounted to £2,608k (£3,838k in 2015/16).

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2017 was £2,380k (£2,499k in 2015/16). In the year, £841k 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.

	2016/17 £000's	2015/16 £000's
Balance as at 1 April	32,144	24,774
Depreciation transferred to reserve	9,609	11,270
Transfer to MRR	65	12,964
Capital programme funding	(18,670)	(16,864)
	23,148	32,144

The £23,148k 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 2016/17 was £351k.

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	Note	31 March 2017 £000's	31 March 2016 £000's
Council Tax Income		(133,714)	(131,203)
Contribution towards previous years' estimated Council Tax (Surplus)/Deficit	1	3,321	3,417
Write-offs Uncollectable Council Tax Debt		209	125
Write-back Uncollectable Council Tax Debt		(277)	(13)
Provision for Doubtful Council Tax Debts		(2,660)	914
London Borough of Hillingdon Council Tax Precept	1	106,585	101,499
Greater London Authority Council Tax Precept	1	26,433	26,904
Council Tax (Surplus)/Deficit for the Year		(103)	1,643
Opening Council Tax (Surplus)/Deficit Balance		(3,025)	(4,668)
Council Tax (Surplus)/Deficit for the Year		(103)	1,643
Brought Forward Council Tax (Surplus) / Deficit Balance		(3,128)	(3,025)

National Non-Domestic Rates (NNDR) & Business Rate Supplement (BRS)	Note	31 March 2017 £000's	31 March 2016 £000's
National Non-Domestic Rates Income		(376,437)	(375,218)
Business Rate Supplement Income		(13,687)	(13,800)
Contribution towards previous years' estimated NNDR (Surplus)/Deficit		(7,500)	(1,667)
Write-offs Uncollectable NNDR Debt		1,196	646
Write-back Uncollectable NNDR Debt		(42)	(496)
Provision for Doubtful NNDR Debts		(883)	636
Provision/(Release of Provision) for Backdated Appeal Losses	3	148	3,089
London Borough of Hillingdon Share NNDR Income	2	112,407	111,532
Greater London Authority Share NNDR Income	2	74,939	74,355
Central Government Share NNDR Income	2	187,345	185,886
Transitional Payment Protection Receivable		228	72
Payment to Greater London Authority in respect of BRS Income		13,673	13,784
NNDR Cost of Collection Allowance		598	586
BRS Cost of Collection Allowance		13	16
NNDR (Surplus)/Deficit for the Year		(8,002)	(579)
Opening NNDR (Surplus)/Deficit Balance		6,277	6,854
NNDR (Surplus)/Deficit for the Year		(8,002)	(579)
Brought Forward NNDR (Surplus)/Deficit Balance		(1,725)	6,275

Collection Fund Account

1. Calculation of the Council Tax Base and 2016/17 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 2016/17 base agreed by full Council on 14 January 2016.

Band	Estimated Number of Properties	Discounts & Exemptions	Council Tax Support Scheme	Net Estimated Number of Properties	Band D Equivalent Ratio	Band D Equivalent 2016/17	Band D Equivalent 2015/16
A	903	(105)	(165)	633	6/9	422	310
B	5,617	(751)	(1,219)	3,647	7/9	2,837	2,273
C	23,841	(2,433)	(3,739)	17,669	8/9	15,706	14,324
D	44,520	(2,412)	(4,872)	37,236	9/9	37,236	35,730
E	17,898	(898)	(1,003)	15,997	11/9	19,552	19,283
F	9,409	(416)	(216)	8,777	13/9	12,678	12,516
G	4,530	(112)	(54)	4,364	15/9	7,273	7,070
H	419	(13)	(3)	403	18/9	806	780
Total	107,137	(7,140)	(11,271)	88,726		96,509	92,286
				Adjustment for Non-collection			(1,846)
				Ministry of Defence Contribution			760
				Council Tax Base		96,509	91,200
				London Borough of Hillingdon Band D Council Tax (£)			1,112.93
				Greater London Authority Band D Council Tax (£)			295.00
				Total Band D Council Tax (£)		0.00	1,407.93
				Demand on Collection Fund (£'000)		0	128,403

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 2016 £000's	2016/17 Precept £000's	Release of Prior Year Estimated Surplus £000's	2016/17 Council Tax Revenues £000's	2016/17 Surplus £000's	Balance 31 March 2017 £000's
London Borough of Hillingdon	(2,391)	106,585	2,625	(109,329)	(119)	(2,510)
Greater London Authority	(634)	26,433	696	(27,113)	16	(618)
Grand Total	(3,025)	133,018	3,321	(136,442)	(103)	(3,128)

Collection Fund Account

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 2017 the aggregate Rateable Value across the 8,473 hereditaments within the borough totalled £813,213k, with rates payable determined by the National Non-Domestic multiplier which is set annual by Central Government. For 2016/17 the standard multiplier was 49.7p in the pound and for small businesses 48.4p 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 2016 £000's	2016/17 Budgeted Share of Income £000's	Release of Prior Year Estimated Surplus £000's	2016/17 Non- Domestic Rates Revenues £000's	2016/17 Surplus £000's	Balance 31 March 2017 £000's
London Borough of Hillingdon	1,875	112,408	(2,250)	(112,550)	(2,392)	(517)
Greater London Authority	1,259	74,938	(1,500)	(75,043)	(1,605)	(346)
Central Government	3,140	187,345	(3,750)	(187,597)	(4,002)	(862)
Grand Total	6,274	374,691	(7,500)	(375,190)	(7,999)	(1,725)

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

Non-Domestic Ratepayers are able to challenge the Valuation Office Agency's assessment of the Rateable Value for their property, which if successful will result in a reduction in future payments and in some cases a refund of previously levied rates. 1,754 such appeals relating to 1,165 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2017. Given the inherent uncertainty around the financial impact of such appeals, a provision of £4,648k has been established on the basis of past experience. This represents an increase of £148k on the previously held provision, within this movement £385k was released to fund refunds paid during 2016/17, £2,082k was released where provision was no longer required and an additional £2,615k was added to the provision in respect of outstanding appeals.

Pension Fund Accounts

FUND ACCOUNT

	Note	31 March 2017 £000's	31 March 2016 £000's
Contributions	4	41,466	39,268
Transfers In from other pension funds	5	1,241	2,744
		42,707	42,012
Less: Benefits	6	(39,353)	(39,776)
Less: Payments to and on account of leavers	7	(2,243)	(2,700)
		(41,596)	(42,476)
Net additions/(withdrawals) from dealings with members		1,111	(464)
Less: Management expenses	8	(8,385)	(6,353)
Net additions/(withdrawals) including fund management expenses		(7,274)	(6,817)
Return on investments			
Investment income	9	16,004	15,511
Profit and losses on disposal of investments and changes in market value of investments	16B	137,690	(707)
Net return on investments		153,694	14,804
Net Increase in the fund during the year		146,420	7,987
Net Assets at start of year		810,287	802,300
Net Assets at end of year		956,707	810,287

NET ASSETS STATEMENT

		31 March 2017 £000's	31 March 2016 £000's
Investment Assets	10	955,190	808,967
Investment Liabilities	11	0	(317)
Total net investments		955,190	808,650
Current Assets	12	2,198	2,073
Current Liabilities	13	(681)	(436)
Net assets of the fund available to fund benefits at the end of the reporting period		956,707	810,287

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 19.

Paul Whaymand
Corporate Director of Finance
September 2017

Notes to Pension Fund Accounts

1. DESCRIPTION OF THE FUND

a) General

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hillingdon ("the administering body"). The Council is the reporting entity for this pension fund. The fund is a contributory defined benefits scheme established in accordance with statute to provide benefits to members and retired members of the London Borough of Hillingdon and Admitted and Scheduled bodies in the fund. Benefits in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) scheme. Benefits in respect of past service up to 31 March 2014 are based on final salary. Pensions move in line with the Consumer Price index (CPI) annually. Benefits paid out include a pension payable to former members and their dependants, lump sum retirement benefits, payment of death benefits where death occurs in service or retirement, and early payment of benefits on medical grounds.

The fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

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

Admitted Bodies:

Belrock (new 2016/17)	Heathrow Travel Care
Braybourne Facilities (new 2016/17)	Hillingdon & Ealing Citizens Advice
Churchill	Kingdom Security (new 2016/17)
Cucina (new 2016/17)	Mitie Facilities Management
Greenwich Leisure	Servest Group Ltd
Hayward Services (new 2016/17)	Taylor Shaw (Caterlink, Caterplus & Genuine Dining)

Scheduled Bodies:

Barnhill Academy	London Housing Consortium
Belmore Academy	<i>Orchard Hill College Academy Trust</i>
Bishop Ramsey Academy	Skills HUB (formerly Hillingdon Tuition Centre)
Bishopshalt Academy	Young Peoples Academy (formerly Chantry School)
Charville Academy	<i>Park Federation Trust</i>
Douay Martyrs Academy	Cranford Park Academy
<i>Eden Academy Trust</i>	Lake Farm Park Federation
Moorcroft School	Wood End Academy
Pentland Field School	<i>QED Academy Trust</i>
Grangewood School	Coteford Academy
<i>Elliot Foundation Trust</i>	Queensmead Academy
Hillingdon Primary School	Northwood Academy
John Locke Academy	<i>Rosedale Hewens Academy Trust</i>
Pinkwell School	Rosedale College
<i>Guru Nanak Academy Trust</i>	Mellowlane School
Nanak Sar Primary School	Brookside Primary School
Guru Nanak Sikh Academy	Ruislip High School
Harefield Academy	Ryefield Primary School
Haydon Academy	Vyners Academy
Heathrow Aviation Engineering	Stockley Academy
<i>LBDS Frays Academy Trust</i>	Swakeleys Academy
Cowley St. Lawrence Academy	Uxbridge Academy
Laurel Lane Academy	Uxbridge College
St. Matthews Primary School	Willows Academy
St. Martins Primary School	

Notes to Pension Fund Accounts

As at 31 March 2017 there were 8,684 active members contributing to the fund, with 6,194 members in receipt of benefit and 7,225 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2017	31 March 2016
Number of employers with active members	53	43
Number of employees in scheme		
London Borough of Hillingdon	5,862	5,307
Other employers	2,822	2,960
Total	8,684	8,267
Number of Pensioners		
London Borough of Hillingdon	5,314	5,461
Other employers	880	783
Total	6,194	6,244
Deferred Pensioners		
London Borough of Hillingdon	6,279	4,600
Other employers	946	2,058
Total	7,225	6,658

c) Funding

The fund is financed by contributions from the employers, pension fund members and by income from the fund's investments. The pension fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

d) Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, GMO Investments (defunded October 2016), JP Morgan Asset Management, Kempen International Investments (defunded June 2016), Legal & General Investment Management (appointed October 2016), LGT Capital Partners, London CIV (Appointed June 2016), Macquarie Investments, Newton Asset Management, Permira LLP, Ruffer LLP (assets transferred to London CIV June 2016), State Street Global Advisors (defunded October 2016) and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

e) Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2016/17:

Pensions Committee

Cllr Philip Corthorne (Chairman)	Cllr Tony Eginton
Cllr Michael Markham (Vice-Chairman)	Cllr Beulah East
Cllr Peter Davis	

Pensions Board

Cllr David Simmonds (Chairman)	Cllr John Morse
Cllr Alan Chapman (Vice-Chairman)	Venetia Rogers (Member Representative)
Mr Andrew Scott (Member Representative)	Roger Hackett (Member Representative)

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 2016/17 which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis, and summarise the fund transactions and report on the net assets available to pay pension benefits as at 31 March 2017.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2017).

Notes to Pension Fund Accounts

3. ACCOUNTING POLICIES

a) Valuation of assets

- Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.
- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.
- For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value 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.

b) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the Net Assets Statement. Overseas income is converted at rates of exchange ruling when remitted.

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

d) Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accruals basis.

e) Administration expenses are paid when invoiced by third party providers through the administrating authority's payment system and recharged to the Pension fund.

f) Interest on property developments - property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

g) Contributions are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

h) Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

i) Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient. Group transfers are accounted for under the agreement which they are made.

j) Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA

k) Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

l) Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2017 was £114,851k (£109,712k at 31 March 2016).

m) Assumptions made about the future and other major sources of estimation uncertainty - The pension fund Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to Pension Fund Accounts

Items where there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £27,128k. There is a risk that this investment may be under- or overstated in the accounts.
Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2017. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £27,002k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £22,447k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £38,233k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability.

Notes to Pension Fund Accounts

4. CONTRIBUTIONS

By category	31 March 2017 £000's	31 March 2016 £000's
Employees	9,356	9,382
Employers Contributions:		
Normal	27,134	25,118
Deficit Funding	4,976	4,768
	41,466	39,268

Deficit Funding: At the actuarial valuation on 31 March 2016 the fund was 75% funded, with the remaining 25% deficit to be recovered over a period of 25 years.

By authority	31 March 2017 £000's	31 March 2016 £000's
LB Hillingdon	30,535	29,082
Scheduled Bodies	10,459	9,768
Admitted Bodies	472	418
	41,466	39,268

Note: Contributions disclosure notes format is different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated

5. TRANSFERS IN

	31 March 2017 £000's	31 March 2016 £000's
Individual transfers in from other schemes	1,241	2,744

6. BENEFITS

By category	31 March 2017 £000's	31 March 2016 £000's
Pensions	(32,435)	(31,597)
Commutations and Lump Sum Retirement Benefits	(6,236)	(7,598)
Lump Sum Death Benefits	(682)	(581)
	(39,353)	(39,776)

By authority	31 March 2017 £000's	31 March 2016 £000's
LB Hillingdon	(37,561)	(38,969)
Scheduled Bodies	(1,443)	(701)
Admitted Bodies	(349)	(106)
	(39,353)	(39,776)

Notes to Pension Fund Accounts

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2017 £000's	31 March 2016 £000's
Refunds to members leaving service	(81)	(97)
Individual transfers out to other schemes	(2,162)	(2,603)
	(2,243)	(2,700)

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2017 as follows:

	31 March 2017 £000's	31 March 2016 £000's
Administrative Costs	(902)	(570)
Investment Management Expenses*	(6,761)	(5,445)
Oversight and Governance	(722)	(338)
	(8,385)	(6,353)

Note: Investment management and Oversight and Governance expenses for 2016 restated due to re-categorisation of £107k custody fees from oversight & governance to Investment management fees

* Further detailed Breakdown of Investment Management Expenses

	31 March 2017 £000's	31 March 2016 £000's
Management Fees	5,359	4,807
Performance Related Fees	917	279
Custody Fees	96	108
Transaction Costs	389	251
	6,761	5,445

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 expenses 2016.

8A. OTHER FUND ACCOUNT DISCLOSURES

External Audit Costs

	31 March 2017 £000's	31 March 2016 £000's
Payable in Respect of External Audit	21	21
	21	21

9. INVESTMENT INCOME

	31 March 2017 £000's	31 March 2016 £000's
Income from Equities	5,071	5,224
Income from Bonds	37	290
Private Equity Income	4,209	6,147
Pooled Property Investments	4,774	4,458
Pooled Investments- Unit trusts and other managed funds	2,669	666
Interest on cash deposits	63	94
Other (for example from stock lending or underwriting)	(819)	(1,368)
	16,004	15,511

Note: Investment income categories are different to that published in 2015/16 and in line with the CIPFA Code changes, the 2015/16 figures have been restated to provide comparative table of figures.

Notes to Pension Fund Accounts

10. INVESTMENTS

	31 March 2017 £000's	31 March 2016 £000's
Investment Assets		
Bonds	0	34,898
Equities	123,992	123,599
Pooled investments	672,256	495,752
Pooled property investments	114,894	106,360
Private equity	27,128	30,082
Other Investment balances		
Cash deposits	16,276	17,296
Investment income due	644	980
Total investment assets	955,190	808,967
Investment liabilities		
Derivative contracts:		
Forward currency contracts	0	(317)
Total investment liabilities	0	(317)
Net investment assets	955,190	808,650

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Value 1 April 2016 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2017 £000's
2016/17					
Bonds	34,898	4,704	(40,461)	859	0
Equities	123,599	139,652	(167,581)	28,322	123,992
Pooled Investments	495,752	721,833	(645,615)	100,286	672,256
Pooled Property Investments	106,360	11,904	(4,825)	1,455	114,894
Private Equity	30,082	865	(5,287)	1,468	27,128
	790,691	878,958	(863,769)	132,390	938,270
Forward Foreign Exchange	(317)	4,367	(3,152)	(898)	0
	790,374	883,325	(866,921)	131,492	938,270
Other investment balances					
Cash Deposits	17,296			256	16,276
Investment Income Due	980				644
Adjustments to Market Value Changes				5,942	
Total Investment Assets	808,650			137,690	955,190

	Value 1 April 2015 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2016 £000's
2015/16 Restated					
Bonds	64,834	6,087	(37,691)	1,668	34,898
Equities	136,322	25,428	(24,919)	(13,232)	123,599
Pooled Investments	449,990	100,335	(53,162)	(1,411)	495,752
Pooled Property Investments	84,768	15,081	(3,187)	9,698	106,360
Private Equity	35,275	1,201	(4,878)	(1,516)	30,082
	771,189	148,132	(123,837)	(4,793)	790,691
Forward Foreign Exchange	(745)	3,519	(1,608)	(1,483)	(317)
	770,444	151,651	(125,445)	(6,276)	790,374
Other investment balances					
Cash Deposits	28,867			432	17,296
Investment Income Due	913				980
Adjustments to Market Value Changes	745			5,137	0
Total Investment Assets	800,969			(707)	808,650

Purchases and sales of derivatives are recognised in Note 14A above as follows: Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

Note: Investment assets categories are different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated.

Notes to Pension Fund Accounts

10B. ANALYSIS OF INVESTMENTS

	31 March 2017 £000's	31 March 2016 £000's
Bonds		
UK		
Public sector quoted	0	18,026
Overseas		
Public sector quoted	0	16,872
	0	34,898
Equities		
UK		
Quoted	123,992	98,337
Overseas		
Quoted	0	25,262
	123,992	123,599
Pooled funds - additional analysis		
UK		
Fixed income unit trust	54,622	36,603
Unit trusts	242,454	45,134
Unitised insurance policies	287,498	179,997
Limited liability partnerships	87,682	79,590
Overseas		
Unit trusts	0	154,378
	672,256	495,702
Pooled property Investments	114,894	106,369
Private equity	27,128	30,123
Cash deposits	16,276	17,296
Investment income due	644	980
	158,942	154,768
Total investment assets	955,190	808,967
Investment liabilities		
Derivatives	0	(317)
Total investment liabilities	0	(317)
Net investment assets	955,190	808,650

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2017 £000's	%	Market Value 31 March 2016 £000's	%
Adams Street Partners	17,532	2	19,195	2
AEW UK	47,565	5	36,094	4
GMO	0	0	62,041	8
JP Morgan Asset Management	54,622	6	36,603	5
Kempen International Investments	0	0	87,317	11
Legal & General Investment Management	287,498	30	0	0
LGT Capital Partners	9,596	1	10,887	1
London CIV - Ruffer	104,440	11	0	0
M&G Investments	22,447	2	39,150	5
Macquarie Infrastructure	27,002	3	19,805	2
Newton Asset Management	137,948	14	30,395	4
Permira Credit Solutions	38,233	4	20,634	3
Ruffer LLP	0	0	92,546	11
State Street Global Advisors	0	0	179,997	22
UBS Global Asset Management (Equities)	130,119	14	97,271	12
UBS Global Asset Management (Property)	68,499	7	71,112	9
Other*	9,689	1	5,603	1
Total	955,190	100	808,650	100

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

Notes to Pension Fund Accounts

There are no fund investments which constitute more than 5% of net assets of the scheme.

10D. STOCK LENDING

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £21,444K (31 March 2016: £17,138K). These equities continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £23,412K (31 March 2016: £18,492k) representing 109% of stock lent. Collateral consists of acceptable securities and government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.

11. INVESTMENT LIABILITIES

	31 March 2017 £000's	31 March 2016 £000's
Forward foreign exchange unrealised loss	0	(317)
	0	(317)

12. CURRENT ASSETS

	31 March 2017 £000's	31 March 2016 £000's
Analysis of debtors		
Employers' contributions due	68	364
Employees' contributions due	19	100
Debtor: Other local authorities (LB Hillingdon)	0	30
Cash balances	2,111	1,579
	2,198	2,073

13. CURRENT LIABILITIES

	31 March 2017 £000's	31 March 2016 £000's
Analysis of creditors		
Creditor: Other local authorities (LB Hillingdon)	(227)	0
Other entities	(454)	(436)
	(681)	(436)

Note: Other entities balance is due to the pension fund from bodies external to the government e.g fund managers

Notes to Pension Fund Accounts

14. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2017 £000's	Market Value 31 March 2016 £000's
Prudential	5,975	5,937
	5,975	5,937

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

According to information provided by Prudential, £220k was received in additional voluntary contributions by members. Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 4.

15. FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Notes to Pension Fund Accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017. It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in Note 17 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2017 £000's	Value on Increase £000's	Value on Decrease £000's
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	27,002	29,702	24,302
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	60,680	66,748	54,612
Private equity & venture Capital	5%	27,128	28,484	25,772
Venture Capital	5%	41	43	39
Total		114,851	124,978	104,724

15A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Notes to Pension Fund Accounts

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2017

Financial Assets at Fair Value through Profit and Loss
Loans and Receivables

Financial Liabilities at Fair Value through Profit and Loss

Net investment Assets

Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
124,016	699,403	114,851	938,270
16,920	0	0	16,920
0	0	0	0
140,936	699,403	114,851	955,190

Values as at 31 March 2016

Financial Assets at Fair Value through Profit and Loss
Loans and Receivables

Financial Liabilities at Fair Value through Profit and Loss

Net investment Assets

Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
158,519	522,460	109,712	790,691
18,276	0	0	18,276
(317)	0	0	(317)
176,478	522,460	109,712	808,650

15B. RESTATEMENT OF VALUATION HIERARCHIES

The following managers' assets for 2015-16 have been re-categorised from level 1 to level 2: Newton Asset Management- £30,396k, Kempen International- £87,317k, State Street Asset Management- £179,997k, GMO Investments- £62,041k and JP Morgan Asset Management- £36,603k.

15C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2016	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2017
	£000's	£000's	£000's	£000's	£000's	£000's
Private Equity - Adams Street Partners , LGT Capital Partners & UBS	30,082	865	(5,287)	624	844	27,128
Private Finance - M&G	39,150	0	(23,266)	1,225	5,338	22,447
Infrastructure - Maquarie	19,805	5,276	(1,659)	3,350	230	27,002
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	20,634	17,279	(126)	320	126	38,233
	109,712	23,420	(30,338)	5,519	6,538	114,851
Other investment balances	0				0	0
Total Investment Assets	109,712				6,538	114,851

There were no transfers in or out of level 3 assets in 2016/17

Notes to Pension Fund Accounts

15D. Level 3 Pricing Hierarchy Disclosures

Quantitative Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital

The significant unobservable inputs used in the fair value measurement of privately held securities are: Revenue multiples, EBITDA multiple, net income multiple and discount for lack of marketability and potential bids.

Private Finance: M&G

The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie

The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets.

- The acquisition financial model is used as a base case.
- Update for any material changes in economic, operational and financial assumptions.
- Discount equity cashflows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira

The following key terms are confirmed as inputs for each yield analysis calculation:

- Cash / PIK (Payment In Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

Description of Valuation Process

Private Equity

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Notes to Pension Fund Accounts

Private Finance: M&G

These assets are floating rate and are held to maturity they are valued at par unless suffering from impairment. Impairments may be applied if an asset's credit rating deteriorates.

Direct Lending: Permira

- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that
- Each valuation is reviewed to ensure:

Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;

That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie

Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines, and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cashflow (DCF) analysis.

DCF-Based Market Valuation Process

Financial Model

The acquisition financial models of all of the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

Update for Economic, Operational and Financial Assumptions

The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g. distributions received in an intervening period and year to date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:

- the actual operational results to date
- the revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put into place, current base rates and any material change in outlook with regards to future leverage.

Discount Rate

Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

Narrative and Quantitative description of sensitivity to changes in valuation methods and market

Private Equity

Market valuation method applied to investments is sensitive to four main components:

- (i) changes in actual market prices;
- (ii) interest rate risk;
- (iii) foreign currency movements; and
- (iv) other price risks.

Private Finance (M&G)

The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an analyst impairing an asset if there is a change in the asset's credit rating.

Notes to Pension Fund Accounts

Infrastructure: Macquarie

The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

Direct Lending: Permira

The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:

- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

16. FINANCIAL INSTRUMENTS

16A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	Designated as fair value through P&L	Loans & receivables	Total	Restated		
				Designated as fair value through P&L	Loans & receivables	Total
	31 March 2017 £000's	31 March 2017 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2016 £000's	31 March 2016 £000's
Financial Assets						
Bonds	0	0	0	34,898	0	34,898
Equities	123,992	0	123,992	123,599	0	123,599
Pooled Investments	672,256	0	672,256	495,702	0	495,702
Pooled property investments	114,894	0	114,894	106,369	0	106,369
Private Equity	27,128	0	27,128	30,123	0	30,123
Cash	0	16,276	16,276	0	17,296	17,296
Other Investment balances	0	644	644	0	980	980
	938,270	16,920	955,190	790,691	18,276	808,967
Financial Liabilities						
Derivative Contracts	0	0	0	(317)	0	(317)
	0	0	0	(317)	0	(317)
Total	938,270	16,920	955,190	790,374	18,276	808,650

Note: Investment assets categories disclosures are different to that published in 2015/16 and in line with the CIPFA Code, the 2015/16 figures have been restated to provide comparative table of figures.

Notes to Pension Fund Accounts

16B. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2017 £000's	31 March 2016 £000's
Financial Assets		
Designated at Fair Value through profit and loss	137,690	(390)
Financial Liabilities		
Fair Value through profit and loss	0	(317)
	137,690	(707)

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 Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the pension fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer, or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The potential losses from shares sold short are unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund Investment Strategy Statement.

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset Type	Potential market movements (+/-)
UK bonds	5.20%
Overseas bonds	5.20%
UK equities	9.60%
Overseas equities	8.70%
Pooled property investments	3.40%
Other pooled investments	9.60%
Derivatives	0.00%
Private equity	6.20%

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund asset allocations. The potential volatilities are consistent with one standard deviation movement of the change in value of assets over the last three years. This can then be applied to period end asset mix.

Notes to Pension Fund Accounts

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 (the prior year comparator is shown below).

Asset type	Value as at 31 March 2017 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
UK bonds	0	5.20%	0	0
Overseas bonds	0	5.20%	0	0
UK equities	123,992	9.60%	135,895	112,089
Overseas equities	0	8.70%	0	0
Pooled property investments	114,894	3.40%	118,800	110,988
Other pooled investments	672,256	9.60%	736,793	607,719
Derivatives	0	0.00%	0	0
Private equity	27,128	6.20%	28,810	25,446
Total	938,270		1,020,297	856,243

Asset type	Restated			
	Value as at 31 March 2016 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
UK bonds	18,026	4.57%	18,850	17,202
Overseas bonds	16,871	4.57%	17,642	16,100
UK equities	98,337	10.56%	108,721	87,953
Overseas equities	25,262	8.01%	27,285	23,239
Pooled property investments	106,369	3.00%	109,560	103,178
Other pooled investments	495,703	10.56%	548,049	443,357
Derivatives	0	0.00%	0	0
Private equity	30,123	4.86%	31,587	28,659
Total	790,691		861,695	719,687

Note: Investment assets categories are different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated to provide comparative table of figures.

Interest Rate Risk - The risk to which the pension fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2017 £000's	31 March 2016 £000's
Cash balances	16,276	17,296
Bonds - segregated portfolio	0	72,526
Bonds - pooled funds	148,817	112,128
Total	165,093	201,950

Notes to Pension Fund Accounts

Interest Rate Risk Sensitivity Analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000's	£000's	£000's	£000's
Assets exposed to income rate risks				
Cash balances	16,276	163	16,439	16,113
Bonds - pooled funds	148,817	1,488	134,492	147,329
Total change in assets available	165,093	1,651	150,930	163,442

	Value as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000's	£000's	£000's	£000's
Assets exposed to income rate risks				
Cash balances	17,296	173	17,469	17,123
Bonds - segregated portfolio	72,526	725	73,251	71,801
Bonds - pooled funds	112,128	1,121	113,249	111,007
Total change in assets available	201,950	2,020	203,970	199,931

Currency Risk - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates.

The pension fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2017 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 2017 and as at the previous period ending 31 March 2016.

Currency exposure by asset type

	Asset Value 31 March 2017	Asset Value 31 March 2016
	£000's	£000's
Overseas Quoted Securities	0	25,262
Overseas Index-Linked Bonds	0	16,871
Overseas Managed Funds	106,344	149,059
Private Equity/Infrastructure	54,130	49,928
	160,474	241,120

Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the funds data provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 7.90%, based on the data provided by PIRC. A 7.90% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 7.90% 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:

Notes to Pension Fund Accounts

Assets exposed to currency risk

	Asset Value 31 March 2017	Potential market movement	Value on increase	Value on decrease
		7.90%		
	£000's		£000's	£000's
Overseas Managed Funds	106,344	8,401	114,745	97,943
Private Equity/Infrastructure	54,130	4,276	58,406	49,854
	160,474	12,677	173,151	147,797

Assets exposed to currency risk

	Asset Value 31 March 2016	Potential market movement	Value on increase	Value on decrease
		6.08%		
	£000's	£000's	£000's	£000's
Overseas Quoted Securities	25,262	1,536	26,798	23,726
Overseas Index-Linked Bonds	16,871	1,026	17,897	15,845
Overseas Managed Funds	149,059	9,063	158,122	139,996
Private Equity/Infrastructure	49,928	3,036	52,964	46,892
	241,120	14,660	255,780	226,460

Credit Risk - Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The pension fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The pension fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the fund's custodian Northern Trust 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.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The pension fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc, which holds an S&P long-term credit rating of BBB+. Deposits are placed in the AA Af rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2017 was £2,111k (31 March 2016: £1,579k) and this was held with the following institutions.

Summary	Rating S&P	Balances as at 31 March 2017 £000's	Rating S&P	Balances as at 31 March 2016 £000's
Money market funds				
Northern Trust Global Sterling Fund A	AA Af S1+	200	AA Af	100
Bank current accounts				
Lloyds	A	1,911	A	402
NatWest (Capita)		0	BBB+	1,077
Total		2,111		1,579

Liquidity Risk - The risk the pension fund will have difficulties in paying its financial obligations when they fall due.

The pension fund holds a working cash balance in its own bank accounts with Lloyds and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,111k). 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 2017 these assets totalled £708,503k, with a further £16,276k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

Notes to Pension Fund Accounts

18. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as at 31 March 2016 setting rates for the period April 201 to March 2020. The next triennial valuation will take place as at 31 March 2019.

In line with the triennial valuation the fund updates its Funding Strategy Statement every three years. The key elements of the funding strategy are:

- 1) to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 2016 actuarial valuation, the fund was assessed as 75% funded (72% at the March 2013 valuation). This corresponded to a deficit of £269m (2013 valuation: £266m) at that time. The slight improvement in funding position between 2013 and 2016 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially offset by lower than expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term).

Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%) 1 April 2017 - 31 March 2020	Secondary Rate (£)		
	2017/18	2018/19	2019/20
19.50%	£5,296,000	£5,537,000	£6,938,000

The Primary rate above includes an allowance for administration expenses of 0.7% of pay. The employee average contribution rate is 6.4% of pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparable to the rates above is not provided.

The valuation of the fund has been undertaken using a risk based approach and this approach adopted recognises the uncertainties and risks posed to funding and follows the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cashflows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

Notes to Pension Fund Accounts

Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

Financial assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the last valuation for comparison) are shown below.

Description	31 March 2016	31 March 2013
Funding Basis Discount Rate	4.0%	4.6%
Benefit Increases (CPI)	2.1%	2.5%
Salaries Increases	2.6%	3.3%

Demographic assumptions

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

Description	31 March 2016	31 March 2013
Male		
Pensioners	22.6 years	22.7 years
Non- Pensioners	24.0 years	24.3 years
Female		
Pensioners	24.6 years	24.7 years
Non- Pensioners	26.5 years	26.9 years

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

Description	31 March 2017 % per annum	31 March 2016 % per annum
Inflation /Pensions Increase Rate	2.4%	2.2%
Salary Increase Rate	2.8%	3.2%
Discount Rate	2.5%	3.5%

An IAS 26 valuation was carried out for the fund as at 31 March 2017 by Hymans Robertson with the following results:

Description	31 March 2017 £000's	31 March 2016 £000's
Present Value of Promised Retirement Benefits	1,522,000	1,225,000
Assets	956,707	810,287
Deficit	565,293	414,713

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.

Notes to Pension Fund Accounts

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 officer or Pension Committee member had any interest with any related parties to the pension fund.

Governance

There are two members of the Pension Fund Committee who are deferred or retired members of the pension fund. Cllr Philip Corthorne (Chairman), a deferred member; and Cllr Tony Eginton, a retired member. Each member is required to declare their interest at each meeting.

Key Management Personnel

Three employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, Deputy Director - Strategic Finance and the Chief Accountant. Total remuneration payable to key management personnel is set out below:

	31 March 2017 £000's	31 March 2016 £000's
Short term benefits	69	61
Post employment benefits	31	105
	100	166

This note highlights the funding by the pension fund for key officers and pension benefits of those staff accrued in year.

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring. The current version of the ISS is available on the pension fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

21. BULK TRANSFER

There were no bulk transfers into or out of the fund during the 2016/17 financial year.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2017 totalled £46,472k (£31,122k at 31 March 2016). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

23. 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.

24. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

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London Borough of Hillingdon Annual Governance Statement 2016/17

1 Scope of Responsibility

The London Borough of Hillingdon is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough Hillingdon is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.

The London Borough of Hillingdon follows an approach to corporate governance which is in accordance with the principles of the CIPFA/SOLACE 2016 Framework and guidance '*Delivering Good Governance in Local Government*'. This statement meets the requirements of Regulation 6 (1)(a) of the Accounts and Audit Regulations 2015 which require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement reporting on the review with the published Statement of Accounts. Regulation 6(1)(b) of the same regulations requires that the statement is an *Annual Governance Statement* which must be prepared in accordance with proper practices in relation to accounts.

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 the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hillingdon's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the London Borough of Hillingdon for the year ended 31 March 2017 and up to the date of approval of the 2016/17 Statement of Accounts.

3 The Governance Framework

The London Borough of Hillingdon has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined below demonstrate how Hillingdon maintains effective internal controls and an effective governance system.

3.1. **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 Annual General Meeting, as required.

3.2. 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. The governance arrangements for Hillingdon comprise:

- A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny Committees;
- A Corporate Management Team;
- Senior Management Teams;
- The Audit Committee, led by an independent chairman; and
- A Standards Committee and a Code of Conduct for Members and Co-opted Members.

The authority's constitution is on its website at www.hillingdon.gov.uk.

3.3. 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 Directors' 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 and are available to watch through the Council's YouTube channel.

3.4. Part 2, articles 6 and 8 (including Part 4,E) sets 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.

3.5. 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 Cabinet Member for Social Services, Housing, Health and Wellbeing and which complies with the requirements of the Health and Social Care Act 2012. The Health and Wellbeing Board seeks to improve the quality of life of the local population and provide high-level collaboration between the Council, NHS and other agencies to develop and oversee the strategy and commissioning of local health and social care services.

3.6. Part 3 of the Constitution sets out the '**Scheme of Delegations to Officers**'. This governs the responsibility allocated to officers of the London Borough of Hillingdon to perform the

authority's activities. These include the Chief Executive, Borough Solicitor and Head of Democratic Services. The schemes are updated when required to reflect changes to Directors' responsibilities in line with business priorities. Within this, each Directorate has individual Schemes of Delegations, setting out how Directors' responsibilities are sub-delegated.

3.7. Part 5 of the Constitution sets out formal '**Codes of Conduct**' governing the behaviour and actions of all Council Members, co-opted members and Council officers. A '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.

3.8. Rather than adopting a formal **Code of Corporate Governance** the Council ensures that Hillingdon's governance structure, decision making process and areas of responsibility are covered in the Council's Constitution and Schemes of Delegation.

3.9. **A Member training programme** is devised for each municipal year. All new Members are trained on the Code of Conduct by the Borough Solicitor and Head of Democratic Services and refresher training delivered where appropriate. Complaints about alleged breaches of the Code are handled in accordance with the requirements of the Localism Act 2011. The Standards framework includes a Whips Protocol and complainants are expected to make use of it first, with complaints only 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, audit and licensing rules.

3.10. **Member Register of Interests** records the interests of Members and co-opted 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.

3.11. **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.

3.12. 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. A new Investigations Protocol has recently been drafted to ensure that all allegations are appropriately risk assessed and the correct officers made aware of the allegations and a robust decision making process is in place. The new procedure is in the process of being communicated to all appropriate stakeholders.

3.13. **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).

3.14. **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.

3.15. **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 £13.309 million were delivered in 2016/17 taking total savings since 2010 to approximately £110 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.

3.16. **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.

3.17. **Hillingdon Partners** aims to bring together the key local public, private, voluntary and community sector organisations to work as a local strategic partnership to improve the quality of life for all those who live in, work in and visit Hillingdon. The Partnership seeks to promote the interests of Hillingdon beyond the borough's boundaries with external organisations, regional bodies and central government. The Partnership has agreed nine priority areas for the focus of its work, with actions to address local priorities delivered through theme groups.

3.18. **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 being refreshed annually.

3.19. **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 which are generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities 2005'. The Audit Committee is subject to an annual Internal Audit assurance review of its effectiveness. The final report of the last such review was dated 18th November 2016. Further to this, the Terms of Reference for the Audit Committee have been updated and formally approved to further strengthen the Council's governance arrangements.

3.20. 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. Key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the

results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.

3.21. The London Borough of Hillingdon has established an effective **risk management system**, including:

- **A Corporate Risk Management Strategy** 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 where appropriate. The Council's Risk Management framework is reviewed annually. The Head of Business Assurance has overall responsibility for the facilitation of the Council's Risk Management Framework and improvement work in this area is ongoing.
- **A Corporate Risk Management Group (CRMG)**, chaired by the Corporate Director of Finance, reviews the Corporate Risk Register on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The Corporate Risk Register is 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. The Head of Business Assurance has overall responsibility for the facilitation of the Council's Risk Management Framework and the Audit Committee has commented that good progress has been made in strengthening the process for updating the Council's Corporate Risk Register on a quarterly basis.
- **Risk Management training** has been provided to Audit Committee members during 2016/17. Risk Management training for staff is available via an e-learning training package although the completion rate is low. Further improvement work is planned which will include the provision of bite size training sessions for staff in relation to risk management.

3.22. The Council recognises that there is a continued need for robust and effective strategic and operational risk management processes and procedures across the organisation. Effective risk management will help to mitigate against the financial and reputation risks arising from the broad range of **insurable risks** to which the Council is exposed. It is anticipated that the Council's Insurance contracts will support the transfer of financial risk through using a mixed portfolio of suppliers specialising in particular insurance sectors, alongside proactive actions by the Insurance Service to raise awareness of such risks.

3.23. **The Business Assurance Health and Safety Service** provide advice and support to the Corporate Health & Safety Forum, Group Health and Safety Champions as well as to managers regarding health and safety issues. The Corporate Health & 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.

3.24. A corporate officer group, the Hillingdon Information Assurance Group (HIAG), chaired by the Senior Information Risk Owner (the Head of Business Assurance) on behalf of the Corporate Management Team, meets every quarter to review progress on the agreed Information Governance Action Plan (IGAP). The relevant policies, procedures and guidelines for staff are updated in line with the IGAP. An updated data protection e-learning training module has been rolled out to staff and briefings have been delivered to some Elected

Members. Where identified, learning from data protection incidents that have occurred is integrated into the IGAP.

3.25. The London Borough of Hillingdon has an **Anti-Fraud and Anti-Corruption Strategy** which has recently been updated and is in the process of getting the required formal approval. The strategy is underpinned by a full range of policies and procedures including the Council's Whistleblowing Policy. Work is ongoing to progress the updates to these policies and procedures and ensure they are aligned to the Council's new Investigations Protocol. Once finalised, the Strategy, Protocol, Policies and Procedures will be communicated to all key stakeholders to help ensure they are all aware of their responsibilities in relation to fraud and corruption at the Council.

3.26. **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'.

3.27. 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 key committee and all executive reports prior to decision, for legal compliance.

3.28. 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.

3.29. The **Performance and Development Appraisal (PADA)** process requires all officers and senior managers to record employees' key objectives and tasks, set targets for when these must be delivered and identify staff learning and development needs. There are competency frameworks for 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.

3.30. 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.

3.31. The Council has in place a well-established **Petition Scheme**, including e-Petitions. This is widely used by people in the borough to submit their views on local matters directly to

decision-makers.

4 Review of Effectiveness

4.1. 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 Business Assurance's annual Internal Audit report, and also by comments made by the external auditors (Ernst & Young) and other review agencies and inspectorates.

4.2. The CIPFA/SOLACE 2016 Framework '*Delivering Good Governance in Local Government*' (Chapter 5), sets out seven principles of good practice:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder involvement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capacity of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

4.3. The review of effectiveness has considered each of the principles, including the sub-principles and behaviours and actions that demonstrate good governance in practice and as set out in the guidance.

4.4. The review has also been informed by a range of management information and improvement action, including:

4.4.1. A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees as well as the Audit Committee.

4.4.2. 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.

4.4.3. The work of the external auditors (Ernst & Young) as reported in their Annual Audit Letter.

4.4.4. The work of the Business Assurance service, which develops its quarterly Internal Audit plans after an assessment of risk and priorities including discussions with relevant senior managers. The Head of Business Assurance (& Head of Internal Audit) reported quarterly during the year to both the Corporate Management Team and the Audit Committee. Overall he has provided a 'reasonable' level of assurance on the Council's

internal control environment for 2016/17.

4.4.5. Management Assurance Statements (MAS) were received from all Deputy Directors and Heads of Service covering the financial year 2016/17. The MAS provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that governance issues other than those identified in Section 5 (below) have been raised and are being dealt with appropriately.

4.4.6. The London Borough of Hillingdon has continued to maintain effective financial management throughout the financial year, with unallocated reserves remaining at £39 million at 31 March 2017.

4.4.7. 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 'Residents' First' approach.

4.5. Overall, therefore, the review of effectiveness has concluded that internal control/governance systems were in place for the financial year ended 31 March 2017 and, except where identified in section 5, the London Borough of Hillingdon's management and control systems are operating effectively in accordance with good practice.

5 Significant Governance Issues

5.1. 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.

5.2. All governance issues reported in the 2015/16 AGS and in previous years have been resolved and the following points are noted:

5.2.1 In relation to school improvement, good progress has continued to be made during the last year to embed a school-led improvement approach in Hillingdon working closely with Head Teachers and Governing Bodies in the Borough. Community Schools which are a cause for concern are subject to regular performance reviews and where appropriate Warning Notices are served. Alternatively concerns are escalated to the Regional Schools Commissioner in the case of Academy schools. The Council is working closely with all schools in Hillingdon to ensure all children in Hillingdon receive a 'good' or better education.

5.2.2 An Internal Audit assurance report on the Council's Corporate Anti-Fraud and Anti-Corruption arrangements finalised in December 2014 identified a number of governance issues requiring improvement. An overarching Corporate Anti-Fraud and Anti-Corruption Strategy (2017-20) has been drafted and agreed by a range of key stakeholders including the Audit Committee on 16th March 2017. Policies and plans to support the Strategy are currently being drafted with direct involvement of the Corporate Management Team. Links to these will be made available in the CAF&AC Strategy (once agreed).

5.2.3. A review of the Passenger Transport Service and a routine Health and Safety Audit in 2015-16 identified problems with contract monitoring and a need for actions to

improve safeguarding and health and safety procedures. A new system of routine and spot checking contractors' compliance has been put in place. This includes inspection of all relevant documentation regarding company insurance, vehicles and contracted drivers. Safeguarding documentation has been produced for all contracted companies and drivers. A stronger system is in place to ensure that all staff have the necessary DBS clearance and for monitoring and recording health and safety training.

5.2.4 Some inadequate health and safety and security arrangements were identified at Harlington Road Depot. These have been addressed through a number of staff changes, the introduction of increased security measures and new regular communications to promote health and safety across the site.

5.2.5. During 2016/17 good progress has been made to implement actions in response to recommendations from an internal review of the homelessness and housing service. Nearly all recommendations have been implemented including strengthening management controls, staff performance management and the review and approval of a revised Social Housing Allocation Policy. Further work is underway to actively implement the two remaining recommendations from the review.

5.2.6 The Council has completed a restructure of the Corporate Procurement Team. The Team has received Official Journal EU training and training for Chartered Institute of Procurement and Supply professional qualifications (where appropriate). A new category structure has been created, incorporating category strategy and Supplier Relationship Management identification for key suppliers. Ongoing contracts are reviewed, where appropriate, to ensure they contain suitable KPI's and SLA's.

5.2.7 All critical (priority 1) Council services now have an up-to-date Business Continuity Plan in place. Further work is planned to ensure the plans are fully embedded within each service.

5.2.8. The Council continues to attach the highest importance to Data Protection and Information Governance. Work is ongoing through the Council's Information assurance working group (HIAG) to strengthen arrangements in this area.

5.2.9. Following an Employment Tribunal hearing the Council reviewed its Recruitment & Selection policy. The Policy was revised, consulted on and approved and was implemented with effect from April 2017.

5.3 Following a review of the effectiveness of the system of internal control including the corporate governance arrangements, the following significant governance issues have been identified in 2016/17:

5.3.1 Further work to strengthen business continuity operational risk: Business Continuity / Disaster Recovery: In the event of a disaster such as an extended period of power outage or major fire in the Civic Centre, multiple business areas would be unable to operate their ICT systems for days, or have limited ability to operate for up to 2 weeks. Proposals have been put forward to CMT regarding back-up solutions and swifter access to the Council's core ICT applications in such a scenario. Capital funding has provisionally been identified and CMT are to further review alternate location options for emergency command and control. Final proposals for the required technology resilience, need to go in tandem with this and as part of the upcoming modernisation of ICT.

5.3.2 An Internal Audit of Building Control services identified a number of operational

and financial risks. Positive management actions with timescales have been agreed to address these risks.

5.3.3 There is some evidence of a deterioration in the financial position of a number of maintained Schools. Two schools requested a licensed deficit in 2016/17 - one of which was projecting a year-end deficit of £1.6 million. There are a further eleven schools with balances below £50k and the ringfenced Dedicated Schools Grant budget overspent by £1.1 million in 2016/17. The finance team will use the 2016/17 outturn data and the maintained Schools three-year budget plans due by the end of May, to determine where intensive support is required (over and above that already offered through the Schools Finance team SLA). The issue is also being discussed on an ongoing basis at Schools Forum.

5.3.4 The Social Care Finance team have identified that there is incomplete management information relating to Social Care clients that have no recourse to public funds (NRPF) and identification of the related costs of their support. The service now has access to the Connect system that collates this data. Additionally the service works closely with the Fraud Team and is exploring opportunities for closer working with the Home Office.

5.4. 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 £70m by 2021/22. In response, the Council continues to review and transform services to drive improvement and efficiency through initiatives such as the successful BID programme, which has bridged the budget gap by delivering £13.3m savings in 2016/17. This proven approach is set to be continued beyond 2016/17, enabling the Council to continue 'putting our residents first' despite the challenging financial conditions.

Fran Beasley
Chief Executive
September 2017

Cllr Ray Puddifoot MBE
Leader of the Council
September 2017

Glossary of Terms

ACCRUAL - A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end of the period.

ACCUMULATED ABSENCES ACCOUNT - Absorbs the differences arising from the statutory requirement to neutralise the impact on the General Fund Balance of accruing for compensated absences earned but not taken in year.

ACTUARIAL VALUATION - A valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

ACTUARY - An independent professional who advises on the financial position of the pension fund.

AGENCY SERVICES - The provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

AMORTISED COST - The initial measurement will be at fair value, normally the amount of the originating transaction such as the receipt or loan advance less transaction costs. The effective interest rate is then calculated to the amount in the balance sheet at initial measurement. The result in the balance sheet carrying amount (the amortised cost) and a profile of interest charges that might be different from the amounts specified in the contract as being for interest and principal.

ASSET - Something that will be used by the authority over a long period of time and has a lasting value (e.g. land, buildings, and roads). See also **COMMUNITY ASSETS, NON CURRENT ASSET, INFRASTRUCTURE ASSETS, ASSETS HELD FOR SALE, NON-OPERATIONAL** and **OPERATIONAL ASSETS**.

ASSETS HELD FOR SALE - Assets that are being actively marketed for sale and are expected to be sold within the next financial year.

BAD DEBT PROVISION - Amounts set-aside in the accounts towards potentially irrecoverable debts. This amount is netted against Debtors in the Consolidated Balance Sheet.

BALANCES - Unallocated reserves held to resource unpredictable expenditure demands.

BUDGET - A statement of the authority's plans for services expressed in money shown over one or a number of years.

CAPITAL ADJUSTMENT ACCOUNT - The Capital Adjustment Account represents the balance of capital resources set aside to finance capital expenditure awaiting the consumption of those resources (i.e. depreciation or impairment).

CAPITAL CHARGE - A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE - Spending on assets (e.g. land, buildings, roads etc.) that adds to and not merely maintains the value of an existing fixed asset.

CAPITAL RECEIPTS - The proceeds from the sale of land, buildings or other assets. Capital receipts can be used to pay for new capital expenditure, within rules set down by the Government, or to repay outstanding loans.

CASH EQUIVALENT - Amounts held as short term deposits which are readily convertible into cash.

CIPFA - The Chartered Institute of Public Finance and Accountancy is the professional accounting body that specialises in the public services.

COMMUNITY ASSETS - Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CONTINGENCY - Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

CONTINGENT ASSET - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY - A contingent liability is either:

a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or

b) past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE - The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi purpose authorities with a responsibility for making choices in the use of taxpayers' money. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COUNCIL TAX - The local tax based on relative market values of residential property, which helps to fund local services.

CREDITORS / PAYABLES - Amounts owed by the authority for goods and services received where payment has not been made at the date of the balance sheet.

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

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

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

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

DEBTORS / RECEIVABLES - Amounts owed to the authority for goods and services provided but not received at the date of the balance sheet.

DEDICATED SCHOOLS GRANT - A specific grant for the funding of schools and which is ring fenced to the Schools Budget.

DEPRECIATION - The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

DIRECT REVENUE FINANCING (revenue contributions to capital) - Resources provided from the authority's revenue budget to finance the cost of capital projects.

DISTRICT AUDITOR - An auditor employed directly by the Audit Commission to audit the accounts of local authorities.

EARMARKED RESERVES - Amounts set aside for a specific purpose or a particular service or type of expenditure.

EFFECTIVE INTEREST RATE - The rate of interest that will discount the estimated cash flows that take place over the life of the instrument.

EMOLUMENTS - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

EXCEPTIONAL ITEMS - Material items that fall within the ordinary activities of the Council that need to be disclosed in order to present the accounts fairly.

EXTRAORDINARY ITEMS - Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur.

FAIR VALUE - the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FEES AND CHARGES - Income raised by charging users of services.

FINANCE LEASE - A method of paying for capital expenditure where a rent is paid for an asset during its useful life. Finance Leases are treated as capital. See **OPERATING LEASE**.

FINANCIAL YEAR - The period covered by a set of financial accounts - the local authority financial year commences 1 April and finishes 31 March the following year.

GENERAL RESERVE - amounts remaining unspent on revenue account after taking account of all expenditure and income for the year. The General Reserve is required to enable the Council to meet potential business risks in the future so that services will not be affected financially should unexpected events occur.

GOING CONCERN - The concept that an entity will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assumes no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS - Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of

assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE - The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

IMPAIRMENT - A reduction in the value of a fixed asset below its previously assessed value in the balance sheet.

INCOME - Amounts due that has been or is expected to be received.

INFRASTRUCTURE ASSETS - Fixed assets that have no alternative use and are intended to be held in perpetuity. Examples of infrastructure assets are highways and footpaths.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - Statutory guidelines by which the accounts have to be prepared, implemented for the first time in the 2010/11 accounts.

INVENTORIES - The amount of unused or unconsumed stocks held in expectation for future use.

INVESTMENT PROPERTIES - Assets held solely for capital appreciation or to earn rental and not to meet service objectives.

INVESTMENTS - Short-term investments are those maturing within one year if the balance sheet date, any investments maturing more than one year after the balance sheet date are treated as long-term investments.

LOANS AND RECEIVABLES - Financial assets (excluding derivatives) that have fixed or determinate payments and that are not quoted in any in any active market. Loans and receivables are carried at amortised cost. The income and expenditure account is charged with interest receivable, impairment losses and any gain or loss on "de-recognition". Movements in fair value during the life of the asset are not recognised.

LIABILITIES - Money owed to individuals or organisations that will be paid at some time in the future.

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

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

MINIMUM REVENUE PROVISION - (MRP) - The minimum amount, which must be charged each year to an authority's revenue account to set aside funds to repay the principal sum of borrowing for capital purposes.

NATIONAL NON-DOMESTIC RATE (NNDR) - A levy on businesses based on a national rate in the pound multiplied by the ratable value of the premises occupied. NNDR is redistributed among all local authorities and police authorities on the basis of population.

NET BOOK VALUE - The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET EXPENDITURE - Gross expenditure less specific service income but before deduction of revenue support grant.

NET CURRENT REPLACEMENT COST - The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE - The open market value of the asset in its existing use (open market value in the case of non-operational assets), or sale proceeds for stocks and stores less the expenses to be incurred in realising the asset.

NON-CURRENT ASSET - An asset that has value beyond one financial year.

NON-DISTRIBUTABLE COST - These include overheads for which no user now benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

NON-OPERATIONAL ASSETS - Non Current assets held by a local authority not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets under construction and assets that are surplus to requirements, pending sale or redevelopment.

OPERATIONAL ASSETS - Non Current Assets held, occupied, used or contracted to be used on behalf of the authority or consumed by an authority in the direct delivery of the services for which it has a responsibility, whether statutory or discretionary or for the service or strategic objectives of the authority.

OPERATING LEASE - A lease under which the asset can never become the property of the lessee.

OUTTURN - Actual income and expenditure for a financial year.

PAST SERVICE COST - The increase in present value of Pension Fund liabilities arising in the current year from previous years' service.

PENSION FUND - The Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer and employees and from investment income.

PENSION INTEREST COSTS - Expected increases in present value of Pension Fund liabilities because benefits are due one year sooner.

POST BALANCE SHEET EVENTS - Those events, both favorable and unfavorable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

PRECEPT - The charge made by one authority on another to finance its net expenditure.

PRIOR YEAR ADJUSTMENTS - Material adjustments applicable to prior years arising from changes in accounting policies or to correct errors.

PRIVATE FINANCE INITIATIVE (PFI) - A central government initiative that aims to increase the level of funding available for public services by attracting private involvement. The Council has one such scheme relating to the provision of Barnhill School. The school has

been developed and its ancillary services are provided by a private-company with which the Council has a long-term contract.

PROVISION FOR DISCOUNT AND PREMIUMS ON LOAN REDEMPTION - A provision to spread over an appropriate period discounts received and premiums paid when loans from the Public Works Loan Board are prematurely repaid.

PROVISION - An amount, set-aside in the accounts, for liabilities that have to be met but where timing is uncertain.

PRUDENCE - The concept that revenue is not anticipated but is recognised only when realised in the form of cash or other assets and full and proper allowance is made for all known and foreseeable losses and liabilities.

PUBLIC WORKS LOAN BOARD (PWLB) - A government agency that provides long term and medium term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

RELATED PARTY - Relationships between a senior officer or elected member or their families with another body that has, or might develop, a business relationship with the Council.

RESERVES - Money set aside by the authorities to meet particular expenditure in future years, which do not fall within the definition of provisions.

REVALUATION RESERVE - a new account opened on 1st April 2007 that records all accumulated gains from fixed assets held by the authority offset by that part of depreciation relating to the revaluation.

REVENUE EXPENDITURE - The day-to-day running costs incurred by an authority in providing services, for example payment of salaries to employees or purchase of materials.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE - A charge arising from capital expenditure but where there is no tangible asset. An example is grants given for private property improvement. The Council is permitted to borrow for such expenditure

REVENUE SUPPORT GRANT - A grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

SERCOP - Service Reporting Code of Practice

SOLACE - Society of Local Authority Chief Executives

SPECIFIC GRANTS - These are grants paid by various government departments outside the main formula. They include ring-fenced grants and specific formula grants.

SURPLUS ASSETS - Assets which are no longer in use by the Authority but which are not being actively marketed and are not expected to be sold within the next financial year.

TAXBASE - The number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

TRANSFER VALUE - A payment one superannuation fund makes to another when a member changes employment.

TRUST FUNDS - Money held in trust by the Council for a specified purpose.

USABLE RESERVES - Balances held by the Council which can be used to meet service expenditure.

UNUSABLE RESERVES - Balances held by the Council which cannot be used to meet service expenditure

USEFUL LIFE - The period over which the local authority will derive benefits from the use of a fixed asset.

VIREMENT - The permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head, i.e. an authorised switch of resources between budget heads.

WORKS IN PROGRESS - Cost of work done on an uncompleted project at the balance sheet date.

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

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Agenda Item 6

Business Assurance - External Quality Assurance Review and Opinion

Contact Officer: Muir Laurie
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REASON FOR ITEM

The Effectiveness of Internal Audit (IA) is a key cornerstone of good governance. The UK Public Sector Internal Audit Standards (PSIAS), adopted by the Relevant Internal Audit Standard Setters (RIASS) from 1 April 2013, encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

This includes Attribute Standard 1300 - Quality Assurance and Improvement Programme, under which standard 1312 - External Assessments which, in line with the Standard, must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The last external assessment of the Council's IA function took place in 2012.

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. The London Borough of Lambeth carried out the External Quality Assessment (EQA) of our IA service, providing an opinion on conformance to the PSIAS. The review is expected to take place over 5 days and was conducted within existing IA resources.

In addition to the EQA, IA conducts an annual review assessing the effectiveness of the IA function and provides assurance over IA's compliance with the PSIAS. In 2016/17 this assessment was undertaken by our external IA contractor, Mazars, to ensure appropriate independence in the assessment with this previously reported to the Committee at its meeting on 22 September 2016.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to review and note the findings from the External Quality Assessment.

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 2015 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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External Review of Effectiveness 2017/18

Draft

18th September 2017

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1. Introduction and background

- 1.1. Internal Audit in the public sector is governed by the Public Sector Internal Audit Standards (PSIAS). The PSIAS require organisations to have an external assessment of their internal audit functions every five years.

The external assessment provides assurance to the Audit Committee over the following key risks in relation to the Internal Audit function:

- The Council's assurance requirement is not satisfied and the Head of Business Assurance maybe unable to provide an opinion in the Annual Governance Statement (AGS);
- Gaps between what IA agrees to deliver and the expectation of the audit sponsor / management / auditee;
- Non-compliance with professional standards and Internal Audit's own policies and procedures;
- Control weaknesses are not identified accurately or fully, failing to fulfil the role of Internal Audit as the third line of defence;
- Work delivered does not fulfil the coverage defined in the terms of reference; and
- Budget over runs resulting in financial loss and audits not completed in a timely manner impacting on the remainder of the audit plan and potentially undermining the usefulness of audit recommendations.

- 1.2. The London Audit Group (LAG) has organised a system of peer reviews to perform external assessments. External assessments have taken the form of self-assessments which are then validated by suitably qualified individuals or teams from other members of the group across a 5 year cycle.

This review has been performed by the Interim Head of Internal Audit and Counter Fraud (HIACF) and internal Audit Manager at the London Borough of Lambeth. The Interim HIACF is a chartered accountant with the ICAEW and an affiliated member of the Institute of Internal Auditors (IIA). She is also a member of CIPFA's Internal Audit Special Interest Group.

- 1.3. The following criteria have been used when assessing conformance with each area.

DEFINITIONS	
Fully Conforms	The internal audit service fully complies with each of the statements of good practice in the assessment.
Generally Conforms	The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the objectives and good practice statements within the section or sub-section. These deficiencies will usually have a significant negative impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the audit committee.

2. Results

- 2.1 The results of the external assessment are summarised below; all areas assessed were determined as 'Fully Conforms' except for one area under Reporting Lines. Please see **Appendix A** for detail.

Purpose & positioning		Does not conform	Partially conforms	Generally conforms	Fully conforms	Comments
1.1	• Remit				X	
1.2	• Reporting lines			X		
1.3	• Independence				X	
1.4	• Other assurance providers				X	
1.5	• Risk based plan				X	
Structure & resources						
2.1	• Competencies				X	
2.2	• Technical training & development				X	
2.3	• Resourcing				X	
2.4	• Performance management				X	
2.5	• Knowledge management				X	
Audit execution						
3.1	• Management of the IA function				X	
3.2	• Engagement planning				X	
3.3	• Engagement delivery				X	
3.4	• Reporting				X	
Impact						
4.1	• Standing and reputation of internal audit				X	
4.2	• Impact on organisational delivery				X	
4.3	• Impact on Governance, Risk, and Control				X	

Core Principles		Do not agree	Partially agree	Generally agree	Fully agree	Comments
	• Demonstrates achievement of the Core Principles				X	

3. Follow up of 2016/17 Management Action Plan

3.1 The London Borough of Hillingdon also commissioned an independent assessment of their Internal Audit function in 2016/17.

Two medium risk recommendations were raised; the current implementation status is reported below.

Recommendation	Risk rating	Status
<p>A formal sign off document should be put in place for each Audit review. This will help to ensure that all necessary checks have been completed prior to the issue of the audit reports. This should include, but is not limited to:</p> <ul style="list-style-type: none"> • Confirmation that the audit working papers have been signed off as complete by the Auditor; • Confirmation that the audit file has been reviewed on Teammate; • Confirmation that review points have been addressed; and • Approval from the HoIA prior to the issue of the audit reports. 	Medium	Implemented
<p>A formal assurance mapping exercise should be undertaken across the Council to enable reliance to be placed on other forms of assurance and focus IA resource on assurance gaps across the Council.</p> <p>Until this exercise takes place, alternative sources of assurance should be included as part of the planning meeting agenda template to be discussed with management when setting the annual and quarterly audit plans.</p>	Medium	In progress. See 1.5 in Appendix 4.

Acknowledgement

We would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance including; the Head of Business Assurance, the Senior Internal Audit Manager and the Internal Audit Team, whose advice and help were gratefully appreciated. We would particularly like to extend our appreciation to the Chief Executive Officer and the Vice Chair of the Audit Committee for their time during the interview process.

Appendix A: External Quality Assessment – Detailed Results

1. Purpose and positioning

Statements of good practice

Level of Conformity

1.1 Remit

1.1.1 An internal audit Charter defines the purpose, authority and responsibility, within the organisation, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards, including a definition of the Board.

1.1.2 The internal audit Charter is approved by the Board and is regularly reviewed, and communicated to all senior management and other relevant people.

1.1.3 The Charter defines the nature and scope of the assurance and consulting services provided to the organisation (including any assurances provided to parties outside of the organisation) and is such that it can provide independent and objective assurance and is not part of the direct control framework.

1.1.4 The Charter includes the mission of Internal Audit and what it aspires to accomplish within the organisation.

1.1.5 The Charter clearly defines internal audit's role in evaluating and contributing to the development of risk management, control and governance processes. Internal audit's role in relation to any fraud-related / investigations work is clearly defined within the Charter.

1.2 Reporting lines

1.2.1 The Board reviews and approves the appointment of the Chief Audit Executive (CAE)

1.2.2 The CEO and the Chair of the Audit Committee contribute to the CAE's appraisal

1.2.3 Reporting lines for the CAE support independence, with functional reporting to the Board

1.2.4 The Board agrees the strategy/plans of the internal audit service

1.2.5 The CAE or their representative attend all Board and/or senior management meetings, particularly where key issues are discussed relating to governance, risk management or control across the organisation

1.2.6 The CAE meets regularly with the Section 151 Officer.

1.2.7 The Board routinely see and considers the outputs of the internal audit service

1.2.8 The Board is routinely updated with internal audit status and activity reports.

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Comments

- Agreed with self-assessment that the IA function fully confirms in this area.
- No further comments.

Category	Self-Assessment	Independent Review
Fully		
Generally	✓	✓
Partially		
Does not		

Comments

- Agreed with self-assessment that the IA function generally confirms in this area. Areas for consideration:
 - 1.2.1 - We noted that the Audit Committee does not currently perform this function, however this is not uncommon in local authorities and we understand there is limited political appetite for the Audit Committee to hold this responsibility.

Statements of good practice

Level of Conformity

1.3 Independence

- 1.3.1 Internal audit's position within the organisation is clearly established including authorisation for access to records, personnel and physical properties relevant to the performance of engagements
- 1.3.2 The internal audit service is free of executive responsibilities such that it can provide independent and objective assurance.
- 1.3.3 Conflict of interests are identified, appropriately managed and avoided including those transferring to internal audit from elsewhere in the organization.
- 1.3.4 Audit personnel are routinely rotated on assignments.
- 1.3.5 Audit personnel do not have any conflicting operating responsibilities or interests.
- 1.3.6 All internal audit staff are aware of and comply with the Code of Ethics and the Nolan principles.
- 1.3.7 Consultancy work that internal audit may undertake is clearly defined and agreed in advance by the Audit Committee when required by the PSIAS.
- 1.3.8 Areas which have been the recipient of internal audit 'consultancy' work are subject to audit review by personnel independent of the consultancy work
- 1.3.9 The CAE, at least annually, confirms to the Board the organisational independence of the internal audit activity.
- 1.3.10 The CAE, notifies the appropriate parties if independence or objectivity is impaired in fact or appearance

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Comments

- Agreed with self-assessment that the IA function fully confirms in this area.
- No further comments.

1.4 Other assurance providers

- 1.4.1 A risk based internal audit plan has been developed which:
- considers the relative risk maturity of the organisation
 - considers the risk appetite as defined by management
 - includes an assessment of optimal resources and skills required to deliver both the audit assurance and consultancy work, including identification of specialist skills, which may be required
 - is clearly designed to enable the CAE to deliver an annual opinion on the effectiveness of Governance, risk management and the system of control
 - has been approved by the Board
 - has been promulgated to all relevant parties
 - is subject to regular review to ensure that it remains appropriate and current

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area.
- No further comments.

Statements of good practice

Level of Conformity

1.4.2 Either the audit plan or a separate audit strategy document should:

- include an assessment of risks that the audit service itself faces in delivering the plan and plans for controlling and mitigating the risks identified
- include consideration of if, and how, internal audit will rely on the assurance provided by other assurance providers
- include an assessment of the range of audit techniques that have been selected as the most effective for delivering the audit objectives
- set out how the internal audit service will measure its performance, quality assure itself and seek continuous improvement

1.5 Risk based plan

- 1.5.1 The internal audit service effectively co-ordinates with appropriate assurance providers to reduce the duplication and minimise gaps in the assurance framework
- 1.5.2 Internal audit promote co-operation between internal and external audit
- 1.5.3 When auditing shared service functions consideration is given to audit work being performed by other audit services such that duplication is minimized
- 1.5.4 When internal audit needs to work with other internal auditors from another organisation, the respective roles and responsibilities of the involved parties have been clearly defined and agreed in advance.

Category	Self-Assessment	Independent Review
Fully		✓
Generally	✓	
Partially		
Does not		

Independent Review Comments

- We have assessed that the IA function fully confirms in this area.
- We have noted the following advisory point:
 - 1.5.1 requires that the internal audit service effectively coordinates with assurance providers to minimize gaps in the assurance framework. IA have a good relationship with External Audit and the risk-based approach applied by IA demonstrates consideration of other forms of assurance. However, as noted in the self-assessment, the Council could further develop this by creating a form of assurance map to document what other sources of comfort are in place over key risks e.g. from central government bodies, partnerships and other arrangements. This was also raised in Mazar's 2016/17 external assessment.

2. Structure and resources

Statements of good practice

Level of Conformity

2.1 Competencies

- 2.1.1 The CAE holds a professional qualification (i.e. CMIIA, CCAB or equivalent professional membership) and is suitably experienced
- 2.1.2 The audit function has access to the appropriate skills (technical expertise, qualifications, experience) required to ensure assurance can be provided in all areas of the business, for example in relation to fraud and knowledge of IT risks and controls.
- 2.1.3 Where there is a contracted out or partnership arrangement there is ongoing monitoring to ensure that contractors have the skills required for designated audit assignments

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area. No further comments.

2.2 Technical training & development

- 2.2.1 All new staff receive induction training including both into the internal audit service and induction into the organisation
- 2.2.2 Arrangements are in place to ensure that new staff receive an early assessment of their development needs and appropriate guidance, and training to address these needs.
- 2.2.3 All internal auditors undertake Continuing Professional Development (CPD) and have a training and development plan approved by their line manager.
- 2.2.4 Audit planning includes a sufficient time provision for training (including CPD) for all staff

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area. No further comments.

2.3 Resourcing

- 2.3.1 Internal audit is sufficiently resourced (in terms of staff and budget available) and deployed effectively to deliver the approved plan
- 2.3.2 There is a recruitment strategy that sets out the recruitment standard to ensure that all staff have the appropriate intellectual qualities, personal attributes, skills, knowledge and qualifications
- 2.3.3 A succession plan exists to ensure that senior vacancies are filled promptly by appropriately qualified staff

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Statements of good practice

Level of Conformity

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area. No further comments.

2.4 Performance management

2.4.1 Appropriate personnel management and development procedures are in place within internal audit including:

- Written job descriptions
- Required competency frameworks
- Recruitment procedures
- Training and continuing education arrangements
- Personal objectives setting and performance appraisal

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area. No further comments.

2.5 Knowledge management

2.5.1 The internal audit service has systems in place to facilitate knowledge and sharing of best practice / organisational learning

2.5.2 All staff attend regular team meetings to ensure that they remain up to date on knowledge of the organisation, the internal audit service and audit practices.

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area. No further comments.

3. Audit execution

Statements of good practice

Level of Conformity

3.1 Management of the internal audit service

- 3.1.1 The CAE has established policies and procedures (typically in the form of a manual) to guide the internal audit activity.
- 3.1.2 Audit methodologies have been developed and are regularly reviewed and updated to ensure they are in line with current practice
- 3.1.3 Policies in respect of document confidentiality, retention requirements and the release to internal and external parties have been developed and are consistent with the organisation's guidelines and any pertinent regulatory or other requirements
- 3.1.4 Quality assurance procedures are defined and cover all aspects of the internal audit activity including: Supervision and review
- 3.1.5 QA procedures and checklists including periodic internal quality reviews
- 3.1.6 Compliance with applicable laws, regulations and government or industry standards
- 3.1.7 Auditee / customer satisfaction surveys
- 3.1.8 Periodic self-assessments against the PS/As are performed and actions taken to address weaknesses

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area. No further comments.

3.2 Engagement planning

- 3.2.1 Detailed plans are developed and documented setting out the scope, limitations, objectives, resources, timing and reporting lines for each engagement.
- 3.2.2 Engagement plans are agreed with relevant management prior to the start of the fieldwork.
- 3.2.3 Engagement plans include consideration of the relevant systems, records, personnel, and physical properties including those under the control of third parties.
- 3.2.4 Plans include consideration of the risks to the area under review and the organisation's risk management and controls processes.
- 3.2.5 Time budgets are developed for each engagement plan and are appropriate to the review scope and degree of associated risk
- 3.2.6 Where areas require, particular specialist knowledge subject matter experts are identified and included as part of the audit team

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area. No further comments.

3.3 Performance of Audit work / audit delivery

- 3.3.1 Work programmes that will achieve the engagement objectives are developed and approved prior to use and include procedures for identifying, analysing, evaluating and documenting information during the engagement.
- 3.3.2 Internal auditors use standard documentation to ensure that evidence and findings are adequately documented.
- 3.3.3 Work papers are clear, concise, and appropriately cross-referenced to work programmes so as to enable independent review and comprehension.
- 3.3.4 There is evidence that internal auditors are identifying, analysing, evaluating and documenting sufficient information to support the audit conclusions and opinions.
- 3.3.5 There is evidence that internal auditors are identifying, analysing, evaluating and documenting sufficient information to support the audit conclusions and opinions
- 3.3.6 There is evidence to confirm that all engagements are led or supervised by suitably competent individuals.
- 3.3.7 Audit findings are discussed and confirmed with auditees prior to report drafting
- 3.3.8 Automated tools (e.g. data interrogation) are used appropriately to undertake testing as efficiently as possible

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area.
- No further comments.

3.4 Reporting

- 3.4.1 Communications are accurate, objective, clear, concise, constructive and timely.
- 3.4.2 Audit reports convey appropriate audit scopes, limitations of scope, results, recommendations and an opinion on the adequacy of controls
- 3.4.3 Audit evidence is reviewed by a senior member of the audit function to ensure that the audit has been carried out in sufficient depth and to the function's quality standards prior to the audit findings being distributed to the auditee
- 3.4.4 Internal audit recommendations help the organization address the risk in a way that does not create unnecessary control and the recommendations are practical
- 3.4.5 Draft audit reports are issued for consideration by the auditee within a reasonable, pre-agreed, timescale before they are finalised
- 3.4.6 Audit issues are reported to appropriate levels of management and to the Audit Committee
- 3.4.7 The CAE informs the Audit Committee if he/she believes that senior management has accepted a level of residual risk that may be unacceptable to the organization.
- 3.4.8 There is a procedure for follow-up that ensures agreed recommendations are implemented effectively or that senior management has accepted the risk of not taking action
- 3.4.9 Unresolved or outstanding audit issues are reported to senior management in accordance with pre-agreed timescales and escalation procedures
- 3.4.10 The CAE presents to the Board at least annually, a report of internal audit activity containing an opinion of the overall adequacy and effectiveness of the organisation's governance, risk management and control processes.
- 3.4.11 The annual report also states if the function conforms to the PSiAs and report any results of the QAIP

Category	Self-Assessment	Independent Review
Fully	✓	✓
Generally		
Partially		
Does not		

Independent Review Comments

- Agreed with self-assessment that the IA function fully confirms in this area.
- No further comments.

4. Impact

Has the internal audit service had a positive impact on the governance, risk and control environment within the organisation?

The impact of the internal audit service is best assessed by obtaining the views of a wide range of 'customers', combined with tangible evidence of impact and comparing this to the internal audit management's corporate view of the internal audit service they provide.

We interviewed a sample of customers directly involved in the areas subject to internal audit review. The table below aggregates the responses from both the customers and to capture the internal audit management's corporate view.

Ref	Aggregated Questionnaire Responses	Customers				Internal audit			
		Do not agree	Partially agree	Generally agree	Fully agree	Do not agree	Partially agree	Generally agree	Fully agree
Standing and reputation of Internal Audit									
1.	The internal audit service is seen as a key strategic partner throughout the organisation								
2.	Senior managers understand and fully support the work of internal audit								
3.	Internal audit is valued throughout the organisation								
4.	The internal audit service is delivered with professionalism at all times								
5.	The internal audit service demonstrates integrity in the way that it operates								
Impact on organisational delivery									
6.	The internal audit service responds quickly to changes within the organisation								
7.	The internal audit service has the necessary resources and access to information to enable it to fulfil its mandate								
8.	The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes								
9.	The internal audit service ensures that recommendations made are commercial and practicable in relation to the risks identified								
10.	There have not been any significant control breakdowns or surprises in areas that have been positively assured by the internal audit service								
Has internal audit had a positive impact on Governance, Risk, and Control?									
11.	The internal audit service includes consideration of all risk areas in its work programme								
12.	Internal audit advice has a positive impact on the governance, risk, and the system of control of the organisation								
13.	Internal audit activity has enhanced organisation-wide understanding of governance, risk, and control								

Ref	Aggregated Questionnaire Responses	Customers				Internal audit			
		Do not agree	Partially agree	Generally agree	Fully agree	Do not agree	Partially agree	Generally agree	Fully agree
14.	The internal audit service asks challenging and incisive questions that stimulate debate and improvements in key risk areas								
15.	The internal audit service raises significant control issues at an appropriate level in the organisation								
16.	Internal audit advice is insightful, proactive and future-focused								
17.	The organisation accepts and uses the business knowledge of internal auditors to help improve business processes and meet strategic objectives								
18.	Internal audit activity influences positive change and continuous improvement to business processes, bottom line results and accountability within the organisation								
19.	Internal audit activity promotes appropriate ethics and values within the organisation								

5. Core Principles

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission

Having completed sections 1 to 4 of this assessment we have collated enough information to be able to form a view on the extent to which the Core Principles are demonstrated. Please see our assessment below.

	<i>Not Demonstrated</i>	<i>Partially Demonstrated</i>	<i>Generally Demonstrated</i>	<i>Fully Demonstrated</i>
Demonstrates Integrity				
Demonstrates competence and due professional care				
Is objective and free from undue influence (Independent)				
Aligns with the strategies, objectives and risks of the organisation				
Is appropriately positioned and adequately resourced				
Demonstrates quality and continuous improvement				
Communicates effectively				
Provides risk based assurance				
Is insightful, proactive and future focused				
Promotes organisational improvement				

Appendix B: 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 C: Risk response and risk rating definitions

RISK RESPONSE DEFINITIONS

Risk Response	Definition
TREAT	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
TOLERATE	The risk is accepted by management and no further action is proposed.
TRANSFER	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
TERMINATE	The activity / project from which the risk originates from are no longer undertaken.

INTERNAL AUDIT RECOMMENDATION RISK RATING 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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Agenda Item 7

Business Assurance - Counter Fraud Progress Report for 2017/18 Quarter 2 (including the Quarter 3 to Quarter 4 Counter Fraud Plan)

Contact Officer: Muir Laurie
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REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Counter Fraud work covered in relation to 2017/18 Quarter 2 and assurance in this respect. It also provides an opportunity for the Head of Business Assurance to highlight to the Audit Committee any significant Counter Fraud issues that have arisen which they need to be aware of.

Further, the report enables the Audit Committee to hold the Head of Business Assurance to account on delivery of the Quarter 2 Counter Fraud work and facilitates in holding management to account for managing issues identified during the course of the Business Assurance Counter Fraud Team (BACFT) activity.

The attached report also presents the Audit Committee with the Quarter 3 to Quarter 4 Counter Fraud Plan which has been produced in consultation with Corporate Management Team. The Plan sets out the programme of proactive Counter Fraud coverage which is due to commence in the 1st October 2017 to 31st March 2018 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the Counter Fraud Progress Report for 2017/18 Quarter 2 and consider the Quarter 3 to Quarter 4 Counter Fraud Plan and, subject to any further minor amendments, approve it.

The Audit Committee should ensure that the coverage, performance and results of BACFT activity in this quarter are considered and any additional Counter Fraud requirements are communicated to the Head of Business Assurance.

INFORMATION

The BACFT, formerly known as the Corporate Fraud Investigations Team, supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Quarter 3 to Quarter 4 Counter Fraud Plan.

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BUSINESS ASSURANCE

Counter Fraud Progress Report to Audit Committee: 2017/18 Quarter 2 (including the Q3-Q4 Counter Fraud Plan)

18th September 2017



Contents

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT; formerly known as the Corporate Fraud Investigations Team) supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.
- 1.1.2 As well as counter fraud activity, the team has historically also conducted a range of other types of investigative work which do not necessarily have a criminal element to them i.e. revenue inspections, disciplinary investigations, etc. There is also a range of preventative work that the team is responsible for carrying out, such as fraud awareness training and ensuring the Council has up-to-date and appropriate investigation policies and procedures.

1.2 The Purpose of the Counter Fraud Progress Report to Audit Committee

- 1.2.1 The Counter Fraud Progress Report provides the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all counter fraud work carried out during the Quarter 2 period (19th June to 18th September 2017). In addition, it provides an opportunity for the Head of Business Assurance (HBA) to highlight any significant issues arising from the counter fraud work in Quarter 2.
- 1.2.2 A key feature of the Quarter 2 Counter Fraud Progress Report is the inclusion of the Quarter 3 & Quarter 4 Counter Fraud Plan (please refer to **Appendix A**). This has been produced using a risk-based approach to the Council's recently developed 'Fraud Universe'. This methodology is in line with CIPFA's counter fraud and corruption strategy for local government '*Fighting Fraud and Corruption Locally*' and will help ensure that in future the BACFT's resources are consistently deployed in an effective manner to help the Council achieve its Counter Fraud Strategy.
- 1.2.3 The progress report also highlights to CMT, the Audit Committee and other key stakeholders, the performance of the BACFT in meeting its strategic and operational objectives, which provides an opportunity for the HBA to be held to account in this respect.

2. Executive Summary

- 2.1 This is the first Counter Fraud Progress Report to CMT and Audit Committee since the team was transferred to Business Assurance on 1st August 2017. Initial focus by the HBA has been to commence the recruitment process for a Counter Fraud Manager. This follows the decision by the Corporate Fraud Investigations Manager to take early retirement after more than 39 years of service at the Council. An Interim Counter Fraud Manager is now in place and the recruitment process for the permanent post is under way. Additional support is also being provided by the Senior Internal Audit & Counter Fraud Manager who now has line management responsibility for the Counter Fraud Manager post.
- 2.2 Despite going through a period of change, good progress has been made by the team this quarter. As at 18th September, there are **85** ongoing investigations and the vast majority of these (**79 ~ 93%**) relate to different aspects of housing fraud. This includes our preventative (mainly verification) work as well our detection (mainly tenancy) work, where we actively pursue the leads provided by the Intelligence Officers and Visiting Officers/ Inspectors within the team, along with our other sources. Two live cases involve the team working collaboratively with external enforcement agencies. The first case is being led by the UK Border Force and relates to a passport obtained by deception, which in turn was fraudulently used to access LBH social housing. The second case we are working with the Metropolitan Police on an investigation regarding suspected money laundering.

- 2.3 Nevertheless, the main focus of the BACFT's work remains on housing fraud. Further analysis of the BACFT's work in Quarter 2 is included in section 3 of this report below.

3. Analysis of Counter Fraud Activity in Quarter 2

3.1 Housing Fraud - Work in Quarter 2

3.1.1 The main work stream for the BACFT continues to be in relation to the prevention and detection of housing fraud. The Council is exposed to a number of housing fraud risks and deploys significant BACFT resource on the prevention and detection of tenancy fraud in particular. There are different types of tenancy fraud, but some of the most common are:

- *Unlawful subletting* - where a tenant rents out their home without the knowledge or permission of the landlord;
- Wrongly claimed succession - where the resident dies and someone tries to take over or succeed the tenancy when they are not entitled to;
- *Unlawful non-occupation* - where a person fails to occupy a property as their main and principal home, including abandonment;
- *Key selling* - where a resident is paid to pass on their keys in return for a one-off payment;
- *Unlawful assignment* - where a resident stops using their tenancy as their main or principal home, allowing another person to live there without permission from the Council; and
- *Obtaining housing by deception* - where a person gets a home by giving false information on their housing application.

3.1.2 People who are in genuine need of social housing and on the Council's waiting list will have to wait even longer if Council homes are occupied by people who have no right to live there. As a result the Council takes tenancy fraud extremely seriously and will take robust action to regain possession of properties and recover any unlawful profits made by residents wherever we find evidence of tenancy fraud. Our right to do this has been enforced by the Government in 'The Prevention of Social Housing Fraud Act 2013'.

3.1.3 Per **Table 1** below, in the 2017/18 year to date, the BACFT has successfully recovered **20** Council properties, has **1** case being actively pursued for prosecution and has a further **18** suspected tenancy fraud investigations ongoing.

Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud Cases	2017/18 (to date)*		2016/17	
	Cases	£k/value**	Cases	£k/value
Total number of recovered properties	20	£360k	64	£1,152k
Total number of ongoing cases	19	£342k	-	£0k

* = as at 18th September 2017

** = In 2014, the Audit Commission reported the national average temporary accommodation costs to Local Authorities for one family as **£18k per property**.

3.1.4 A general target for the team of recovering **52** properties per year has historically been set by the previous Counter Fraud Manager. However, the HBA is now in the process of reviewing this target alongside other performance measures for the BACFT as a part of a wider review of how and where counter fraud resources are deployed. As per **Table 1** above, 64 properties were recovered in 2016/17 and the team is on track to achieve a similar number in 2017/18, which for both years significantly exceeds the target historically set.

- 3.1.5 It is the HBA's understanding that (on average) tenancy fraud cases take approximately **3** counter fraud days per investigation to reach property recovery stage. Therefore, given the significant value to the Council of successful repossessions as a result of tenancy fraud, it suggests that perhaps moving forward greater focus should be placed on tenancy fraud work by the BACFT. In addition, despite having **9** qualified fraud investigators within the team, there has actually been **no** successful prosecution in 2017/18 to date and only **2** successful prosecutions in the whole of 2016/17. The HBA understands that this has occurred partly as a result of greater emphasis on other work streams by the BACFT. Both of these matters are being actively being looked at by the HBA and will be linked into the Counter Fraud Work Plan for Q3 & Q4 (refer to **Appendix A**).
- 3.1.6 As part of the BACFT's **fraud prevention coverage** they proactively carry out verification work on existing Council tenancies and the housing waiting list. Using information gathered by the Intelligence Officers and Visiting Officers/ Inspectors, the BACFT carry out verification checks which often includes visits to the properties. The team also work with other social landlords and statutory agencies to detect fraud where information sharing protocols are in place, to make sure the right people are living in Council properties.
- 3.1.7 Per **Table 2** below, in the 2017/18 year to date, the BACFT has successfully identified **507** housing tenancy cases that should be rejected for various reasons. In addition there is **1** case being actively pursued for prosecution and a further **18** investigations ongoing.

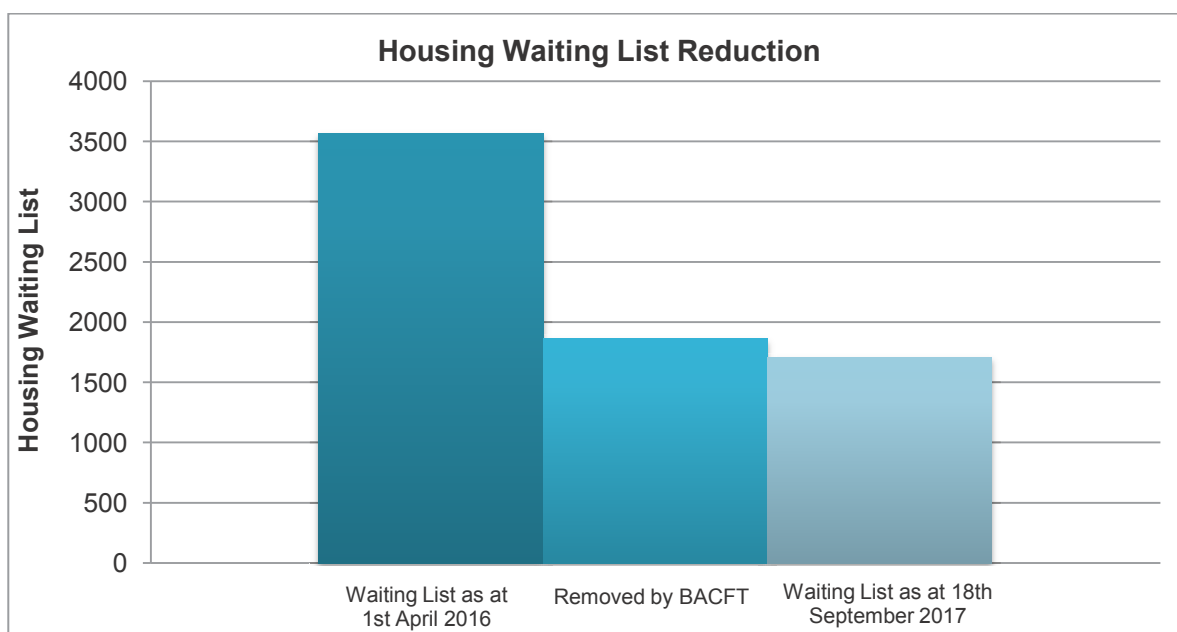
Table 2 ~ Housing Tenancy Verification Cases

Housing Tenancy Verification Cases	2017/18 (to date)*	2016/17
Total number of cases reviewed	1,154	2,127
Total number verified as accurate	647	1,184
Total number rejected	507	943
% identified by BACFT for rejection	44%	44%

* = as at 18th September 2017

- 3.1.8 As at 1st April 2016, the **Council's Housing Waiting List** was **3,567** cases. At 18th September the waiting list has been reduced to **1,705**. The BACFT has been involved in the data verification checks for every single case that has been removed from the waiting list over this period. Whilst the difference is **1,862** cases, this does not take account of all the new cases that have been added to the waiting list which in average month is 21.

3.1.9 **Bar Chart 1 ~ Housing Waiting List April 2016 to September 2017**



- 3.1.10 Per **Bar Chart 1** at para 3.1.9, the net reduction in the Housing Waiting List over the last 18 months as a result of the BACFT's verification work is **1,862 cases** and this does not take account of **approximately 380 cases** added to the waiting list during that period. As mentioned earlier in the report, obtaining housing by deception i.e. where a person gets a home by giving false information on their housing application, prevents people who are in genuine need from obtaining social housing. As a consequence, the BACFT has prioritised this work stream over the last 18 months although during Quarter 2 less resource has been spent on this work stream due to the relevant lead investigator being on maternity leave.
- 3.1.11 Due to the preventative nature of this work, it is difficult to attach a monetary value to the reduction in the Council's waiting list. Nevertheless, we know that in 2014 the Audit Commission reported that the national average temporary accommodation costs to local authorities for one family as **£18k** per property.

3.2 National Fraud Initiative - Work in Quarter 2

- 3.2.1 The NFI is a data matching exercise co-ordinated by the Cabinet Office (CO) which is carried out every 2 years. It matches electronic data within and between 1,300 organisations, including councils, the police, hospitals and almost 100 private companies. This helps to identify potentially fraudulent claims and errors. In November 2016 the CO reported that the NFI had helped identify almost £198m in fraud and errors in England.
- 3.2.2 The next NFI exercise is due in 2018/19, although the BACFT are still continuing to work through the data matches identified in the 2016/17 exercise. To date, extra revenue for the Council of **£37k** has been highlighted by the BACFT from the 2016/17 exercise, which would otherwise not have been identified. This figure excludes the electoral registration single person discount cases identified and also does not include any data matching exercises the Council has conducted on its own; this work is progressing.
- 3.2.3 There is now a greater emphasis on data matching in the public sector as a means of preventing and detecting fraud. In addition to the National Fraud Hub, the London Counter Fraud Hub (LCFH) is a new initiative that brings together London Boroughs with counter fraud specialists and the latest technologies, to help local authorities tackle fraud and corruption. At the centre of the LCFH is an analytics solution that helps prevent, detect and recover losses from fraud. Moving forward the HBA will be placing greater emphasis on the BACFT's use of data analytics to help prevent and detect fraud against the Council.

3.3 Blue Badge Fraud - Work in Quarter 2

- 3.3.1 Blue Badge permits provide parking concessions for people with severe mobility problems. The National Fraud Authority continues to highlight this area as a significant fraud risk, with an estimated average of 20% of blue badges reported to being misused in some way. Although the direct monetary value of Blue Badge Fraud is relatively low, the reputational risk in relation to this area is significant for the Council. As a result, Blue Badge Fraud continues to feature in the BACFT's work plan.
- 3.3.2 Following the success of the last Blue Badge operation carried out during Quarter 1 in conjunction with the Police, a proactive enforcement operation was carried out this quarter, primarily focussed on Uxbridge Town Centre and the car park at Hillingdon Leisure Centre. This was a targeted operation following reliable information gathered by the 'Intelligence Officer(s)' and 'Inspectors' within the team.
- 3.3.3 Once again, a positive outcome was achieved for residents; **3** blue badges were seized, **2** Parking Charge Notices were issued and a further **3** cases were referred for criminal investigation. Two of these cases are currently authorised for prosecution and in the other case the investigation is ongoing. These results reflect positively on how the Council tackles Blue Badge Fraud and provides reassurance to residents that fraud in this area will not be tolerated by this Council. Further proactive operations in this area are scheduled for later this financial year.

3.4 Other Counter Fraud Work in Quarter 2

- 3.4.1 Following the team's move across to become part of the Business Assurance service, a period of change has commenced. The Council ultimately wants to have an IA service and CFT that are integrated, whilst remembering they are two distinct functions. In order to achieve that there will inevitably be a period of transition. During Quarter 2 a service improvement plan has been drafted by the HBA and this is now in the process of being progressed.
- 3.4.2 The BACFT has historically undertaken a wide range of work streams that are not always counter fraud focussed, including Council Tax and Business Rate Inspections. Linked to this, the HBA will shortly be implementing a risk based approach to the deployment of all BACFT resource fraud risk. This will help ensure that in future the Council's exposure to its key fraud risks is being appropriately mitigated.

4. Analysis of the Counter Fraud Team Performance in Quarter 2

- 4.1 There are currently no formal KPI targets in place for the BACFT as a service or as individuals and as a result at this stage the HBA is unable to clearly demonstrate in this report how well the team has been performing. Nevertheless, what can be seen by the results achieved this quarter is that as a service the BACFT has continued to be successful in achieving positive outcomes by preventing and detecting fraud against Hillingdon taxpayers. These successes include:
- **3** blue badges seized;
 - **2** temporary accommodation properties returned;
 - **20** council properties recovered;
 - **3** housing applications rejected;
 - **2** right to buy applications denied;
 - **17** unaccompanied asylum seekers reassessed/cancelled;
 - **223** single person discounts cancelled;
 - **1,755** business rate property inspections completed; and
 - **535** council tax property inspections completed including **2** council tax exemptions cancelled.
- 4.2 The HBA has begun work on developing a meaningful set of Key Performance Indicators (KPIs) for the BACFT. These will include individual targets and team targets and will be primarily focussed on ensuring the BACFT is achieving its key objectives and everyone in the team is operating efficiently.

5. Forward Look

- 5.1 Looking ahead to Quarter 3, there are a number of key priorities for the BACFT. Once the recruitment of the permanent Counter Fraud Manager has been completed, a wider review of the Counter Fraud team structure will be carried out by the Counter Fraud team senior managers, to ensure that the team has the right mix of skills, qualifications and experience to meet the needs of the Council moving forward to deliver its updated Counter Fraud Strategy.
- 5.2 Work is already well progressed on updating the Council's Counter Fraud Strategy (previously known as the Anti-Fraud & Anti-Corruption Strategy). These updates have been proposed by the Interim Counter Fraud Manager to help ensure the Council's Counter Fraud Strategy is in line with current best practice. The updated Counter Fraud Strategy which will be presented to CMT and the Audit Committee for consideration in December 2017.

- 5.3 The CF Strategy will also help inform the 'Fraud Universe' and as highlighted earlier in this report, work is well under way in producing this. This requires an extensive analysis of the fraud risks which the Council is exposed to and compiling this involves a range of methods including discussions with each Corporate Director.
- 5.4 The analysis of fraud risks will inform the Counter Fraud Work Plan (refer to **Appendix A**), which will be presented to CMT and Audit Committee for consideration on a quarterly basis. Delivery of the Counter Fraud Work Plan will form the basis of the proactive counter fraud activity to help ensure that this work is systematically targeting key risk areas. This methodology will be underpinned by a risk based approach to the deployment of counter fraud team resource.
- 5.5 The BACFT 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 counter fraud matters that the HBA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Business Assurance

18th September 2017

APPENDIX A**COUNTER FRAUD WORK PLAN - 2017/18 QUARTER 3 & 4**

Set out below is the **DRAFT** Counter Fraud Plan for all BACFT work commencing in Quarter 3 and 4. This will form the basis of the BACFT proactive activity in the period 1st October 2017 to 31st March 2018.

Fraud Risk - Planned Work	Rationale	Risk Assessment
Tenancy Fraud - The BACFT will continue to review all tenancies to detect any illegal sub-letting of Council Houses.	Our data matching work continues to highlight a significant number of suspicious cases. Positive outcomes for the Council continue to be achieved in this area.	HIGH
Unaccompanied Asylum Seekers (UAS) - The BACFT will continue to review UAS cases to ensure all welfare benefits entitlements are fully being realised.	In 2016/17 we identified 64 cases for investigation saving the Council £192k. 18 cases have been identified so far this year saving the Council a further £55k.	HIGH
Housing Right to Buy (RtB) - The BACFT will continue to target suspicious RtB claims.	In 2016/17 the BACFT verified 92 Right to Buy applications, of which 7 were cancelled. The total amount of discount saved for 2016/17 was £710k. Positive outcomes for the Council continue to be achieved in this area.	HIGH
Single Person Discount (SPD) - The BACFT will review a sample of SPD cases informed by our intelligence gathering.	SPD cases for investigation continue to be identified by the BACFT Visiting Officers and Intelligence Officers. By reducing the number of SPD claims we generate additional income to the Council. In 2016/17 there were 583 SPD claims cancelled resulting in overpayments being returned to the Council of £313k.	MEDIUM
Blue Badges - The BACFT will review a sample of current blue badges to confirm their legitimacy.	Potential loss of legitimate car parking income due to fraudulent use of Blue Badges. Also provides visible assurance to residents that LBH operates a zero tolerance approach to fraud.	MEDIUM
UK Right to Work - The BACFT will conduct verification checks to ensure that any LBH employees in care homes have the right to work in the UK.	Our intelligence gathering indicates there is a risk that LBH may be employing some care workers who are without proper eligibility /right to work in the UK.	MEDIUM
Prevention - The BACFT will carry out proactive prevention work focused upon improving the Council's preventative processes in order to increase the Council's resilience to fraud.	Staff are often the first line of defence in preventing fraud. The Financial Regulations within the Council's Constitution places the responsibility for fraud prevention on all employees. Staff awareness of their responsibilities in relation to preventing and reporting fraud needs to be strengthened.	MEDIUM

APPENDIX A (cont'd)**COUNTER FRAUD WORK PLAN - 2017/18 QUARTER 3 & 4 (cont'd)**

Fraud Risk - Planned Work	Rationale	Risk Assessment
Housing Register Waiting List - The BACFT will continue to review all those on the Housing Register to ensure they genuinely entitled.	To identify those who are not entitled to Social Housing through the cross checking of Council records and our other intelligence. Very positive outcomes achieved for the Council although significantly reducing as awareness increases.	MEDIUM
Housing Applications, Assignments & Successions - The BACFT will review these cases to prevent false claims for housing from people who are misrepresenting themselves as homeless. This involves verifying the circumstances of people on the housing waiting list prior to their imminent offer of permanent accommodation.	In 2016/17 there were 16 bed and breakfast accommodations recovered which were unoccupied by clients who claimed to have been homeless. The average duration of a bed & breakfast placement is 23 weeks at an average nightly charge of £46. Therefore for the 16 cancellations achieved by the BACFT in 2016/17, approximately £118k was saved. Our intelligence tells us this continues to be a significant risk in this borough.	MEDIUM
National Fraud Initiative (NFI) - Delivery of the Cabinet Office's NFI.	This is a statutory requirement and has resulted in a number of positive outcomes for the Council in the past.	MEDIUM

N.B. As per para 5.3, the BACFT is in the process of performing an extensive analysis of fraud risks. This is based on discussions with senior managers and a review of the relevant fraud literature including an analytical review of the areas where fraud has been experienced by local authorities over the last 3 years. The Fraud Universe, once complete, will fully inform future Counter Fraud Planning.

Agenda Item 8

Business Assurance - IA Progress Report for 2017/18 Quarter 2 (including the Quarter 3 IA Plan)

Contact Officer: Muir Laurie
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REASON FOR ITEM

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in relation to 2017/18 Quarter 2 and assurance in this respect. It also provides an opportunity for the Head of Business Assurance to highlight to the Audit Committee any significant issues that have arisen which they need to be aware of.

Further, the report enables the Audit Committee to hold the Head of Business Assurance to account on delivery of the Quarter 2 IA Plan and facilitates in holding management to account for managing risk/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 2017 period.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the IA Progress Report for 2017/18 Quarter 2 and consider the Quarter 3 IA Plan and subject to any further minor amendments, approve it.

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

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 2015 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.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Quarter 3 IA Plan.

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2017/18 Quarter 2 (including the Quarter 3 Internal Audit Plan)

18th September 2017



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 corporate objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2015 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control and corporate governance processes, taking into account UK Public Sector IA Standards (PSIAS) or guidance.

1.1.2 The PSIAS define the nature of IA and set out basic principles for carrying out IA within the public sector. The PSIAS helps the Council to establish a framework for providing IA services, which adds value to the organisation, leading to improved organisational processes and operations.

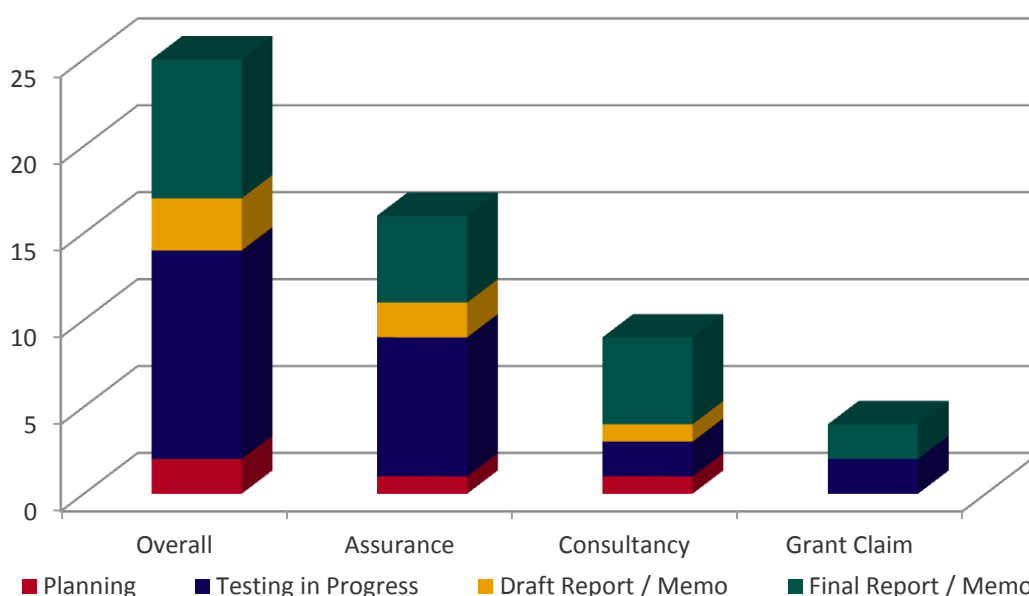
1.2 The Purpose of the Internal Audit Progress Report to Audit Committee

1.2.1 This progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on IA assurance, consultancy and grant claim verification work covered during the period 20th June to 18th September 2017. In addition, it provides an opportunity for the Head of Business Assurance (HBA), as the Council's Head of Internal Audit (HIA), to highlight any significant issues which have arisen from IA work. 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 2017 (refer to **Appendix B**).

1.2.2 A key feature of the Quarter 2 IA progress report is the inclusion of the 2017/18 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 2017 period.

2. Executive Summary

2.1 Since the last IA Progress Report to CMT and the Audit Committee on 29th June 2017, **5 assurance reviews** have concluded, **3 consultancy reviews** have been finalised and **2 grant claims** have been certified. We are therefore making good progress against the programme of IA work for Quarters 1 and 2, depicted below:

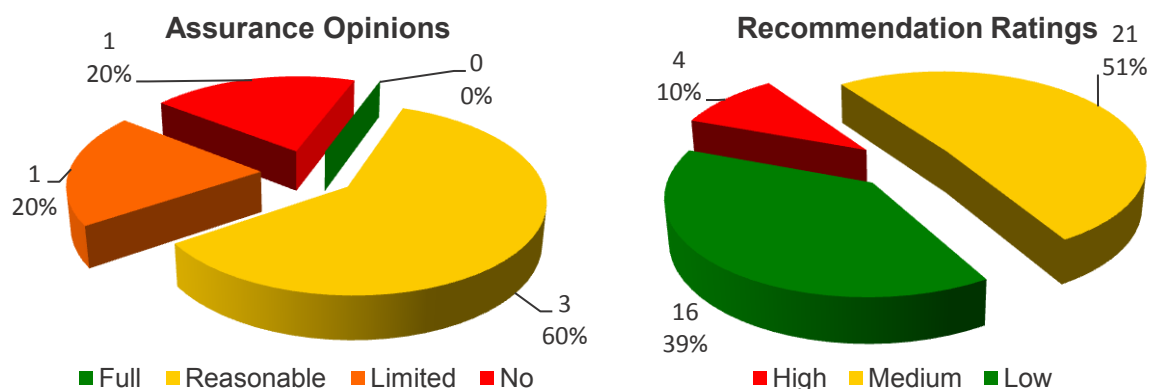


- 2.2 Our work on the 2017/18 Quarter 2 IA plan commenced on 1st July and work is now well underway on all Quarter 2 planned work, including **1** additional request for work (refer to **Appendix B**). Whilst the IA team is now fully resourced, we are slightly behind plan due to the increase in Trainee Internal Auditors within the team which has resulted in a short term decrease in capacity. Nevertheless, we are confident that the enhanced robustness of IA resource in the long term will enable steady progress against the plan. Available IA resource continues to be appropriately focused on the main risks the Council is exposed to (refer to **Appendix C**).
- 2.3 Key assurance reviews finalised this quarter have included **Houses in Multiple Occupation (HMO) registration** (including fit and proper person checks) and **Volunteering**. Each of the remaining 3 assurance audits finalised in this quarter received a **REASONABLE** assurance opinion over the management of the key risks. These results are in line with our expectations and the risk-based approach which we deploy. Specifically, IA resources have been targeted on the areas of the highest risk as part of a reduced IA assurance programme. Positive action has been proposed by management to address all of the **HIGH** and **MEDIUM** risk recommendations raised within each respective review and these recommendations will be followed-up by us in due course.
- 2.4 We continue to undertake a variety of IA advisory work across the Council. The **Housing Benefit Subsidy Grant Claim** has been a significant piece of work for us this quarter, working in liaison with External Audit (Ernst & Young). IA also continues to undertake a variety of consultancy work across the Council including our review of **Parking Services Administration** which has been fed back to us as adding particular value.
- 2.5 There have been three amendments to the Quarter 2 IA operational plan with **two deferrals** and **one additional request** for consultancy work (refer to **Appendix B**). Further details of all IA work carried out in this period are summarised at section 3 of this report below.

3. Analysis of Internal Audit Activity in 2017/18 Quarter 2

3.1 Assurance Work in Quarter 2

- 3.1.1 During this quarter **five** 2017/18 IA assurance reviews have been completed to final report stage, with a further **two** progressed to draft report stage. At the date of this report, 8 of the 9 remaining reviews (including three follow-ups) are at varying stages of testing with the remaining planned review at background and information gathering stage. Key assurance reviews finalised this quarter have included **Houses in Multiple Occupancy (HMO)** (including fit and proper person checks) and **Volunteering**.
- 3.1.2 All IA assurance reviews carried out in the financial year to date are individually listed at **Appendix A**, detailing the assurance levels achieved as well as providing an analysis of recommendations made (in accordance with the assurance level definitions and recommendation risk categories outlined at **Appendix E**). Assurance opinions provided and the associated IA recommendations raised are further summarised below:



- 3.1.3 The IA assurance review of **HMO** (including fit and proper person checks), raised **4 HIGH** and **3 MEDIUM** risk recommendation and gave an overall **NO** assurance opinion. The absence of up-to-date guidance was apparent during the course of this review with significant inconsistencies identified throughout the HMO process, in particular the recording of applications and licenses, both on Civica and within the shared drive.
- 3.1.4 Our sample testing of HMO applications identified significant concerns in the undertaking and documenting of checks performed to satisfy that the property passed the required safety checks and has supporting certification. Therefore we were unable to provide assurance that a HMO license is issued following performance of sufficient checks, including inspection of the property. In addition, our sample testing noted significant inconsistencies in the completion of the data to support the application.
- 3.1.5 This IA review also identified non compliance with an aspect of the Housing Act 2004 which specifies that the local housing authority must maintain a register of all licences granted by them, which are in force. Our testing highlighted that the spreadsheet register maintained to satisfy the requirements of the Act was not up to date and did not capture the date in which the HMO was issued. The absence of this information impedes the ability of HMO staff to identify licences that are due to expire, whilst expired HMO's also cannot be removed from the register.
- 3.1.6 Management have agreed to treat all risks/recommendations raised, providing a comprehensive response and prompt action plan to address the weaknesses identified within the HMO control framework. Further, we are aware that a dedicated project plan was immediately developed to monitor progress against the implementation of recommendations as well as the wider service improvements. Due to the significance of the risks highlighted and recommendations raised, a formal IA follow-up review has been scheduled for Quarter 3 to provide further assurance to CMT and the Audit Committee.
- 3.1.7 The IA assurance review of **Volunteering** raised **3 MEDIUM** and **1 LOW** risk recommendation and gave an overall **LIMITED** assurance opinion. This opinion was provided shortly following approval of the Volunteers Policy and accompanying volunteer agreement and guidance. However, it was clear from our testing that the limited communication of this Policy following approval and absence of a targeted implementation programme has diminished awareness and thus implementation of the guidance and associated controls across the Council.
- 3.1.8 Our analysis identified further areas of development within the Policy which significantly enhanced with underpinning and defined processes. Further, sample testing of the application of the controls within the Volunteer Policy identified gaps in the assessment of the role prior to recruitment, character references received and an absence of volunteer agreements in place.
- 3.1.9 Other assurance reviews finalised this quarter included **Public Health - Substance Misuse** contract including ARCH Service, Thematic review of **assets, stock and cash management** within Green Spaces, Sport and Culture and **Planning applications - Quality Control**. Each of these three reviews provided a **REASONABLE** assurance opinion and together raised **15 MEDIUM**, **12 LOW** risk recommendations and **3 NOTABLE PRACTICE** observations. Positive management action has been proposed to address all these **MEDIUM** risk recommendations.

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 Participation in working and project groups as well as secondments within the Council 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 improvement suggestions for senior management to consider.
- 3.2.3 Attached at **Appendix A** is a list of consultancy work carried out in Quarter 2 with **3** consultancy reviews completed within the period with a further **3** reviews currently at an advanced stage. One further consultancy review was added following approval of the Quarter 2 IA plan with this detailed at **Appendix B**.
- 3.2.4 The planned IA consultancy review of **Green Spaces - Petty Cash Imprest Account (Duke of Edinburgh)** was concluded within the quarter. Whilst it was confirmed that sufficient and clear guidance is in place regarding the administration of the P-card, it was evident that staff members administering the P-card were unclear of their roles and responsibilities. This has impacted upon the application of the control environment with the P-card in question not adhering to established First Data (D-cal) system reconciliation controls, including management review.
- 3.2.5 It was also noted that the DoE P-card is allowed to withdraw cash from an automated teller machine (ATM), with a percentage surcharge if this withdrawal is below £100. However, it was unclear as to the extent of controls in place if cash is withdrawn to maintain a local petty cash float until the physical money has been exhausted. Whilst cash withdrawals are recorded on the D-Cal system, no receipts from the ATM were kept for these transactions.
- 3.2.6 IA were asked to provide consultancy advice on the **Parking Services Administration** new team structure, undertaking process mapping to help identify further efficiencies and assure risk exposure is appropriately minimised through sufficient and robust controls. The review identified the need for a fundamental change in the approach to the delivery of Parking Services in order to realise the efficiency gains expected through the restructure with a number of efficiencies dependent upon the investment of an integrated ICT solution to automate processes, eradicating the out of date working practices and workarounds which have been developed.
- 3.2.7 The results from our testing across each of the four main information systems relevant to the IAC review of **Data Quality for Vulnerable Service Users** established that data quality is inconsistent with each system presenting its own challenges and issues. Further, no clear definition is in place as to what constitutes a 'vulnerable person', limiting a targeted and coordinated approach in the event of a future disaster.

3.3 Grant Claim Verification Work in Quarter 2

- 3.3.1 This quarter IA assisted the Council's External Auditors (Ernst & Young), with a review of the Council's **Housing Benefit Subsidy Grant Claim**. This verification 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 claim had been completed using recognised software for completion and benefit 'granted' to benefit 'paid' was reconciled 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 Benefits software.

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

3.3.3 As detailed at **Appendix A**, IA has completed work on the Quarter 1 and 2 **Troubled Families Grant** claim, certifying the return for the claim window. We have also commenced work on **2** further **grant claim** reviews within Quarter 2. This included verification work related to the **Disabled Facilities Grant** and to the **Bus Subsidy Grant** which equate to £3.45m and £21.7k respectively, with certification due by 30th September 2017. An oral update on the certification of these grant claims will be provided at the meeting. There has been no other grant claim verification work carried out by IA this quarter.

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.

3.4.2 Follow-up work within this quarter has commenced on the dedicated follow-up reviews of **Capital Programme** and **Scheme of Delegations**, the results of which will be presented in the Quarter 3 IA progress report. We have also continued verifying management's assertion that IA recommendations have been implemented, aimed at providing enhanced assurance to CMT and the Audit Committee that these are fully embedded within the control environment to mitigate the risks identified. Due to the large number of recommendations, this project has continued throughout quarter 2 and we aim to provide a more detailed quarterly snapshot to the CMT and the Audit Committee of progress against implementation of IA recommendations in the next quarterly progress report.

3.5 Other Internal Audit Work in Quarter 2

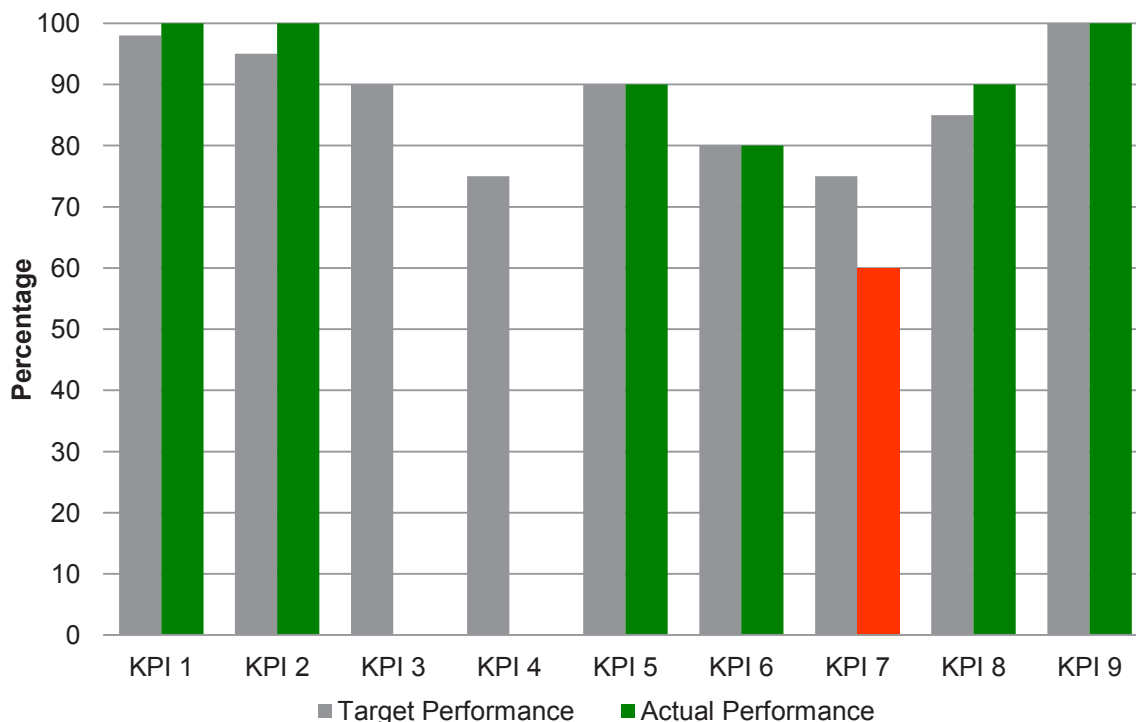
3.5.1 We continue to undertake a quarterly approach to IA planning to ensure emerging risks and new areas of concern are captured, particularly within the fast changing environment the Council operates in. Over the last month we have undertaken our risk based planning meetings, alongside operational and corporate risk discussions due to the synergies between these two functions. Further to this, we have produced the detailed operational IA plan for Quarter 3 of 2017/18 (refer to **Appendix C**) in consultation with management. This quarterly planning cycle helps ensure that IA resources are directed in a more flexible and targeted manner, maximising resources as well as benefiting our stakeholders.

3.5.2 Within the quarter the External Quality Assessment (EQA) review has been conducted by the London Borough of Lambeth, forming an independent opinion of our conformance with the PSIAS including IA's purpose and positioning, structure and resources, audit execution and the impact on the organisation. We are pleased to report that **the IA Service achieved a 'Fully Conforms' opinion** and understand that we are 1 of only 3 London Boroughs to have achieved this since the new PSIAS were introduced. The full report from the London Borough of Lambeth is due to be presented as a separate item to the Audit Committee.

4. Analysis of Internal Audit Performance in 2017/18 Quarter 2

4.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Council in helping measure how successful IA has been in achieving its strategic and operational objectives. We believe that these KPIs, detailed at **Appendix D**, are meaningful and provide sufficient challenge to the 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.

- 4.2 Cumulative performance against the nine KPIs in the 1st April to 18th September 2017 period is summarised within the bar chart below:



- 4.3 Performance data for KPI 3 and KPI 4 is not yet available as none of the 2017/18 the **HIGH** or **MEDIUM** risk recommendations raised have yet fallen due. KPI 7 continues to be the one IA KPI that is not achieved and is reported as **RED** for the first two quarters of 2017/18. This is primarily due to 2 of the 5 IA Assurance reports finalised experiencing delays in receipt of management response. Whilst we facilitate this process, we are reliant on timely management responses within the set timeframe to achieve this indicator.
- 4.4 The time taken to finalise final reports from draft stage is on average 10 working days and thus within tolerances. However, due to historic non performance against KPI 7 we are providing greater oversight of compliance against these KPIs to Corporate Directors as part of a quarterly IA dashboard, reporting a snapshot of IA performance at a Group level. We are currently exceeding several of our KPI targets, including achieving the ambitious KPI 8, 85% Client Satisfaction Rating which we are hopeful will continue throughout the remainder of the year as the volume of CFQ feedback increases.

5. Forward Look

- 5.1 The HBA took over responsibility for the Counter Fraud (CF) team on 1st August 2017 and work is underway to develop a more **integrated IA and CF approach** for the Council moving forward. Further details in relation to this are included in the HBA's CF Progress Report which is a separate item within the Audit Committee report pack.
- 5.2 Recently a member of the IA team has been **nominated for the 'best newcomer' category** of the UK Chartered Institute of Internal Auditors' 2017 Awards. **Chloe Moorcroft**, who is one of only four individuals in the UK to be shortlisted for the award, joined the Council's IA team in January 2016 and despite coming from a diverse career background has excelled in the role due to her enthusiasm and consistent performance delivery. She has a relentless desire to improve services for the better and brings a high challenge and high support approach to working with managers, on top of the exceptional quality of her audit fieldwork. This nomination is high recognition for Chloe as well as the wider IA service. The Judges' final decision on the overall winner will remain secret until the results are revealed at a London awards ceremony hosted by PricewaterhouseCoopers on 6th November.

- 5.3 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during this quarter. There continues to be an increasingly collaborative approach in IA's working relationship with staff and management who generally have responded very positively to IA findings.

- 5.4 There are no other matters that we need to bring to the attention of the Council's CMT or Audit Committee at this time.

Muir Laurie FCCA, CMIIA

Head of Business Assurance (& Head of Internal Audit)

18th September 2017

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18**

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

2017/18 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 18 th September 2017	Assurance Level	Risk Rating			CFQ Received?		
				H	M	L			
17-A1	Houses in Multiple Occupation (HMO) registration, including fit and proper person	Final report issued on 21 st July 2017	No	4	3	3	0	✓	
17-A10	Volunteering	Final report issued on 18 th Sept 2017	Limited	0	3	1	0	Not yet due	
17-A9	Public Health - Substance Misuse contract, including ARCH Service	Final report issued on 5 th Sept 2017	Reasonable	0	2	4	2	Not yet due	
17-A6	Planning applications - Quality Control	Final report issued on 6 th Sept 2017	Reasonable	0	2	2	0	Not yet due	
17-A8	Thematic review of assets, stock and cash management within Green Spaces, Sport and Culture	Final report issued on 18 th Sept 2017	Reasonable	0	11	6	1	Not yet due	
17-A2	Children missing from home, placement and education	Draft report issued on 18 th Sept 2017							
17-A3	Facilities Management	Draft report in progress							
17-A5	Extra Care	Testing in progress							
17-A12	IR35	Testing in progress							
17-A13	Child Protection	Testing in progress							
17-A14	Education for Looked After Children	Testing in progress							
17-A15	Benefits	Audit deferred by management - See Appendix B							
17-A17	Social Media	Testing in progress							
17-A16	CYPS Thematic review - Children in Need	Planning in progress							
Total Number of IA Recommendations Raised				4	21	16	3		
Total % of IA Recommendations Raised				10%	51%	39%	-		

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18****2017/18 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 18 th September 2017	Recommendations			CFQ Received?
			Implemented	Partly Implemented	Not Implemented	
17-A11	Follow-Up of implemented recommendations	Verification testing in progress				
17-A18	Capital Programme	Verification testing in progress				
17-A19	Scheme of Delegations	Verification testing in progress				
		Total Number				

2017/18 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 18 th September 2017	CFQ Received?
17-C4	Stores - Year End Stock Take	Memo issued on 20 th April 2017	✓
17-C1	Payment Card Industry Data Security Standard (PCIDSS)	Memo issued on 15 th May 2017	✓
17-C6	Green Spaces - Petty Cash Imprest Account (Duke of Edinburgh)	Memo issued on 11 th July 2017	✓
17-C5	Parking Services Administration	Memo issued on 1 st August 2017	✓
17-C2	Data quality for vulnerable service users	Memo issued on 18 th September 2017	Not yet due
17-C7	CYPS Thematic review - Benchmarking	Memo in progress	
17-C9	Flood and Water Management	Audit deferred by management - See Appendix B	
17-C10	Assurance Mapping	Testing in progress	
17-C11	Troubled Families Process Mapping	Testing in progress	
17-C8	Thematic Review of Debt Recovery Agents (Bailiffs)	Planning	

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18****2017/18 IA Grant Claim Verification Reviews:**

IA Ref.	IA Review Area	Status as at 18th September 2017
17-GC3	Troubled Families Grant - Quarters 1 and 2	Certified and memo issued on 3 rd August 2017
17-GC2	Housing Benefits Subsidy Grant	IA testing completed on 18 th August 2017
17-GC1	Disabled Facilities Capital Grant (DFG)	Certification testing in progress
17-GC4	Bus Subsidy Grant	Certification testing in progress

APPENDIX B**REVISIONS TO THE 2017/18 INTERNAL AUDIT PLAN ~ QUARTER 2****IA work DEFERRED from the 2017/18 Operational IA Plan for Quarter 2:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
17-A15	Benefits	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	Further to undertaking detailing planning of this audit, it was agreed that due to the level of assurance obtained from the 2016/17 IA resource would be better placed and, add greater value, through providing assurance through a refined scope focusing on the implementation of e-benefits.
17-C9	Flood and Water Management	Consultancy	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Further to undertaking detailing planning of this consultancy review, we were advised that Business Improvement Delivery (BID) were undertaking work within this area. We therefore agreed to defer this review by at least 6 months to within the 2018/19 plan if it is still relevant and of risk to the service.

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IA work ADDED to the 2017/18 Operational IA Plan for Quarter 2:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
17-C11	Troubled Families Process Mapping	Consultancy	MEDIUM	Pauline Moore Head of HR, Performance, Improvement & Communications	This review was requested by management following the spot check review undertaken by DCLG earlier in the year. This review will map the Troubled Families process, focusing on the roles and responsibilities of each relevant stakeholder to the process. In addition, we will look at the use of information and data streams which aid in the attachment of families to the programme.

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 3**

IA work scheduled to commence in the 1st October to 31st December 2017 period:

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
17-A22	Management and Control of Void Dwellings	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	There are a number of teams and services involved throughout the management and control of void properties. This assurance review, deferred from 2016/17, will focus on the end to end process to ensure that it is working efficiently and that appropriate policies, procedures and action is taken to minimise the time that Council properties are empty and classified as void.
17-A23	Dedicated Facilities Grant (DFG)	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The national DFG programme provides a framework for local authorities to provide mandatory grants for housing adaptations for disabled people to enable them to live independently in their own homes, whether they be privately owned, rented or social housing. This IA assurance review has been scheduled following a Business Improvement Delivery (BID) review which has fundamentally changed the business model for DFG delivery to ensure that the revised controls framework is in place and operating to effectively manage risk.
17-A24	Equalities Act	Assurance	MEDIUM	Fran Beasley Chief Executive	The Equality Act 2010 legally protects people from discrimination in the workplace and in wider society, replacing previous anti-discrimination laws with a single Act, making the law easier to understand and strengthening protection in some situations. This IA assurance review will seek to confirm that appropriate controls are in place to ensure compliance with the Act, and the associated public sector Equality Duty, minimising the risk of non compliance.
17-A25	Staff overtime, allowances and expenses, including mileage	Assurance	MEDIUM	Fran Beasley Chief Executive	This review will seek to provide assurance over the efficiency, effectiveness and robustness of controls in place surrounding pay expenditure to ensure that appropriate oversight, segregation and approval controls are embedded and operating effectively.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 3 (cont'd)**

IA work scheduled to commence in the 1st October to 31st December 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-A26	Trading Standards	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Trading Standards is responsible for ensuring businesses and consumers understand their legal rights and responsibilities in relation to legislation that falls within its remit to help combat consumer and business detriment within the Borough, combating rogue traders and tackling local and national priorities and enforcement issues. This IA assurance review will confirm that appropriate procedures and policies are in place and adhered to for the diverse issues, under a wide variety of Acts, Orders and Codes of Practice, as set out by central government, the Food Standards Agency.
17-A27	School Placement Planning	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Hillingdon Council ensured that every child in Hillingdon has a secondary school place. Secondary school admissions results were released on Wednesday 1 March with 94.9% of Hillingdon pupils receiving one of their preferred choices. This will be a cross cutting assurance review across the Council's school performance and placement teams. It will largely be a desktop audit, focusing on the planning and forecasting of school placements, adherence to operational procedures and interaction and utilising of the Council's performance team, seeking to provide assurance over the Council's School placement planning processes.
17-A28	Corporate Payments	Assurance	MEDIUM	Paul Whaymand Corporate Director of Finance	The systems for ordering, receipt and payment for goods and services may represent some of the most significant systems within an organisation. Regardless of expenditure type there is a need to ensure risks are fully identified, assessed and mitigated by applying robust controls to ensure operations run effectively. This IA review will seek to confirm that the Council has systems and procedures which properly support expenditure in terms of committed expenditure, value for money, declarations of potential conflict of interest with controls in place to protect funds from fraud and corruption.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 3 (cont'd)**

IA work scheduled to commence in the 1st October to 31st December 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-A29	Contact Centre	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The Council's contact centre is the main point of contact for the majority of resident interaction with the Authority. Demand on the service remains at a constant on a quarterly basis with 278,441 queries via telephone, switchboard, admin and face to face within quarter 1 compared to 280,897 for quarter 4 of 2016/17. With the contact centre increasing becoming the initial triage of resident queries, there is an increased likelihood that the demand for information and advice exceeding service capacity within the Contact Centre team. This assurance review will focus on business processes to ensure efficient working practices are in place to minimise the risk of increased waiting times and resident dissatisfaction.
17-A30	Houses in Multiple Occupation (HMO) registration, including fit and proper person	Assurance (Follow-up)	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2017/18 IA assurance review in this area which received a NO assurance opinion, this follow-up review, with a refined scope, focuses on the implementation of the 4 HIGH and 3 MEDIUM risk recommendations raised.
17-A31	Housing - Planned Maintenance	Assurance (Follow-up)	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2015/16 IA assurance review in this area which received a LIMITED assurance opinion, this follow-up review, with a refined scope, focuses on the implementation of the 2 HIGH and 5 MEDIUM risk recommendations raised.
17-A32	Housing Repairs	Assurance (Follow-up)	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2015/16 IA assurance review in this area which received a LIMITED assurance opinion, this follow-up review, with a refined scope, focuses on the implementation of the 4 HIGH and 6 MEDIUM risk recommendations raised.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 3 (cont'd)**

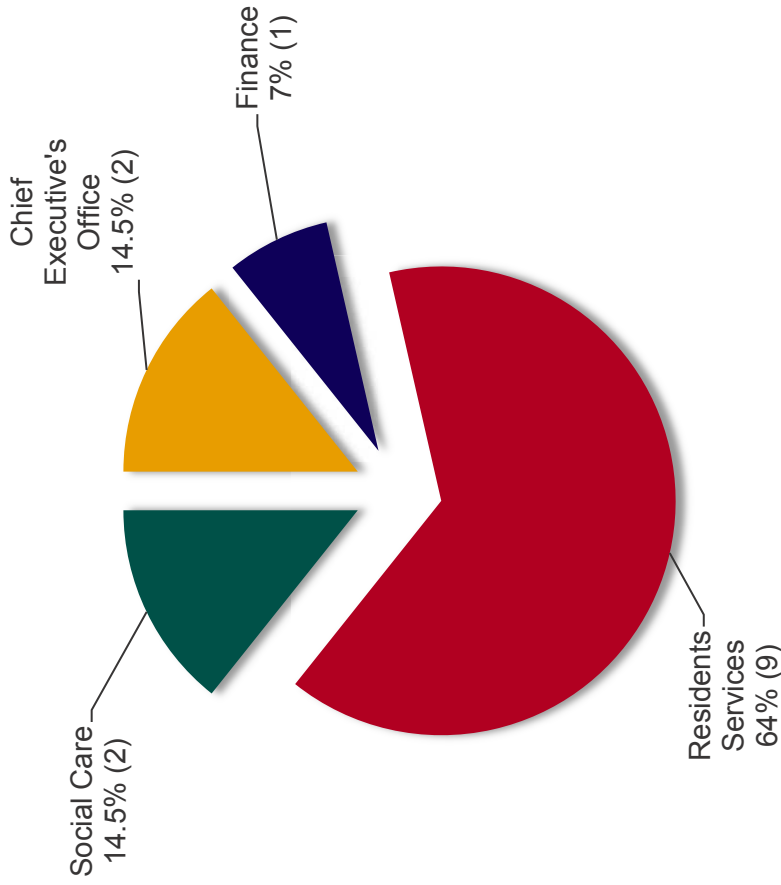
IA work scheduled to commence in the 1st October to 31st December 2017 period:

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
17-C12	Service Contracts	Consultancy	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The Council has a duty to ensure that buildings under its control comply with appropriate statutory, regulatory and corporate standards. This IA consultancy review will provide advice and guidance over the current mechanisms and process flow of information in place over the monitoring and management of service contracts. This will include the level of compliance and assurances obtained by external suppliers in meeting Statutory compliance with legislation and statutory guidance.
17-C13	CYPS Thematic review	Consultancy	MEDIUM	Tony Zaman Corporate Director of Social Care	We will be undertaking thematic reviews each quarter, this quarter to provide consultancy guidance on the readiness of Children and Young People's Service for an Ofsted inspection. This will seek to demonstrate the Council's commitment to high standards of practice, management and leadership in the safeguarding of children.
17-GC5	Troubled Families Grant - Quarter 3	Grant Claim	N/A	Tony Zaman Corporate Director of Social Care	The Troubled Families programme is a Government scheme under the Department for Communities and Local Government (DCLG) with the stated objective of helping troubled families turn their lives around. The Council receives a payment by results from the DCLG for each identified 'turned around' troubled family. As per the grant conditions, IA will undertake verification work to confirm identified troubled families have been 'turned around'.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2017/18 ~ QUARTER 3 (cont'd)

IA work scheduled to commence in the 1st October to 31st December 2017 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 asked to provide an alternative audit in their Group.

APPENDIX D**INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

KPI Ref.	Performance Measure	Target Performance	Actual Performance	RAG Status
KPI 1	2017/18 HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	2017/18 MEDIUM risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	2017/18 HIGH risk IA recommendations where management action is taken within agreed timescale	90%	n/a	GREEN
KPI 4	2017/18 MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	n/a	GREEN
KPI 5	Percentage of annual (Q1 to Q4) IA Plan delivered to draft report stage by 31 st March	90%	90%	GREEN
KPI 6	Percentage of annual (Q1 to Q4) IA Plan delivered to final report stage by 31 st March	80%	80%	GREEN
KPI 7	Percentage of draft reports issued as a final report within 15 working days	75%	60%	RED
KPI 8	Client Satisfaction Rating (from CFQs)	85%	87.5%	GREEN
KPI 9	IA work fully compliant with the UK PSIAS and IIA Code of Ethics	100%	100%	GREEN

APPENDIX E**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 E (cont'd)**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

RISK	DEFINITION
<p>HIGH</p> <p>●</p>	<p>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.</p>
<p>MEDIUM</p> <p>●</p>	<p>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.</p>
<p>LOW</p> <p>●</p>	<p>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.</p>
<p>NOTABLE PRACTICE</p> <p>●</p>	<p>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.</p>

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Audit Committee Forward Programme 2017/18 and 2018/19

Contact Officer: Anisha Teji
Telephone: 01895 277655

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
27 September 2017	CR3
13 December 2017	CR3
March 2018 (date tbc)	tbc
July 2018 (date tbc)	tbc
September 2018 (date tbc)	tbc

AUDIT COMMITTEE

Forward Programme 2017/18 and 2018/19

Meeting Date	Item	Lead Officer
13 December 2017	*Private meeting with the Head of Business Assurance to take place before the meeting	
	External Audit Annual Audit Letter	Ernst & Young
	Internal Audit Charter 2017/18	Head of Business Assurance
	Internal Audit Progress Report 2017/18 Quarter 3 & Operational Internal Audit Plan Quarter 4	Head of Business Assurance
	Corporate Fraud Progress Report 2017/18 Quarter 3	Head of Business Assurance
	National Scheme for Auditor Appointments	Corporate Director of Finance
	Audit Committee Forward Programme	Democratic Services
	Risk Management Report and Q2 Corporate Risk Register - Part II	Head of Business Assurance

Meeting Date	Item	Lead Officer
March 2018 (Date tbc)	*Private meeting with External Audit (Ernst & Young) to take place before the meeting	
	EY 2017/18 Annual Audit Plan; 2017/18 Pension Fund Audit plan; and Information on Their Detailed Work Plan	Corporate Director of Finance / Ernst & Young
	EY - Annual Grant Audit Letter	Corporate Director of Finance /Ernst & Young
	Annual Governance Statement 2017/18 – Interim Report	Head of Business Assurance
	Balances and Reserves Statement	Corporate Director of Finance
	Internal Audit Progress Report Quarter 4 2017/18 & Quarter 1 2018/19 Internal Audit Plan	Head of Business Assurance
	Draft Internal Audit Plan 2018/19	Head of Business Assurance

PART I – MEMBERS, PUBLIC AND PRESS

Audit Committee – 27 September 2017

	Annual Review of the Effectiveness of the Audit Committee 2017/18	Head of Business Assurance
	Corporate Fraud Progress Report Quarter 4 2017/18	Head of Business Assurance
	Risk Management Report & Q3 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Terms of Reference	Democratic Services / Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
July 2018 (Date tbc)	*Private meeting with Head of Business Assurance to take place before the meeting	
	Approval of the 2016/17 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2018	
	Annual Review of the Effectiveness of Internal Audit 2018/19	Head of Business Assurance
	Annual Internal Audit Report & Head of Internal Audit Opinion Statement 2017/18	Head of Business Assurance
	Internal Audit 2018/19 Quarter 1 Progress Report & Quarter 2 Operational Internal Audit Plan	Head of Business Assurance
	Corporate Fraud 2018/19 Quarter 1 Progress Report	Head of Business Assurance
	Risk Management Report & Q4 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
Sept 2018 (Date tbc)	*Private meeting with the Corporate Director of Finance to take place before the	

PART I – MEMBERS, PUBLIC AND PRESS

Audit Committee – 27 September 2017

	meeting	
	Approval of the 2016/17 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2018	Corporate Director of Finance /Ernst & Young
	External Audit Report on the Pension Fund Annual Report and Accounts 2017/18	Ernst & Young
	Internal Audit Progress Report 2018/19 Quarter 2 & Operational Internal Audit Plan Quarter 3	Head of Business Assurance
	Counter Fraud 2018/19 Quarter 2 Progress Report	Head of Business Assurance
	Risk Management Report & Q1 Corporate Risk Register - Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

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