



HILLINGDON
LONDON



Audit Committee

Members of the Committee

John Chesshire (Chairman)
Councillor Scott Seaman-Digby (Vice-Chairman)
Councillor Tony Eginton
Councillor Martin Goddard
Councillor Susan O'Brien

Date: THURSDAY 26 JULY 2018

Time: 5.10 PM

Venue: COMMITTEE ROOM 5 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE

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

Published: Wednesday 18 July 2018

Contact: Anisha Teji
Tel: 01895 277655
Email: ateji@hillington.gov.uk

This Agenda is available online at:

<https://modgov.hillingdon.gov.uk/ieListMeetings.aspx?CId=256&Year=0>

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

Useful information for residents and visitors

Travel and parking

Bus routes 427, U1, U3, U4 and U7 all stop at the Civic Centre. Uxbridge underground station, with the Piccadilly and Metropolitan lines, is a short walk away. Limited parking is available at the Civic Centre. For details on availability and how to book a parking space, please contact Democratic Services. Please enter from the Council's main reception where you will be directed to the Committee Room.

Accessibility

For accessibility options regarding this agenda please contact Democratic Services. For those hard of hearing an Induction Loop System is available for use in the various meeting rooms.

Attending, reporting and filming of meetings

For the public part of this meeting, residents and the media are welcomed to attend, and if they wish, report on it, broadcast, record or film proceedings as long as it does not disrupt proceedings. It is recommended to give advance notice to ensure any particular requirements can be met. The Council will provide a seating area for residents/public, an area for the media and high speed WiFi access to all attending. The officer shown on the front of this agenda should be contacted for further information and will be available at the meeting to assist if required. Kindly ensure all mobile or similar devices on silent mode.

Please note that the Council may also record or film this meeting and publish this online.

Emergency procedures

If there is a FIRE, you will hear a continuous alarm. Please follow the signs to the nearest FIRE EXIT and assemble on the Civic Centre forecourt. Lifts must not be used unless instructed by a Fire Marshal or Security Officer.

In the event of a SECURITY INCIDENT, follow instructions issued via the tannoy, a Fire Marshal or a Security Officer. Those unable to evacuate using the stairs, should make their way to the signed refuge locations.



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 11 April 2018 and 10 May 2018 1 - 10
- 5 Approval Of The 2017/18 Statement Of Accounts, External Audit Report On The Audit For The Year Ended 31 March 2018 and External Audit Report On The Pension Fund Annual Report and Accounts 2017/18 11 - 248
- 6 Annual Internal Audit Report and Opinion Statement 2017/18 249 - 278
- 7 Internal Audit Progress Report for 2018/19 Quarter 1 (including the Quarter 2 Internal Audit Plan) 279 - 296
- 8 2018/19 Quarter 1 Counter Fraud Progress Report 297 - 308
- 9 Audit Committee Skills Matrix/ Training and Development Plan 309 - 314
- 10 Audit Committee Forward Programme 2017/18 315 - 318

PART II

- 11 2017/18 Quarter 4 Corporate Risk Register 319 - 336

Minutes

Audit Committee
Wednesday 11 April 2018
Meeting held at Committee Room 5
Civic Centre, High Street, Uxbridge



	<p>Cabinet Member Present: John Chesshire (Independent Chairman), Councillors Scott Seaman-Digby (Vice-Chairman), George Cooper, Tony Eginton and Susan O'Brien</p> <p>Officers Present: Sarah Hydrie (Business Assurance Manager), James Lake (Lead Corporate Accountant), Muir Laurie (Head of Business Assurance), Paul Whaymand (Corporate Director of Finance), Martyn White (Senior Internal Audit Manager), Zac O'Neil (Counter Fraud Manager) and Anisha Teji (Democratic Services Officer)</p> <p>Others Present: Adrian Balmer and James Craigmyle (External Audit - Ernst & Young)</p>
<p>1.</p>	<p>APOLOGIES FOR ABSENCE</p> <p>There were no apologies for absence.</p>
<p>2.</p>	<p>DECLARATIONS OF INTEREST</p> <p>Councillors George Cooper and Tony Eginton declared non-pecuniary interests arising from the fact that they were retired members of the Local Government Pension Scheme. They remained for the discussion of all items.</p> <p>Councillors Scott Seaman-Digby and Susan O'Brien, both declared non-pecuniary interests arising from the fact that they were deferred members of the Local Government Pension Scheme. They also remained for the discussion of all items.</p>
<p>3.</p>	<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 15 – Business Assurance – Draft Counter Fraud Strategic Plan 2018/19 and Agenda Item 16 – Business Assurance – Corporate Risk Register for Quarter 3 2017/18.</p>
<p>4.</p>	<p>MINUTES OF THE MEETING HELD ON 13 DECEMBER 2017</p> <p>RESOLVED - That the minutes from 13 December 2017 be approved as an accurate record.</p>

<p>5.</p>	<p>ERNST & YOUNG 2017/18 ANNUAL AUDIT PLAN & 2017/18 PENSION FUND AUDIT PLAN</p> <p>The Committee was provided with documents which set out the initial plans for the 2017/18 audit by the Council's external auditors, Ernst & Young. The plans set out the approach to the audit of the Council's Accounts and the Pension Fund Accounts and a broad timetable, to enable the whole process to be completed by the end of July 2018. Ernst & Young took the Committee through the report and provided a summary of the key issues.</p> <p>Members were informed that the Key Financial Statement Risks on the Audit Plan were:</p> <ul style="list-style-type: none"> • Risk of fraud in revenue and/or expenditure recognition; and • Risk of management override. <p>Other areas of audit focus not classified as significant risk, but still material when considering risks of misstatement included:</p> <ul style="list-style-type: none"> • Valuation of land and buildings; and • Pension Liability Valuation. <p>For the Pension Fund Audit Plan, there was only one Key Financial Statement Risk identified in relation to risk of management override. Other areas of audit focus not classified as significant risk, but still material when considering risk of misstatement included:</p> <ul style="list-style-type: none"> • Valuation of complex investments; • Investment Manager Transition; and • Earlier Deadline of Production of Financial Statements. <p>RESOLVED –</p> <p>1. That the 2017/18 Annual Audit Plan and the 2017/18 Pension Fund Audit Plan be noted.</p>
<p>6.</p>	<p>ERNST & YOUNG - ANNUAL GRANT AUDIT LETTER</p> <p>The Committee considered the External Audit Annual Grant Audit Letter, which provided a summary of the key findings on the grant work undertaken by Ernst & Young for the year ended 31 March 2017. The report summarised the results of the work on the Council's 2016/17 claims and returns.</p> <p>The report highlighted that the housing benefits subsidy claim had been checked and certified with a total value of £148,023,462, and the submissions deadline had been met. The housing benefits subsidy claims fees for 2016/17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016. No other significant issues were reported which needed to be brought to the Committee's attention.</p> <p>Following Member questions regarding the incorrect assessment of earned income, Ernst & Young explained the methodology used to carry out the assessments. It was</p>

	<p>also confirmed that Internal Audit regularly liaised with Ernst & Young through monthly meetings to coordinate the process.</p> <p>RESOLVED – That the findings contained in the Annual Grant Audit Letter be noted.</p>
<p>7.</p>	<p>BALANCES AND RESERVES STATEMENT 2018/19</p> <p>The Corporate Director of Finance referred the Committee to the report on Balances and Reserves Statement for 2018/19. The budget reported to Cabinet and Council in February 2018 contained an extract from the Balances and Reserves Statement 2018/19 which summarised the recommended range for unallocated balances. The attached Balances and Reserves Statement provided further detail on the Council's approach to the management and measurement of these.</p> <p>The Corporate Director of Finance informed the Committee that this report had been put before the Audit Committee for a number of years. However, the contents of the report fell outside of the Committee's terms of reference.</p> <p>Members discussed the relevance of the report. Although the Committee found the report interesting, bearing in mind its terms of reference, it agreed with officers that the matter fell outside of its remit. Members therefore concluded that the report would no longer need to be presented to the Committee unless there was an exceptional item for discussion.</p> <p>RESOLVED –</p> <p>1) That the contents of the report be noted; and 2) that the report no longer be presented to the Audit Committee as a matter of course.</p>
<p>8.</p>	<p>ANNUAL REPORT OF THE AUDIT COMMITTEE 2017/18</p> <p>The Head of Business Assurance presented the report which provided a summary of the work of the Audit Committee during 2017/18 and how it had undertaken its responsibilities for reviewing key areas within its remit.</p> <p>These areas included:</p> <ul style="list-style-type: none"> • Internal Control; • Risk Management; • Corporate Governance; • Internal Audit; • External Audit; • Counter Fraud; and • Financial reporting process of the Statement of Accounts. <p>It was noted that Internal Audit had undertaken a review of the Committee's effectiveness. The review provided reasonable assurance that the Committee had been operating effectively. The final report was issued on 18 November 2016 and</p>

	<p>was presented to Audit Committee at its meeting on 15 December 2016.</p> <p>A suggestion was made to paragraph 3.2 to amend the current sentence, “These initiatives will help enable the Audit Committee to perform its duties even more effectively moving forward” to “These initiatives will continue to enable the Audit Committee to perform its duties even more effectively moving forward.”</p> <p>Members expressed concerns about the deletion of the power of the Audit Committee to require senior managers to attend meetings. The External Auditors noted that this was unusual for the Audit Committee of a local authority not to have this power. However, it was noted that during 2017/18 there had been no occasions where the Audit Committee believed that this lack of power had hindered its effectiveness. It was clarified that the Committee had authority to request that senior officers attend meetings. It was delegated to the Head of Business Assurance and Chairman to make these minor revisions to the report.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the report be noted; and 2. that any amendments be made before the report is presented to Council in July 2018.
<p>9.</p>	<p>ANNUAL GOVERNANCE STATEMENT 2017/18 - INTERIM REPORT</p> <p>The Committee was provided with an update on the progress to date in the preparation of the Annual Governance Statement (AGS) for 2017/18. The Committee was informed that the timetable had now changed from June to September. An early draft of the AGS would be prepared from early to mid May 18. The AGS 2017/18 would be submitted to the Audit Committee for comment.</p> <p>RESOLVED – That the update on the AGS 2017/18 be noted.</p>
<p>10.</p>	<p>BUSINESS ASSURANCE - INTERNAL AUDIT PROGRESS REPORT FOR 2017/18 QUARTER 4 (INCLUDING THE 2018/19 QUARTER 1 IA PLAN)</p> <p>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 4, together with assurance levels in this respect.</p> <p>The Committee was informed that for 2017/18 Quarter 4, 13 assurances reviews (including four follow ups) had concluded, six consultancy reviews had been finalised and four grant claims had been certified.</p> <p>Key points were highlighted to the Committee. Key assurance reviews finalised this quarter (Disabled Facilities Grant, Trading Standards, Child Protection Conference and Facilities Management) each obtained a limited assurance opinion over the management of the key risks. The reviews of Education for Children Looked After, IR35 and Contact Centre were provided a reasonable assurance opinion whilst the Internal Audit review of school placement planning was provided a substantial assurance opinion. Dedicated follow up reviews found that 31% (9) of the 29 recommendations followed up this quarter were deemed implemented, and of the</p>

	<p>remaining recommendations, 55% (16) were partly implemented and 14 % (4) were deemed not implemented.</p> <p>The Committee was informed that where due dates were missed, these were challenged. There was a focus on trends and common themes. Areas awarded reasonable assurance were discussed with management.</p> <p>It was noted that recruitment was being managed well, including promotion from within the service. Staffing areas keen to develop include having an in house IT auditor. Discussion was held regarding the Q1 2018/19 Operational IA plan which included plugging the gaps in declarations of interest with this review focusing on officers rather than Members.</p> <p>Members noted the staffing position in the service with three vacancies, and recognised the outstanding job that had been done, despite the current staffing position. The Committee congratulated officers on the successful final quarter.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1. That the Internal Audit progress report for 2017/18 Quarter 4 be noted and approval be given to the Quarter 1 Internal Audit Plan for 2018/19. 2. That the Committee noted that the coverage, performance and results of Business Assurance Internal Audit activity within this quarter.
11.	<p>BUSINESS ASSURANCE - DRAFT ANNUAL INTERNAL AUDIT PLAN 2018/19</p> <p>The Committee was provided with the Draft Annual Internal Audit Plan 2018/19 that set out the Internal Audit’s approach and activity type for the forthcoming year. The plan sought to provide key stakeholders with independent assurance that the risks within the Council's fundamental systems and processes were being effectively managed; allow the Council to demonstrate that it was complying with the relevant legislation and applicable professional standards; demonstrate the Council's commitment to good governance and compliance with the UK Public Sector IA Standards (PSIAS); and set out that Business Assurance Internal Audit resources were being properly utilised.</p> <p>The Committee was informed that in 2018/19, the Business Assurance service at Hillingdon would continue to apply a fully risk-based approach to its Internal Audit coverage. This would mean that Business Assurance would give greater assurance to the Council because its Internal Audit coverage was closer aligned to the key risks to the achievement of the Council's objectives.</p> <p>Members were informed that if there was an option to increase one business area, it would firstly be in relation to follow up work to ensure that identified risks were being treated and, secondly, consultancy and advice work as there was a lot of request for work.</p> <p>RESOLVED – That the Audit Committee noted the Draft Internal Audit plan for 2018/19.</p>

<p>12.</p>	<p>BUSINESS ASSURANCE – UPDATED INTERNAL AUDIT CHARTER</p> <p>The Committee considered revisions to the Internal Audit Charter, which had been updated to be in line with the best practice and to mirror the minor changes to the UK Public Sector Internal Audit Standards (PSIAS) and Internal Audit Professional Practices Framework (IPPF). The last update of the Internal Audit Charter was approved by the Audit Committee on 15 December 2016.</p> <p>Members commented that it was helpful to see the tracked changes from the previous charter.</p> <p>RESOLVED – That the updated Internal Audit Charter be approved by the Audit Committee.</p>
<p>13.</p>	<p>BUSINESS ASSURANCE - COUNTER FRAUD PROGRESS REPORT FOR 2017/18 QUARTER 4</p> <p>The Committee was provided with a report which gave details on the work being undertaken by the Business Assurance Counter Fraud Team (BACFT) in relation to 2017/18 Quarter 4 and assurances in this respect. The Counter Fraud Manager provided an oral summary of the report.</p> <p>Some of the key points reported that the new Counter Fraud Manager joined the Council on 11 December 2017 and the restructure of the BACFT was now well progressed with job offers to eight successful candidates. An Immigration Official from the Home Office would also start next week. Officers would explore ways to raise the profile of this. The BACFT had started a programme of increased engagement with teams across the Council to help improve fraud awareness across the organisation.</p> <p>It was also reported that despite there being vacancies in verification teams, targets had been exceeded with less resources.</p> <p>RESOLVED –</p> <p>1) That the Counter Fraud Progress Report for 2017/18 be noted; and 2) that the Committee noted that the coverage, performance and results of BACFT activity within this quarter.</p>
<p>14.</p>	<p>AUDIT COMMITTEE FORWARD PROGRAMME 2017/18</p> <p>The work programme for the coming year was noted.</p> <p>It was agreed that Democratic Services would liaise closely with Business Assurance to arrange training/ skills matrix for the finalised Audit Committee Membership and format arrangements for how agendas are to be presented.</p> <p>It was noted that the statement of accounts and external audit report on the audit for the year ended 31 March 2018 would be in commencement by the next meeting. This would also be the case for the Operational Internal Audit Plan Quarter 3.</p>

	<p>RESOLVED – That the work programme be noted.</p>
<p>15.</p>	<p>BUSINESS ASSURANCE - DRAFT COUNTER FRAUD STRATEGIC PLAN 2018/19</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 7 of the schedule to the Act).</i></p> <p>The report presented to Members the draft Counter Fraud Strategic Plan for 2018/19, which set out the planned approach and activity type for the forthcoming year. The report defined the strategic approach that the Business Assurance Counter Fraud Team (BACFT) would take to manage the various risks of fraud against the Council, set out the BACFT's Operational Work Plan for 2018-19, demonstrated the Council's zero tolerance on fraud and showed resources were being properly utilised.</p> <p>RESOLVED –</p> <ol style="list-style-type: none"> 1) That the Draft Counter Fraud Strategic Plan 2018/19 BE endorsed by the Audit Committee 2) That the draft plan be recommended to the appropriate Council body for approval, noting the Operational Work Plan 2018/19, in line with its role to provide independent oversight of the Council's governance and risk management arrangements.
<p>16.</p>	<p>BUSINESS ASSURANCE - CORPORATE RISK REGISTER FOR QUARTER 3 2017/18</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 3 (October to December 2017), updated as at 3 April 2018. 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 3 (October to December 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, Democratic Services Officer on 01895 277655. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

Minutes

AUDIT COMMITTEE

10 May 2018

Meeting held at Council Chamber - Civic Centre,
High Street, Uxbridge



	Committee Members Present: Councillors Scott Seaman-Digby (Vice-Chairman), Martin Goddard and Susan O'Brien
1.	ELECTION OF VICE CHAIRMAN (<i>Agenda Item 1</i>) RESOLVED: That Councillor Seaman-Digby be elected as Vice Chairman of the Audit Committee for the 2018/2019 municipal year.
	The meeting, which commenced at 10.05 pm, closed at 10.10 pm.

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

This page is intentionally left blank

APPROVAL OF THE 2017/18 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2018

Committee name	Audit Committee
Officer reporting	Sian Kunert, Head of Pensions, Treasury & Statutory Accounting
Papers with report	EY Audit Results Report EY Pension Fund Audit Results Report Statement of Accounts 31 March 2018
Ward	All

HEADLINES

The attached two reports summarise the findings of EY, the External Auditor, on the audit of the 2017/18 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 areas 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 11 April 2018.

RECOMMENDATIONS:

That the Committee:

- 1. Approve the audited Statement of Accounts for 2017/18.**

SUPPORTING INFORMATION

The arrangements for keeping and publishing the Council's accounts are set out in the Accounts

and Audit (England) Regulations 2015. Under these regulations the Corporate Director of Finance is responsible for determining the Council's accounting system, form of accounts and supporting accounting records.

In accordance with the requirements of the Accounts and Audit (England) Regulations 2015 the Corporate Director of Finance approved the Statement of Accounts on 31 May 2018, 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 31 July 2018 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 C 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 gives a comprehensive account of the work undertaken during the audit with a focus on significant risks, as identified at the planning stage. EY will discuss the findings of their audit work in detail at Committee and provide an update from the report date. There are no misstatements or errors in the accounts to report and no recommendations at this stage. There are currently a number of areas of audit work outstanding.

Pension Fund Statements

The report gives an 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 are no reportable errors at the report date.

Annual Governance Statement

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

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

Accounts Summary

The Balance Sheet of the Council sets out the assets and liabilities at the end of the financial year and is a guide to the financial health of the Council. There was an overall increase to the wealth of the Council shown through the Balance sheet of £9m, this was mainly due to an increase in property value and capital programme spend which also increased the unusable reserves - revaluation reserve and capital adjustment account.

Usable reserves fell £15m in year with a reduction in schools balances and the HRA reserves, with a small increase on General Fund balances and General Fund earmarked reserves.

The Comprehensive Income and Expenditure Statement shows a deficit of £33.4m 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 ultimate impact to the General Fund was an in-year surplus of £1.6m, whilst the HRA had an in-year deficit of £8.7m.

Post Balance Sheet Events

There are no post balance sheet events since 31 March 2018 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

**London Borough of
Hillingdon**
Audit results report
Year ended 31 March 2018

16th July 2018

Page 15

16th July 2018



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of London Borough of Hillingdon for 2017/18. We will issue our final report at the Audit Committee meeting scheduled for 26th July 2018.

We have substantially completed our audit of the London Borough of Hillingdon (the Council) for the year ended 31st March 2018. 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 31st July 2018. 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 Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26th July 2018.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Maria Grindley', written in a cursive style.

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 November 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 and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, 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 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 our prior written consent.



01

Executive Summary



Executive Summary

Scope update

In our audit planning report tabled at the 11th April Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan. The only update from that plan is our revision of materiality.

- ▶ **Changes in materiality:** We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £14.75 m (Audit Planning Report – £14.34 m). This results in updated performance materiality, at 75% of overall materiality, of £11.07 m, and an updated threshold for reporting misstatements of £0.74 m.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Status of the audit

We have substantially completed our audit of London Borough of Hillingdon's financial statements for the year ended 31st March 2018 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the outstanding items set out in Appendix D we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise.

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

Audit differences

There are no currently no unadjusted or adjusted audit differences arising from our audit which we need to bring to your attention. Further details of the thresholds which we apply to report audit differences can be found in Section 4.

As the audit is still ongoing it is possible that we will identify audit differences which we will need to bring to your attention. We will provide an update at the Audit Committee meeting on 26th July.

Executive Summary

Objections

We have received correspondence from a member of the public. We are currently assessing this and will liaise with senior officers. We will provide a verbal update at the Audit Committee meeting on 26th July.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of London Borough of Hillingdon's financial statements. This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" 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; 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.

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.

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 Planning Report we did not identify any Value For Money Significant Risks.

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



Executive Summary

Other reporting issues

We need to review the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We are still concluding our work in this area and will report any findings from our review at the Audit Committee meeting on 26th July.

In addition we also need to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have not yet started our review of the WGA submission and will provide an update at the Audit Committee meeting on 26th July.

Independence

Please refer to Section 10 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The risk in local government resides in areas in which management judgements are made and transactions not subject to routine based system controls. As such we attach the risk of revenue recognition to the judgements made in recognising capital expenditure and the subsequent capital financing transactions.

What judgements are we focused on?

The risk is focused on significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit.

We have identified the following significant transactions which we consider to present a risk of revenue and expenditure recognition:

- ▶ Minimum Revenue Provision (MRP);
- ▶ Capital Financing Requirement (CFR);
- ▶ Revenue and Expenditure Funded from Capital Under Statute (REFCUS); and
- ▶ Property, Plant and Equipment (PPE) additions.

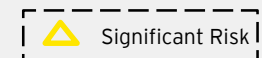
What did we do?

- ▶ Engaged with management to understand the overall financial position;
- ▶ Examined data that supports significant additions and disposals during the period;
- ▶ Reviewed the schedule of expenditure classified as Revenue Expenditure Funded by Capital Under Statute (REFCUS);
- ▶ Ensured the calculation of the Capital Financing Requirement is compliant with the Code;
- ▶ Ensured additions and disposals tested in PPE are internally consistent with the capital financing disclosure; and
- ▶ Reviewed and discussed with management any accounting estimates on revenue recognition for evidence of bias.

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 Council's financial position.





Areas of Audit Focus

Risk of fraud in revenue and expenditure recognition



Further details on procedures/work performed

Procedures focused on revenue account

Review and test revenue and expenditure cut-off at the period end date;

- We extended our cut-off procedures with testing on cash and accounts payable transactions around year-end.

Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;

- This has been reviewed as part of our work on the testing of accruals.

Procedures focused on balance sheet

Capital Financing Requirement and Minimum Revenue Provision

- We ensured that the calculation of the Capital Financing Requirement was compliant with the requirements of the Code and that the disclosure in the financial statements are internally consistent with the PPE, Investment Property, Intangible Assets and Group Account notes. We checked that MRP was appropriately calculated using the method outlined in the prudential code, paying specific attention to any MRP on unsupported borrowing.

REFCUS

- Reviewed expenditure classified as REFCUS and ensured that the expenditure met the broad principle of allowable expenditure, or was incurred under direction from the secretary of state.

Additions and disposals

- For significant additions (including capitalized labour, borrowing costs and other acceptable costs) and disposals during the period, we examined invoices, capital expenditure authorizations, leases and other data that supported the additions and disposals, to ensure assets capitalized met the correct definition and that the capital expenditure was appropriately recognized

Minute Review

- We reviewed the Council's minutes to identify any transactions that may be outside the normal course of business

Journals

- We gained an understanding of the manual journal posting protocol in place at the Council for which the accounting entries for capital expenditure are made.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error - Management Override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. We have concluded that the judgements we are focused on are items of non-routine income and expenditure, involving management estimation and judgement, rather than transactions created through routine invoicing processes.

As this relates to how the Council recognises revenue and expenditure, we have addressed the risk through our procedures to address the risk of fraud in revenue and expenditure recognition.

Our work on the risk of management override therefore focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

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 Council's normal course of business.

What did we do?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. We have concluded that the judgements we are focused on are items of non-routine income and expenditure, involving management estimation and judgement, rather than transactions created through routine invoicing processes.

As this relates to how the Council recognises revenue and expenditure, we have addressed the risk through our procedures to address the risk of fraud in revenue and expenditure recognition.

Our work on the risk of management override therefore focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.





Areas of Audit Focus

Other areas of audit focus

In our Audit Planning Report, we identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Land and Buildings

Land and buildings is one of the most significant balances in the Council's Balance Sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

What did we do?

We have:

- ▶ Reviewed the data sent to, and the report produced by, the Council's valuer;
- ▶ Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists; and
- ▶ Tested the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

Conclusion: We are still concluding our work in this area and will provide an update at the Audit Committee meeting on 26th July

Pension Liability Valuation

The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by London Borough of Hillingdon Pension Fund.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £525 m.

The information disclosed is based on the IAS 19 report issued by the actuary to the London Borough of Hillingdon. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

We have:

- ▶ Liaised with the auditors of London Borough of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Council's scheme members, this identified no issues with the information provided to the actuary;
- ▶ Assessed the work of the LGPS Pension Fund actuary (Hymans Robertson) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Conclusion: We are still concluding our work in this area and will provide an update at the Audit Committee meeting on 26th July

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.



Areas of Audit Focus



Accounting Standards Issued But Not Yet Adopted

The CIPFA Code confirms that application of IFRS 15 'Revenue from Contracts with Customers' does not apply to Local Government entities for 2017/18. It is expected that the standard will be applied for years commencing 1 January 2018 onwards which, for Local Government entities, is the financial year ended 31 March 2019.

The standard is not expected to have a significant impact on most Local Government clients as the majority of funding is drawn down from parliament; however any other income streams will need to be considered against the criteria in the standard.

Management have not yet formally completed an assessment of the impact of IFRS 15 at London Borough of Hillingdon.

We will work with management to understand the process for reporting under IFRS 15 once the reporting requirements for the sector are confirmed in the Department CIPFA Code Accounting Manual 2018/19.

Other standards which have been issued but not yet adopted include IFRS 9 and IFRS 16. These relate to Financial Instruments and Leases respectively. We will also liaise management in respect of these standards when they are required to be incorporated within the CIPFA Code of Practice on Local Council Accounting and will use our technical colleagues as necessary to support the finance team as necessary.



03 Audit Report



Audit Report

Draft audit report

Audit Opinion 2017/18

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2018 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;
- London Borough of Hillingdon Expenditure & Funding Analysis;
- Notes 1 to 47;
- London Borough of Hillingdon Housing Revenue Account Income and Expenditure Statement;
- The Movement on the Housing Revenue Account Statement and related notes 1 to 8; and
- The 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 Council Accounting in the United Kingdom 2017/18.

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 2018 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 Council Accounting in the United Kingdom 2017/18.

Basis for opinion

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

We are independent of the London Borough of Hillingdon in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to Going Concern

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

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



Audit Report

Audit Opinion 2017/18

Our opinion on the financial statements

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

Other information

The other information comprises the information included in the Narrative Report on pages 4-11 other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, 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 2018.

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



Audit Report

Audit Opinion 2017/18

Our opinion on the financial statements

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 12, 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 Council Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Corporate Director of Finance is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK)

will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, 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 2018.

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.



Audit Report

Audit Opinion 2017/18

Our opinion on the financial statements

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council 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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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.

Use of our report

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.

Maria Grindley (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Reading

26th July 2018

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

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

Summary of adjusted differences

Adjusted Differences:

We highlight adjusted differences greater than £11.063 m which have been corrected by management that were identified during the course of our audit.

There currently are no adjustments greater than this threshold which need reporting.

Unadjusted Differences:

We highlight unadjusted differences greater than £0.738 m which have not been corrected by management that were identified during the course of our audit. There currently are no uncorrected differences greater than this threshold which need reporting.

Page 34

As we are still concluding our work in a number of areas it is still possible that further audit differences will be identified. We will provide an update at the Audit Committee meeting on 26th July on the status of our audit and also any differences which we need to report to you.



05

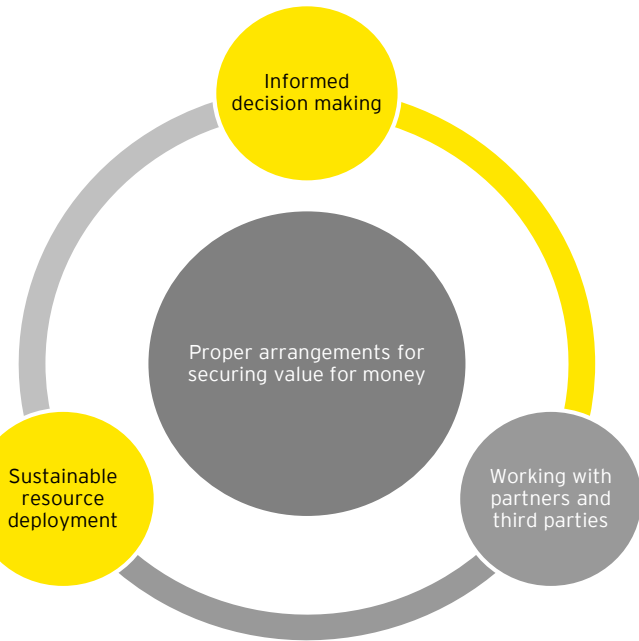
Value for Money Risks





Value for Money

Page 36



Background

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

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

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

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.



06 Other reporting issues



Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 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.

We are still in the process of confirming the consistency of the Financial information in the Statement of Accounts 2017/18 and published with the financial statements.

We have not yet reviewed the Annual Governance Statement.

We will provide a verbal update to the Audit Committee at the meeting on 26th July on the findings of our work in these areas.

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 Council 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 Council, 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.

Page 39

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 [Council]'s financial reporting process. They include the following:

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

We have nothing we need to report in respect of any of these items as at the date of this report. We will provide an update at the Audit Committee meeting on 26th July should we need to make the Committee aware of any of these other matters.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council 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 Council 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.



08 Data Analytics



Use of Data Analytics in the Audit

- ▶ Data analytics – supporting our work on revenue recognition and management override

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

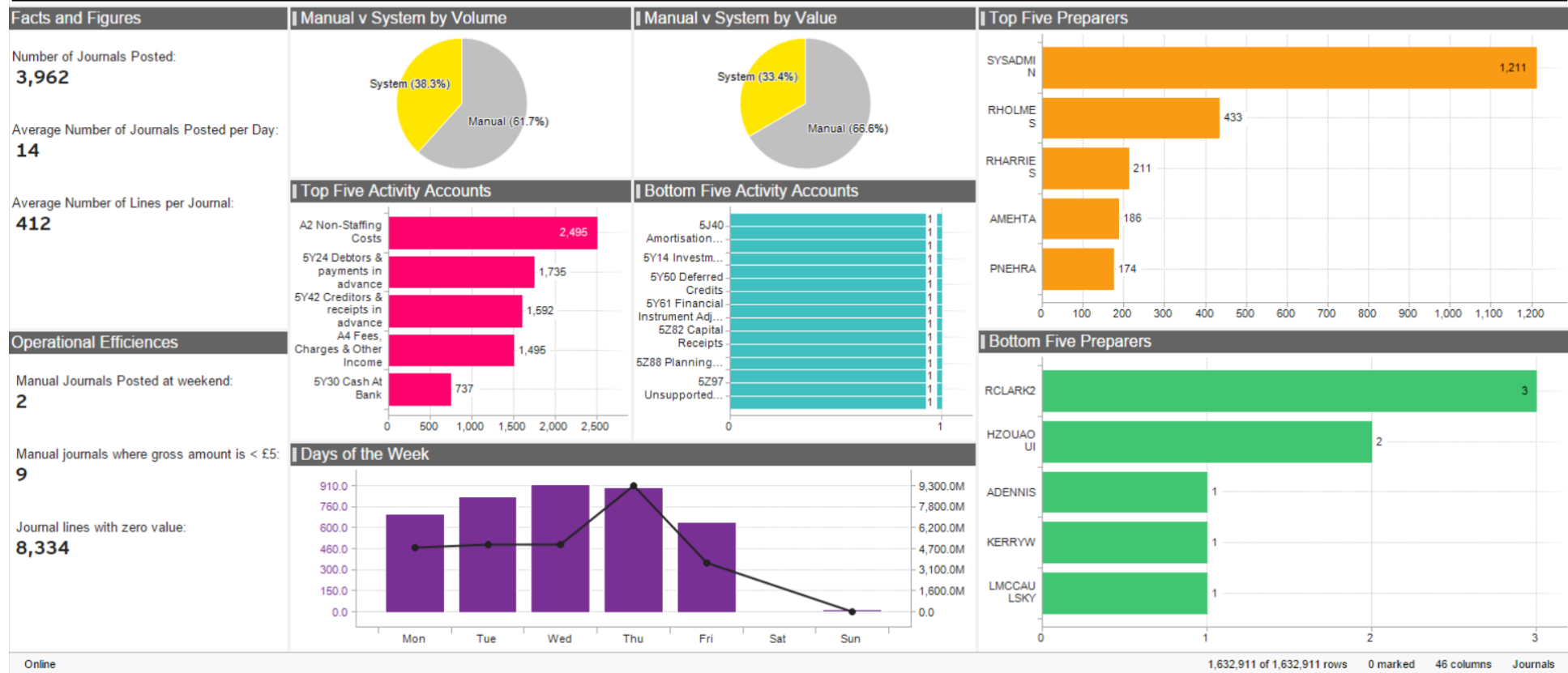


Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. We can also shared this information with management to provide additional insight and value from our audit procedures.

EY Helix - GLASS: Journal Entry Data Insights - London Borough of Hillingdon - YE - 31/03/2018





Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – London Borough of Hillingdon – 31 March 2018



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

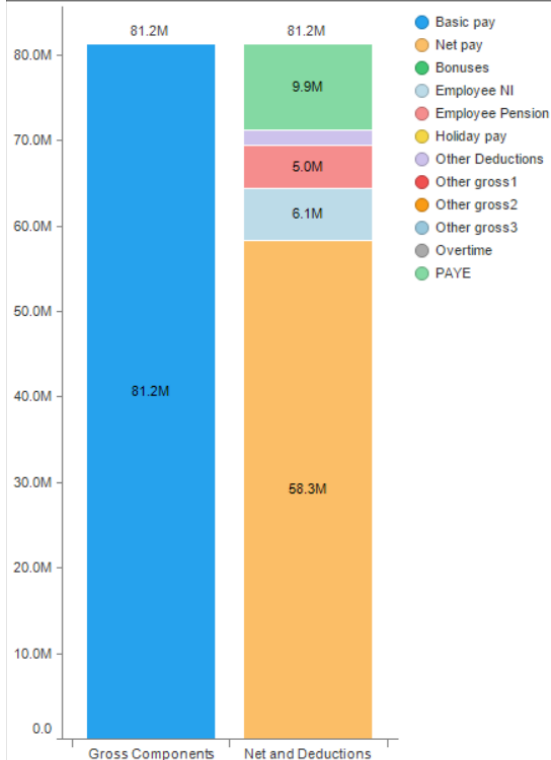


Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

EY Helix - Payroll Analyser: 1. Payroll Overview

1.1 Payroll Summary



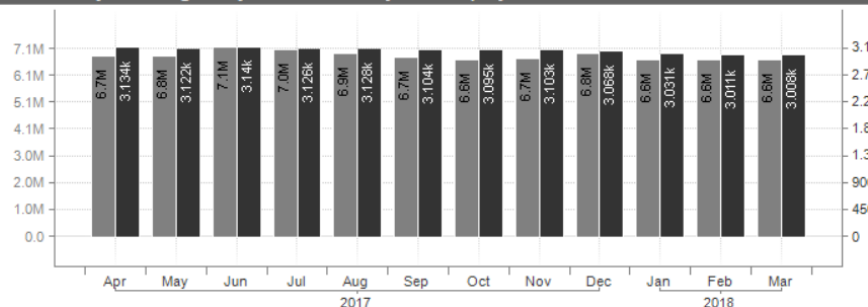
1.2 Transaction Summary

Column	Value	% of Gross
Basic Pay	81.2M	100.0%
Overtime	(Empty)	(Empty)
Holiday pay	(Empty)	(Empty)
Bonuses	(Empty)	(Empty)
Other gross1	(Empty)	(Empty)
Other gross2	(Empty)	(Empty)
Other gross3	(Empty)	(Empty)
Gross Pay	81.2M	100.0%
Net Pay	58.3M	71.8%
PAYE	9.9M	12.3%
Employee NI	6.1M	7.5%
Employer NI	7.7M	9.5%
Employee Pension	5.0M	6.2%
Employer Pension	15.9M	19.6%
Other	1.8M	2.2%

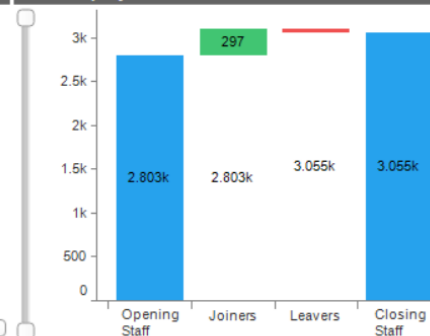
1.3 Data Insights

	Gross	#/%
Staff Turnover		1.45%
Employees not in Master File	6.3M	499
Employees not in Transactions	0.0	43
Payments after Leave Date	295.9k	31
Payments before Join Date	161.9	1
Largest Gross Payment	119.6k	
Average Gross Payment	2.2k	
Smallest Gross Payment	-4.2k	
Employee(s) under minimum wage		N/A
Highest Paid Employee : Median Employee		21.43

1.4 Monthly Trending Analysis of Gross Pay and Employee Count



1.5 Employee Movement



Online

684 of 684 rows 0 marked 5 columns Employee Flow



Payroll Testing

What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

Payroll Data – London Borough of Hillingdon – 31 March 2018



What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of anomalies for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



10

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in [our audit planning board report dated 11th April 2018.

We complied with the FRC 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 26th July 2018.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 2017-18 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included above.

We confirm that none of the services listed below has been provided on a contingent fee basis.

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

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31st March 2018.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements. This work involved the certification of two claims and returns. These were the certification of the Housing Capital Receipts Return and also the Teacher's Pensions certification. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in November 2017.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	TBC*	157,268	157,268	158,712
Certification of Housing Capital Receipts and Teacher's Pensions	TBC	TBC	N/A	15,000
Total non-audit services	TBC*	173,268	157,268	173,712

Page 50

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The London Borough of Hillingdon has an effective control environment.

TBC We completed the certification of these 2 claims and returns in 2016/17. We will communicate with senior officers in due course about the arrangements for completing the 2017/18 claims and returns

TBC* We will communicate our final fee at the end of the audit. We will discuss any adjustment to the scale fee with senior officers and provide an update as part of our communications at the end of the audit.



11

Appendices

Audit approach update

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




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

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

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all relevant assertions	We tested controls over Trade Receivables	In line with the Faster Close arrangements in effect for 2017/18 we changed our audit strategy from a controls reliance one to a substantive approach
Trade payables	Substantively tested all relevant assertions	We tested controls over Trade Payables	As Above
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Appendix B

Summary of communications




Date 	Nature 	Summary 
28 th November 2017	Meeting	The Audit Manager and team leader met with the Head of Pensions, Treasury and Financial Reporting and the Chief Accountant to discuss the 2017/18 audit. This meeting also touched on the 2016/17 audit process.
13 th December 2017	Meeting	The Engagement Partner and Audit Manager for the engagement met with management to discuss the timings of the audit and the key matters impacting the Council
23 rd January & 15 th February 2018	Meeting	The Audit Manager and team leader met with the Head of Business Assurance and Counter-Fraud for an update meeting on these dates. Also present at that meeting was the Senior Internal Audit Manager and the Counter-Fraud Manager.
2 nd March 2018	Report	The Audit Planning Report, including confirmation of independence, was issued to the Audit Committee.
11 th April 2018	Meeting	Manager for the engagement met with the Audit Committee and senior members of the management team to discuss the Audit Planning Report.
30th April 2018	Meeting	The Engagement Partner and Audit Manager for the engagement met with senior management including the Corporate Director of Finance to discuss the timings of the audit and the key matters impacting the Council
16 th July 2018	Report	The Audit Results Report, including confirmation of independence, was issued to the Audit Committee.
26 th July 2018	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit Committee and senior members of the management team to discuss the Audit Results Report.

Appendix C

Required communications with the Audit Committee

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





Page 54

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to the 11 th April Audit Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to the 11 th April Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report presented to the 26 th July Audit Committee

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
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 [insert client name]'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 ▶ Material misstatements corrected by management 	Audit results report presented to the 26 th July Audit Committee
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Committee meeting on the 26 th July
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report presented to the 26 th July Audit Committee

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council 	Audit results report presented to the 26 th July Audit Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report presented to the 11 th April Audit Committee; & Audit results report presented to the 26 th July Audit Committee

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report presented to the 26 th July Audit Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit planning report presented to the 11 th April Audit Committee; & Audit results report presented to the 26 th July Audit Committee




Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report presented to the 26 th July Audit Committee
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report presented to the 26 th July Audit Committee
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report presented to the 26 th July Audit Committee
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report presented to the 11 th April Audit Committee; & Audit results report presented to the 26 th July Audit Committee
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report to be completed in line with the certification deadline of 30 th November 2018

Appendix D

Outstanding matters

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

Item 	Actions to resolve 	Responsibility 
Income and expenditure testing	Completion of outstanding testing of I&E	EY and management
IAS 19 Pension Liability testing	Completion of testing of IAS 19 pension liability including agreement of figures as per financial statements to actuarial reports Receipt of IAS 19 Assurance Letter from auditor of London Borough of Hillingdon Pension Fund	EY and management
Investment Testing	Completion of Investment testing including receipt of third party investment confirmations	EY and management
Property, Plant and Equipment (PPE)	Completion of outstanding tests on PPE	EY and management
Journals Testing	Completion of testing of Debtor and Creditor Balances	EY and management
Payroll Testing	Completion of testing of significant payroll balances	EY and management
Annual Governance Statement and Narrative Statement Review	Completion of review of the AGS and also the Narrative Statement	EY and management
Whole of Government Accounts Review	Completion of procedures to satisfy the requirements of the WGA Group Instructions	EY and management
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Review of correspondence from a member of the public	Consider the points being raised against this years statements and make enquiries of the Council as appropriate	EY and management

Management representation letter

Management Rep Letter

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

Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Maria,

This letter of representations is provided in connection with your audit of the financial statements of London Borough of Hillingdon ("the Council") for the year ended 31st March 2018. 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 London Borough of Hillingdon as of 31st March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2017/18.

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.

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 Council Accounting in the United Kingdom 2017/18.
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 Council Accounting in the United Kingdom 2017/18. 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 Council Accounting in the United Kingdom 2017/18, 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

Management Rep Letter

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and audit committee held through the period to the most recent meetings on the following dates: the Council meeting and the audit committee meeting minutes held on 10th May 2018.
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.

Management representation letter

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 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.

D. Liabilities and Contingencies

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

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

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

E. 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.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement, the Narrative Report and the Statement of Accountable Officer's Responsibilities.

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

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

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.

H. Reserves

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

Management representation letter

Management Rep Letter

I. 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).

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:

Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities) none of which any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

J. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and the valuation of the IAS 19 pension actuarial liabilities 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 objectivity of the specialists.

of any matters that have had an effect on the independence or objectivity of the specialist.

K. Valuation of Property, Plant and Equipment and IAS 19 Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Council Accounting 2017/18.

2. We confirm that the significant assumptions used in making the property, plant and equipment and IAS 19 pension liability estimates appropriately reflect our intent and ability to carry out the 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 Council Accounting 2017/18.

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

Management representation letter

Management Rep Letter

L. 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 sincerely,

Paul Whaymand - Corporate Director of Finance

John Chesshire - Chairman of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED 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.

ey.com

This page is intentionally left blank

**London Borough of
Hillingdon Pension Fund
Audit results report**

Year ended 31 March 2018

9th July 2018

Page 67



Building a better
working world

9th July 2018



Members of the Audit Committee

Dear Audit Committee Members

Audit Results Report

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hillingdon Pension Fund for 2017/18.

We are in the process of completing our audit of Hillingdon Pension Fund for the year ended 31 March 2018.

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 31 July 2018.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Pensions Committee meeting on 18th July and also at the Audit Committee meeting on 26th July 2018.

A handwritten signature in black ink, appearing to read 'Maria Grindley', written in a cursive style.

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Other reporting issues

06 Assessment of Control Environment

07 Data Analytics

08 Independence

09 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 November 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 and Committee and management of London Borough of Hillingdon Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Hillingdon Pension Fund 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 and management of London Borough of Hillingdon Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 11th April 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- ▶ **Changes in materiality:** In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £19.1m, but that we would update this at year-end. This level of materiality has increased to £20.3m based on the increase in Net Assets in the draft financial statements. The threshold for reporting misstatements that have an effect on the primary statements (fund account and net asset statement) has also increased from £0.96m to £1.0m.
- ▶ **Changes in risks:** In our Audit Planning Report, we communicated our significant risk of management override. We also included three other areas of audit focus. These were the two inherent risks in relation to the change of an investment manager in year and also in the valuation of complex investments. In addition we also included the earlier deadline for production of the financial statements as an area of focus. Following receipt of the draft accounts and undertaking our work during the audit, the risks remain consistent with our initial assessment.

Status of the audit

We are in the process of completing our audit of London Borough of Hillingdon Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Pension Fund's financial statements in the form which appears at Section 3. In order to meet Committee paper deadlines we have drafted our report based on the work so far, we will update the Committee on these areas at your meeting, however until work is complete, further amendments may arise:

- Completion of the purchases and sales of investments testing;
- Completion of cash testing;
- Completion of the pooled investment vehicles testing;
- Completion of contributions and benefits payable testing;
- Completion of journals testing;
- Completion of IAS 19 Protocol Procedures;
- Completion of work on Significant Risks and Other Areas of Audit Focus.
- Disclosure note testing;
- Review of the final version of the financial statements;
- Review of the draft and final version of the Annual Report;
- Completion of subsequent events review;
- Receipt of the signed management representation letter;
- Clearance of pre-issuance technical review;
- Completion of estimates testing; and
- Completion of minute review;



Executive Summary

Audit differences

Unadjusted differences

There are no unadjusted differences arising from our audit to date.

Adjusted differences

We have identified a small number of adjustments in disclosures which have been adjusted by management. These all fall below the level at which we need to report them to you. However, until the audit is complete there is always the possibility that further errors could be identified.

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.

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 that is unknown to you.

We have adopted a fully substantive approach, so have not tested the operation of controls.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Management override

What is the risk?

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

Valuation of Complex Investments (Unquoted Investments)

The Fund's investments include unquoted investments such as private equity. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. Management may be able to influence these judgements and thus the valuation. This especially applies to the private equity portfolio managed in-house.

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or asset values, primarily:

- Material accounting estimates;
- Journal entries; and
- Unusual transactions.

What did we do?

In response to the risk, we:

- Asked management about risks of fraud and the controls in place to address those risks;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- For level 3 investments we agreed information to source reports and the financial statements of the individual funds.

What are our conclusions?

Our work on this risk is still not complete. We will provide an update at the Committee meeting.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Investment Manager Transition

We understand the significant changes to investment managers are:

- Transfer of the Newton Investment Manger Portfolio into the London Collective investment Vehicle to be managed by Epoch Investments

What did we do?

As part of our audit work we:

- Reviewed the audit trail of these movements and proceeds and verify significant transactions to external audit evidence;
- Obtained adequate assurance to support that the changes have been accounted for and disclosed as expected;
- Obtained and reviewed the Investment Manager contracts to understand the nature of the new investments, and any relevant audit risks; and
- Obtained sufficient evidence to support the investment valuation.

Our work on this area is still ongoing and we will provide an update at the Committee meeting.

Page 75
With any significant investment changes there is an audit risk that transactions may be omitted from the financial statements or not be reported fairly

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Complex Investments (Unquoted Investments)

The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments.

Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

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

The proportion of the fund comprising of these investment types in 2016/17 is at circa 12%, and as these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

What did we do?

In order to address this risk we:

- Assessed the competence of management experts;
- Reviewed the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of the valuation methods used;
- Where available, reviewed the latest audited accounts for the relevant fund managers and ensured there are no matters arising that highlight weaknesses in the funds valuation; and
- Performed analytical procedures and checking the valuation output for reasonableness against our own expectations.

Our work on this area is still ongoing and we will provide an update at the Committee meeting.

Other area of audit focus

What is the risk/area of focus?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial 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 accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Pension Fund now has less time to prepare the financial statements and supporting working papers. Risks to the Council include completing the IAS 19 assurance work we perform for auditors of admitted bodies.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

What did we do?

We

- ▶ Engaged early with the Pension Fund to facilitate early substantive testing where appropriate and lessen pressure at year-end;
- ▶ Provided an early review on the Pension Fund's streamlining of the Statement of Accounts where non-material disclosure notes are removed;
- ▶ Facilitated faster close workshops providing an interactive forum for Local Authority accountants and auditors to share good practice and ideas for a successful faster closure of accounts;
- ▶ Worked with the Pension Fund to implement EY Client Portal. This:
 - ▶ Streamlined our audit requests through reducing emails and improving communication;
 - ▶ Provided on-demand visibility into the status of audit requests and the overall audit status;
 - ▶ Reduced risk of duplicate requests; and
 - ▶ Provided better security for sensitive data.
- ▶ Agreed the team and timing of each element of our work with you; and
- ▶ Agreed the supporting working papers needed to complete the audit.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information .

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.



Audit Report

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.

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 12, 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Corporate Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
26th July 2018

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

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

Summary of adjusted differences

We highlight corrected misstatements greater than £15.3m that were identified during the course of our audit and have been corrected by management. We do not have any such misstatements to report as at the date of this report.

Some minor disclosure amendments have been made which do not need to be brought to the Committee’s attention.

We highlight uncorrected misstatements greater than £1.0 m that were identified during the course of our audit.

There are currently no uncorrected misstatements. However as the audit is still ongoing it is possible that further errors need to be reported and communicated to the Committee. We will provide an update at the Committee meeting.



05 Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the London Borough of Hillingdon Pension Fund Annual Report.

We have yet to undertake this review. We will provide an update at the Audit Committee.

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.

Page 84

Other matters

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

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

We have no matters to report at present. However as work is ongoing across a number of these areas it is still possible that findings may arise. We will provide an update at the Committee meeting.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to have 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 enough understanding of internal controls to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have 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.



07 Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of the Fund's financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Are more likely to identify errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those we deem to have the highest inherent audit risk.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing more effective identification and testing of journals that we consider to be higher risk, as identified in our audit planning report.



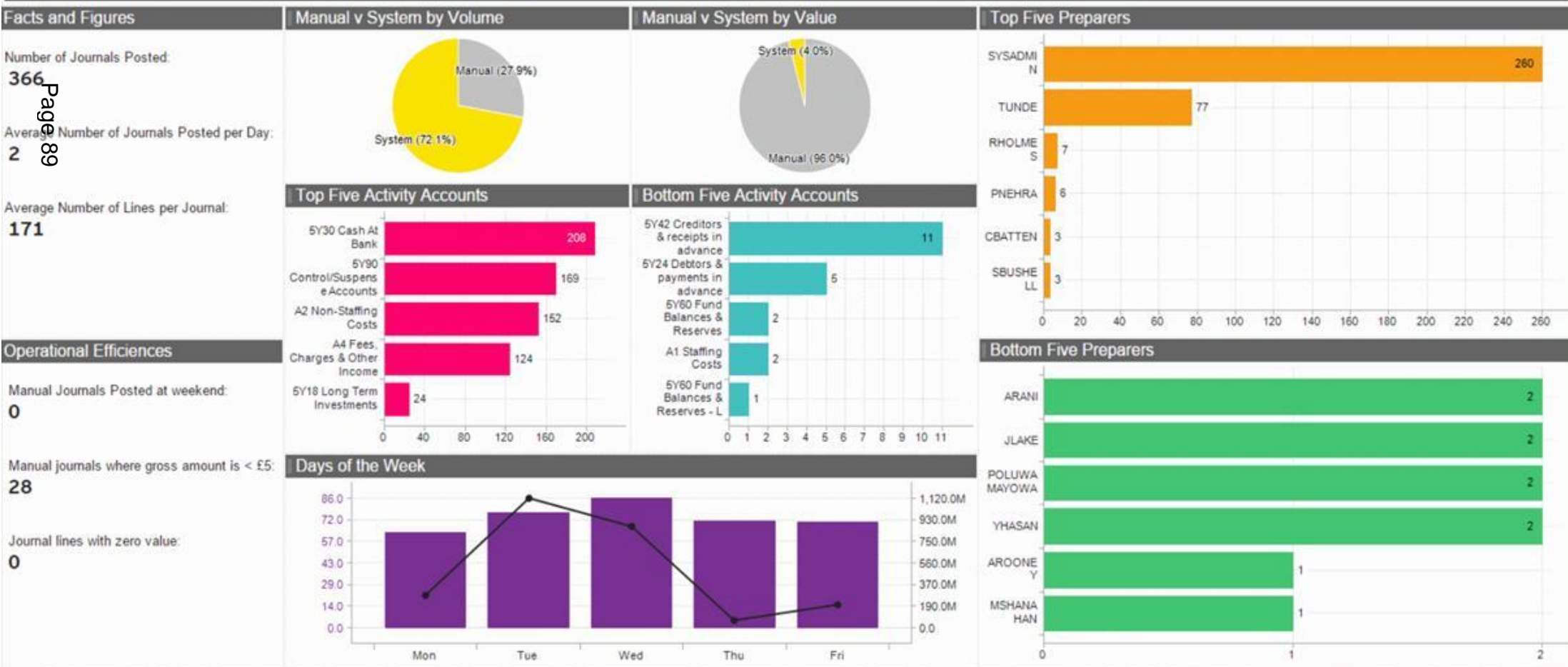
Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk-based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk-focused approach to auditing journal entries, minimising the burden of compliance on management by reducing randomly selected samples.

EY Helix - GLASS: Journal Entry Data Insights - 18 London Borough of Hillingdon Pension Fund - 31/03/2018





Journal Entry Testing

What is the risk?

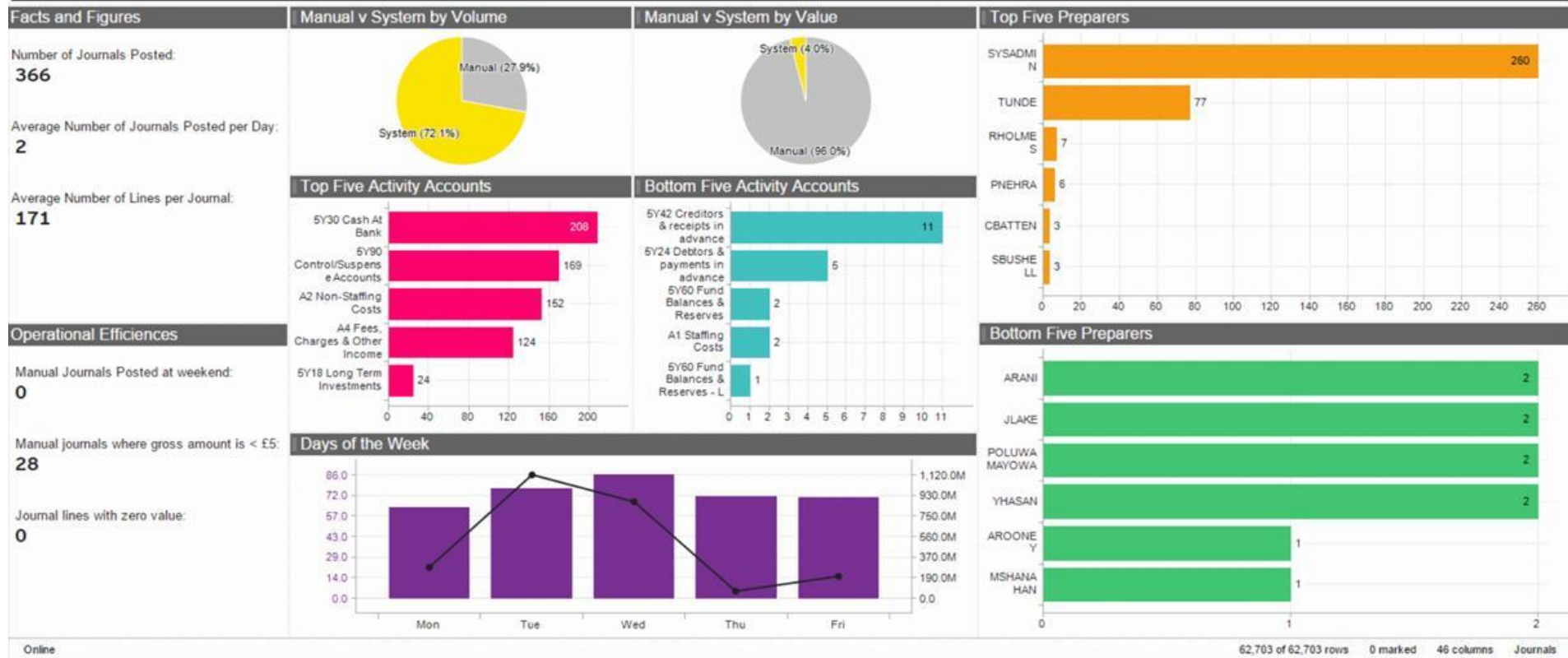
In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2018

EY Helix - GLASS: Journal Entry Data Insights - 18 London Borough of Hillingdon Pension Fund - 31/03/2018



What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



8

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 11th April 2018.

We complied with the FRC 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 and Governance 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 26th July 2018.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

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

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	TBC*	21,000	21,000	23,285
Total Fees	TBC*	21,000	21,000	23,285

Page 93

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

TBC*

We will communicate our final fee at the end of the audit. We will discuss any adjustment to the scale fee with senior officers and provide an update as part of our communications at the end of the audit.



9

Appendices

Appendix A

Audit approach update

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

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

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




Page 95

Net Assets Statement category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment Assets and Liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Current Assets (excluding cash)	Immaterial - substantively tested all relevant assertions	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Current Liabilities	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A




Appendix B

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to 11 th April 2018 Audit Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to 11 th April 2018 Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit planning report presented to 11 th April 2018 Audit Committee

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
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 	<p>Audit results report presented to 26th July 2018 Audit Committee</p> <p>No conditions or events were identified, either individually or together to raise any doubt about London Borough of Hillingdon's Pension Fund's ability to continue for the 12 months from the date of our report.</p>
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 ▶ Material misstatements corrected by management 	<p>Audit results report presented to 26th July 2018 Audit Committee</p>
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>Audit results report presented to 26th July 2018 Audit Committee</p>
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit results report presented to 26th July 2018 Audit Committee</p>

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when 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 regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit results report presented to 26th July 2018 Audit Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of 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 about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report presented to 11th April 2018 Audit Committee & Audit results report presented to 26 th July 2018 Audit Committee

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report presented to 26th July 2018 Audit Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results report presented to 26 th July 2018 Audit Committee We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report presented to 26 th July 2018 Audit Committee
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report presented to 26 th July 2018 Audit Committee
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report presented to 26 th July 2018 Audit Committee
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report presented to 11th April 2018 Audit Committee & Audit results report presented to 26 th July 2018 Audit Committee

Management representation letter

Management Rep Letter

To be prepared on the entity's letterhead

Date

Maria Grindley
Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Maria,

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Hillingdon Pension Fund ("the Fund") for the year ended 31st March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1st April 2017 to 31st March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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 2017/18 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.

Management representation letter

Management Rep Letter

B. Non Compliance with Laws and Regulations including Fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - Involving financial improprieties;
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;

Involving management, or employees who have significant roles in internal control, or others; or
In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held through the period to the most recent meeting of the Pensions Committee on 28th March 2018 and the Audit Committee on 11th April 2018.

Management representation letter

Management Rep Letter

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

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

7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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

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

D. Liabilities and Contingencies

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

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

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

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

E. Subsequent Events

1. As described in Note 23 to the London Borough of Hillingdon Pension Fund financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Hillingdon Pension Fund Annual Report 2017/18.

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

G. Independence

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

Management representation letter

Management Rep Letter

H. Derivative Financial Instruments

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

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

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

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

J. Actuarial Valuation

1. The latest report of the actuary Hymans Robertson as at 31st March 2018 and dated April 2018 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report

K. Use of the Work of a Specialist

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

L. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

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 2017/18.

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

Yours faithfully,

Paul Whaymand - Corporate Director of Finance

Councillor Philip Corthorne - Chairman of Pensions Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED 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.

ey.com

London Borough of Hillingdon

Statement of Accounts for the year to 31 March 2018

DRAFT



HILLINGDON
LONDON

www.hillingdon.gov.uk

London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2018

Contents	Page
Leader's Statement	2
Narrative Report	3
Statement of Responsibilities for the Statement of Accounts	11
Independent Auditor's Report to the Members of the London Borough of Hillingdon	12
Statement of Accounting Policies	16
<i>Main Financial Statements</i>	32
Restatement of 16/17 Published Accounts	33
Expenditure and Funding Analysis	34
Comprehensive Income and Expenditure Statement	36
Balance Sheet	37
Movement in Reserves Statement	38
Cash Flow Statement	40
Notes to Main Financial Statements	41
<i>Other Financial Statements</i>	97
Housing Revenue Account and Notes	98
Collection Fund Account and Notes	102
Pension Fund Account and Notes	105
Annual Governance Statement	129
Glossary	137

Leader's Statement

1. Leader's Statement

Introduction by Councillor Ray Puddifoot, Leader of the Council

Welcome to Hillingdon Council's Statement of Accounts for 2017/18, which shows the council's financial performance in delivering high quality services to residents during the year and outlines the council's financial standing at 31 March 2018.

Sound Financial Management is at the heart of the Council's flagship Hillingdon Improvement Programme, delivering an ambitious improvement agenda and continuing to put residents first. Council Tax was frozen for a ninth successive year for all residents in 2017/18, with those over 65 having seen bills frozen for eleven years while frontline services have been maintained despite declining government funding and increasing demand for services from a growing population.

Key achievements from the last financial year include:

- Continuing to provide preferential parking rates for local residents through the Hillingdon First card;
- Maintaining a free Telecareline service for residents aged 80 and, which has now been extended to those aged 75 and over;
- Investment in the borough's environmental and community assets, including the recently opened modular workshop at the Ruislip Lido railway and Pirate Ship on the same site, while the Chrysalis programme continues to fund improvements across the borough;
- Securing a record breaking 47 Green Flags for our outstanding parks and open spaces, and opening the new Sir Hugh Dowding Park on Uxbridge's St Andrew's Park;
- Maintaining a network of 17 libraries across the borough, with a programme of investment commencing in the new year to ensure these facilities continue to meet residents' needs;
- Continuing investment in local bowls clubs, with a broader refresh of leisure centres across the borough planned for the new year;
- Substantial investment in roads and footpaths, alongside the on-going project to upgrade all 10,000 street lights in the borough which remains on track to complete over the summer;
- Opening of the new Battle of Britain Education and Visitors' Centre on the former RAF Uxbridge site;
- Delivering a school place for every child in the borough through our extensive School expansion programme, including providing 1,350 secondary places at the newly refurbished Oakwood School with more in the pipeline at other sites;
- Continued investment in housing, with schemes such as the 21 affordable rent and 20 shared ownership units at Packet Boat Lane and major Extra Care developments at Park View and Grassy Meadow meeting the diverse needs of our residents.

In addition to freezing Council Tax for all residents and maintaining frontline services through challenging circumstances, Hillingdon has consistently delivered planned efficiency savings and come in below budget for the year while building unallocated balances in excess of £40m. These are clear indicators of a financially resilient Council, well placed to manage the continuing budgetary challenges through 2018/19 and beyond – with Council Tax once again frozen for a tenth year for all residents and twelve for those over 65.

Cllr Ray Puddifoot

Leader of the Council

Narrative Report

This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31 March 2018. 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 137 to assist the understanding of the financial statements.

2.1 Organisational overview and external environment

Hillingdon, situated on the western edge of Greater London, is the second largest London borough, covering a total area of about 42 square miles. It is just 14 miles from central London and bounded by the counties of Buckinghamshire, Hertfordshire and Surrey and the London Boroughs of Hounslow, Ealing and Harrow. Hillingdon is home to Heathrow, one of the world's busiest airports which caters for more than 60 million passengers a year. The borough has 8 leisure centres and 2 pools, 17 libraries, 2 theatres and over 170 green spaces including Ruislip Woods, the Nature Reserve and Lido.

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

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

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

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

The Council employs approximately 2,700 staff, 3,050 inclusive of casual staff and has a population of 273,936 according to the 2011 Census. There is a growing proportion of young people, particularly of school age children. Around 39.4% of the borough's residents are from ethnic minority groups (mainly Indian, Pakistani, other Asian and Black Caribbean).

Hillingdon is rich in wildlife and wildlife habitat including waterways, lakes, meadows and nature reserves. Ruislip Woods have been designated London's first National Nature Reserve, while nearby Ruislip Lido boasts 40 acres of water. The borough also offers a host of sporting activities, including sports centres, many with newly refurbished gyms and 4 exceptional 18-hole golf courses, including a championship standard course at Stockley Park. The arts and entertainment thrive, with The Beck professional theatre in Hayes, The Compass Theatre in Ickenham, and various other venues.

Narrative Report

2.2 Financial Performance

General Fund

The financial challenges facing the Council due to the Government's austerity programme and the wider economic environment continued through 2017/18 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, 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.

The Council's net revenue budget for 2017/18 totalled £216m, 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 an ambitious BID Transformation Programme, delivered an improved position against budget at outturn.

General Fund revenue budgets reported an underspend of £2.5m against planned expenditure budgets, with underspends against both Directorate and Corporate Operating Budgets being off-set by a pressure on Development and Risk Contingency. As a result of this underspend, General Fund Balances total £40.3m at year-end, an increase of £1.6m from the opening 2017/18 position. £14.9m of the planned £15.5m 2017/18 savings were banked in full with the rest on track to be delivered. Underspends have resulted from staffing vacancies, releasing provisions no longer required and investment savings from deferred borrowing on the capital programme.

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

General Fund Services	Revised Budget £000's	Outturn £000's	Outturn Variance £000's
Chief Executives Office	6,681	6,659	(22)
Finance	14,126	13,655	(471)
Residents Services	73,458	72,851	(607)
Social Care	113,481	112,639	(842)
Directorate Operating Budgets	207,746	205,804	(1,942)
Corporate Operating Budgets	4,235	3,785	(450)
Development & Risk Contingency	8,060	8,157	97
Priority Growth	454	220	(234)
Unallocated Budget	300	300	0
Exceptional Items	(4,054)	(4,054)	0
Total Net Expenditure	216,741	214,212	(2,529)
Budget Requirement	(215,795)	(215,795)	0
Net Total	946	(1,583)	(2,529)

Details on how the General Fund outturn position for management decision-making links through to the Comprehensive Income and Expenditure Statement (CIES) surplus for the year, in accordance with accounting standards, can be seen in the Expenditure and Funding Analysis (EFA) note which precedes the CIES on page 34.

Narrative Report

The table below provides a reconciliation between the General Fund overview shown in the Council Budget Revenue Outturn above and the opening position reported in the Expenditure & Funding Analysis (EFA) as required by the CIPFA Code. The monthly budget monitoring reports separately on areas of different funding streams such as General Balances, Housing Revenue Account and other reserve moments. The starting position on the EFA is shown below to provide a base for producing the accounts to pull together the directorate income and expenditure from both the Directorate Operating budget and the Contingency funds applied to the individual directorates. Both views of directorate expenditure are in the detail provided to Cabinet for the outturn position.

	Outturn 2017/18	Service Allocation and Rounding	EFA - Total Net Expenditure Charged to GF Balances
General Fund Services	£000's	£000's	£000's
Chief Executives Office	6,659	374	7,033
Finance	13,655	290	13,945
Residents Services	72,851	2,580	75,431
Social Care	112,639	4,888	117,527
Directorate Operating Budgets	205,804		
Corporate Operating Budgets	3,785	300	4,085
Development & Risk Contingency	8,157	(8,157)	0
Priority Growth	220	20	240
Unallocated Budget	300	(300)	0
Exceptional Items	(4,054)	4,054	0
Budget Requirement	(215,795)	(4,051)	(219,846)
Total	(1,583)	(2)	(1,585)

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

The Council planned to drawdown £5m from general balances in 2017/18, however as a result of a government announcement in March 2017 the Council received supplementary funding to the Improved Better Care Fund to support stabilising the Social Care provider market; this can be seen as the exceptional item in the above table reflecting the reported outturn position. As a result of this funding the planned drawdown on reserves was reduced to £946k.

A result of increased flexibility over use of Capital receipts the Council was able to finance the costs associated with service transformation from Capital Receipts, with both one-off implementation costs and the support for service transformation, including the BID team, being funded from this resource. £4.3m of costs were funded from Capital Receipts during 2017/18 and have therefore been excluded from group monitoring positions.

Housing Revenue Account

The Housing Revenue Account (HRA) delivered an in-year overall deficit of £8.7m against the budgeted deficit of £11.7m. As a result, HRA General Balances total £37.1m at 31 March 2018, with a significant element of this sum earmarked to support investment in new housing stock.

There have been 64 Right-to-Buy sales of Council dwellings as at the end of March 2018 (99 in 2016/17) 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 reducing the net loss in the Comprehensive Income and Expenditure Statement. Sufficient expenditure was incurred on the acquisition of new properties and internal development during 2017/18 to avoid repayment of Right-to-Buy Receipts to MHCLG, with the approved 2018/19 capital programme developed to similarly avoid any repayment of retained receipts.

Narrative Report

Capital Investment

The Council's programme of capital investment for 2017/18 totalled £92.7m (£81.2m in 2016/17) 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 37 to the accounts).

An underspend of £21m is reported against the 2017/18 General Fund Capital Programme, predominantly as a result of re-phasing of project expenditure.

Investment during 2017/18 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 street lighting and roads 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 and back to 0.5% in November 2017. 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 0.42% (0.57% 2016/17), resulting in total investment income this year of £442k.

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 3.39%. The portfolio was reduced by £17.3m with debt that matured naturally. Outstanding nominal borrowing at year-end was of £250.1m. The total interest paid over the year totalled £8.7m.

2.3 Non Financial Performance

During 2017/18 major works were completed resulting in the opening of the new Battle of Britain Bunker Exhibition and Visitor Centre in March 2018. The bunker is a historic landmark of national significance and played a crucial role in the air defence of the United Kingdom throughout World War Two. It was vital in directing RAF operations throughout the war and was visited by both Winston Churchill and King George VI in 1940. The visitor and exhibition centre are fitted out with two new replica World War Two aircraft; Hawker Hurricane and a Supermarine Spitfire. There is also an exhibit of a precious collection of Royal Air Force (RAF) artefacts belonging to Battle of Britain flying ace Wing Commander Ronald Gustave Kellest who was stationed at RAF Northolt in 1940 during the Battle of Britain. Within the collection are medals awarded for distinguished acts of valour and courage such as the Distinguished Flying Cross (DFC) as well as flying logbooks. A number of items are displayed for residents to view while other items will be preserved for researchers and historians to view to represent the historical importance and to protect these artefacts for generations to come.

The Council prides itself on its vision of "Putting Our Residents First" and has been investing in facilities to improve the quality of life for our residents throughout the year. A state of the art bowling clubhouse has been delivered for Ruislip bowls club and Mill Bowling club at the Manor Farm site which opened in March 2018. The former pavilion which was more than 40 years old was no longer fit for purpose and has been revitalised providing a clubhouse twice the size with indoors facilities. This new modernised club enables members to play all year round and provides improved facilities for changing and storage, as well as transforming this as an accessible space for wheelchair users.

In 2017/18 the Council were awarded 5 new Green flags. As a result for the fifth year running, Hillingdon was awarded more Green Flags (47) than any other local authority in the UK. In addition, the Council won a second prestigious Gold award in the 2017 Royal Horticultural Society (RHS) Britain in Bloom and for the first time won the large city category, celebrating horticultural achievement, community participation and environmental responsibility.

Within the Borough the Council owns 11 high-rise blocks as part of the social housing stock. All of the high rise blocks have been tested in response to the Grenfell disaster and none were found to have Aluminium Composite Material (ACM) panels fitted. However, during the testing four blocks were identified to have brick cladding containing cavity insulation; in consultation with the Fire Service and Fire Safety engineering consultants, works have been undertaken to encapsulate this insulation, including all necessary fire breaks. This work was completed in March 2018.

Narrative Report

In addition, as part of a planned programme to upgrade all fire doors, all high rise blocks have received new fully certified fire doors installed to dwelling entrance doors and communal doors which had been identified by the relevant Fire Risk Assessments (FRAs). Emergency communal lighting systems have been replaced in all high rise blocks. Sheltered housing schemes have also had upgraded fire safety door, emergency lighting systems and fire alarms replaced. All other medium and low rise blocks have been assessed and planned fire door and emergency lighting replacement programmes have been developed and are scheduled to commence in 2018/19 under the Works to Stock capital programme.

To help provide for stringent plans to respond to risks and minimise damage in the event of an emergency, the Council have expanded its team of Emergency response officers to provide emergency cover 24 hours a day. This is just one part of the Emergency Planning Unit, which is trained to respond to a range of major incidents, such as terrorism, pandemic disease, fire, adverse weather conditions and environmental damage.

A new park was officially opened in Uxbridge in March 2018 named as Dowding Park in recognition of Air Chief Marshal Sir Hugh Dowding, an RAF officer who developed the UK's air defence system and picked RAF Uxbridge as the site for the top secret Battle of Britain Bunker. The new park incorporates 40 acres of rural and recreational parkland, leisure facilities such as a football pitch and playground. The park also has woodland trails and pathways, and part of the Celandine Route passes through it.

The Council has taken on a number of new apprentices in 2017/18 to develop keen individuals in gaining essential vocational skills and qualifications in areas such as business administration, building control, finance, HR, Horticulture, legal and social care. This coincides with the introduction of the governments new apprenticeship levy to provide investment in standards of vocational and educational skills and enables individuals to gain invaluable experience and training, working alongside colleagues in a team environment while also completing an assessed apprenticeship development programme

The Councils New Years Green Lane civic amenity site was shortlisted in the Awards for Excellence in Recycling and Waste Management in 2017. The site was nominated for the award to recognise that the Council had achieved an impressive transformation of services, with a modern split level site enabling a greater level of recycling.

2.4 Risks and Opportunities

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

Strong finance management and commitment to putting our residents first are at the core of the HIP programme and underpins all projects. Our Business Improvement Delivery (BID) programme aims to deliver services that residents value, and identify and improve the way the Council works. Projects include Technology Innovation and Communications to ensure excellent customer services is provided through the Contact Centre and services delivered by the Council. There is continued support of the Hillingdon First card which enables residents to get discounts in participating shops, use as active library card, reduced parking charges, free waste disposal at the New Years Green Lane civic amenity site and discounts at leisure centres.

Within Health the Council has integrated commissioning of community-based services especially in delivering the Better Care Fund for Hillingdon ensuring an effective Healthwatch Hillingdon and NHS complaints advocacy service. The Council has also improved relationship building with GPs. The potential impacts of NHS reform on the Council and residents are considerable. The Council must ensure it responds to the changing environment, minimises the financial risk involved, and put our residents first by improving and joining up health and social care provision.

The Council is focused on the Environment and has introduced a number of projects to bring nature and the environment to the forefront of Council activity with a focused work stream in this area; the new Dowding Park and horticultural achievements being some headline achievements. The Council has also carried out an enhancement project at Ruislip Lido where improvements completed include improved car parking and catering facilities, an extended beach area, new dog beach, outdoor gym, fishing platforms, new perimeter fencing, a new bird feeding area and enhancements to The Ruislip Lido Railway Society's narrow gauge railway.

The Council incorporates development and risk contingency into its budget to provide for areas of expenditure where there is a greater degree of uncertainty and subject to demographic pressures. In 2017/18 the Council utilised this budget resource for asylum services, demographic pressures in relation to adults and children as well as SEN

Narrative Report

(Special Educational Needs) transport. The Council has provided for a headline provision of £8.9m development and risk contingency in 2018/19.

2.5 Looking Ahead

The Councils 2018/19 budget has been developed to support a tenth successive Council tax freeze for all residents and a twelfth year for the over 65s whilst avoiding to implement the Social Care precept and maintain frontline services including weekly waste collection, burglar alarms for older people, support for first time buyers and a comprehensive library service. This is alongside the challenges faced as a result of government funding cuts to local government estimated at 13% in 2018/19 alone as well as a growing population increasing the demand on services. The key driver to responding to the challenges faced by the Council is to continue to "put our residents first".

Groups across the Council are continually reviewing and developing savings proposals to meet the budget gap, resulting from service demand pressures and reduced funding from government. The total resources available to the Council to support the 2018/19 budget requirement are projected to fall because of falls in central government grant, high inflation and pay award. However, this is partially offset by growth in Council tax and Business rates base and additional income from a 100% retention pilot of business rates within London which will reduce the planned drawdown on balances for the financial year.

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.

Looking forward the Council are well underway in a number of housing development schemes including the creation of extra care homes due to open July 2018 providing 88 modern flats in a woodland setting with communal facilities for residents such as shops, restaurant, cafe and salon. With a further 60 extra flats planned for opening in September 2018 again with facilities for the residents and gardens.

In April 2018 a new wholly owned commercial housing development company called Hillingdon First Limited has been established to build extra housing in the borough and generate a long-term revenue income stream for the Council acting as a commercial trading company to build housing to sell and rent at market values. As sole shareholder of the company the Council retains control of the company and as a result the Council will consolidate the company into a set of group accounts in the Council's Financial Statements in future years.

2.6 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 £33.4m (£12.7m deficit 2016/17) on the provision of services for 2017/18. Of this a deficit of £41.7m relates to the General Fund Balance and a surplus of £9.2m relates to the Housing Revenue Account. Additional reserve movements include a drawdown of £4.4m on Schools Balances and a transfer of £3.6m 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.

Narrative Report

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 decreased by £15m from £183.2m in 2016/17 to £168.2m in 2017/18. Within this movement there was a small increase in general balances of £1.6m however the biggest movements were seen with an £8.7m decrease in House Revenue Account balances and a £4.7m decrease in the Major Repairs Reserve as a result of the Capital programme in the HRA.

Unusable reserves increased from £547.1m in 2016/17 to £570.9m in 2017/18 mainly due to 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 2017/18 were £43.3m within the General Fund adjusting the General Fund position for Council tax purposes to a surplus of £1.6m.

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 2017/18 was £739.1m (£730.3m in 2016/17). The largest items within the Balance Sheet consist of long term assets valued at £1,502.1m, net pension liabilities of £524.5m and long-term borrowing of £229.6m.

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 2018 the Council has £40.3m General Fund balances and £34.1m 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 an increase in cash and cash equivalents in 2017/18 of £12.8m although the short-term investments fell by £13.5m reflecting the change in balances held at year-end being more liquid in instant access facilities rather than short-term investments.

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 2017/18 on HRA services of £9.2m (£29.6m in 2016/17).

Narrative Report

Statement of Movement on the Housing Revenue Account Balance

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

Overall the HRA deficit was £8.7m in 2017/18, after adjustments made in the Statement of Movement on the HRA Balance (surplus of £11.9m 2016/17).

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 £850k is reported on Council Tax, with a carried-forward surplus of £4m available for release to preceptors from 2018/19.

An in-year deficit of £7m is reported on Business Rates this deficit is in part due to additional reliefs to be funded from government of £2m and a timing delay on a number anticipated new developments coming online. 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 Council core accounting statements.

This document also includes the following:

Notes to the Accounts

The notes provide further explanation of figures contained in the core and supplementary accounting statements. The notes to the accounts include the Expenditure Funding Analysis which precedes the core financial statements on page 34 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.

Statement of Responsibilities for the Statement of Accounts

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

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 2017/18 ('the Code').

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

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

The Corporate Director of Finance has also:

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

Corporate Director of Finance Approval of Accounts

I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31 March 2018 and its income and expenditure for the year then ended.

Paul Whaymand
Corporate Director of Finance
31 May 2018

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 {DATE}

Signed on behalf of London Borough of Hillingdon
AUDIT COMMITTEE
{DATE}

Independent Auditor's Report

**PAGE LEFT INTENTIONALLY BLANK
FOR AUDITOR'S REPORT**

Independent Auditor's Report

**PAGE LEFT INTENTIONALLY BLANK
FOR AUDITOR'S REPORT**

Independent Auditor's Report

**PAGE LEFT INTENTIONALLY BLANK
FOR AUDITOR'S REPORT**

Independent Auditor's Report

**PAGE LEFT INTENTIONALLY BLANK
FOR AUDITOR'S REPORT**

Statement of Accounting Policies

The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2017/18 financial year and its position as at the year-end of 31 March 2018. 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 2017/18 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

Statement of Accounting Policies

years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains (exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a revaluation loss previously charged to a service).

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

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

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

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

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

Impairment / Revaluation Loss

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

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

Depreciation

Depreciation is provided in the accounts in accordance with the International Accounting Standard (IAS) 16 and CIPFA guidelines. IAS 16 states that depreciation is to be provided on all Plant, Property and Equipment, other than for assets without a determinable finite useful life (i.e. freehold land, certain Community Assets and certain heritage assets) and assets that are not yet available for use (i.e. Assets Under Construction). The depreciation policy is that:

Depreciation is calculated on a straight line method and is based on the following useful lives or approach unless specific information exists for an asset:

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

Statement of Accounting Policies

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. Depreciation is not charged on assets classified as held for sale.

Disposals

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

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

When an asset is disposed or decommissioned, any loss or profit on disposal is recognised on the face of the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

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

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

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

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

Grants and contributions: Where grants and contributions are received that are identifiable for spend on 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.

Statement of Accounting Policies

2. Heritage Assets

The Council owns a number of heritage assets across the borough including the new visitor and exhibition centre at the Battle of Britain museum site. The primary objective of holding these assets is for increasing the knowledge understanding and appreciation of the local history within the borough.

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

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

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

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Councils general policies on impairment - see accounting policy note 1.

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

Statement of Accounting Policies

- Amortisation of intangible non-current assets attributable to the service.

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

5. Revenue Expenditure Funded from Capital under Statute

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

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

6. Investment Properties

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

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

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

7. Leases

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

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

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

The Council as Lessee

Finance Leases

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

Statement of Accounting Policies

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Net Loss on Disposal of non-current assets line in the Comprehensive Income and Expenditure Statement. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

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

Statement of Accounting Policies

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 2018 or 31 March 2017.

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. These 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.

Statement of Accounting Policies

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 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

Statement of Accounting Policies

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

Statement of Accounting Policies

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.

Statement of Accounting Policies

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 Council as if they were the transactions, cash flows and balances of the Council. The non-current assets of Voluntary aided schools owned by faith organisations are found not to be controlled by the Council and as such the assets are not held within the Councils balance sheet under Property, Plant and Equipment.

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

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

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.

Statement of Accounting Policies

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

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund and/or HRA Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council.

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

Statement of Accounting Policies

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

Statement of Accounting Policies

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

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Net Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is 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 the Council will consider the most prudent method of providing for debt repayment. The HRA makes a form of MRP to pay down its self-financing settlement debt over the 30 year business cycle on which the settlement is based as a provision for repayment of debt.

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:

Statement of Accounting Policies

- 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 2018 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. Assets are subject to a 5 year rolling valuation and assumptions are made by the specialist valuer regarding market indicators and other data available to assess an asset's value.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £2.5m for every year that useful lives had reduced. 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 £14.9m.
Provisions	Provisions are defined as probable future liabilities based on past events and there are therefore inherent uncertainties related to provisions that have been made and the amounts set aside.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.
Arrears	Provisions have been made for debt owed to the Council for which payment may not be received. The Council reviews its basis for calculating doubtful debts making the current levels appropriate. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient.	Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement.

Statement of Accounting Policies

Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts. Sensitivity analysis is represented in note 47 to the accounts on page 95.
--------------------	--	---

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 Council 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 Council is recognised and reported in the costs of the Council'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 Council discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2018 for 2017/18). Disclosure requirements are expected to be included in a subsequent edition of the Code.

Changes in the 2018/19 Code of practice that will be introduced in future versions of the accounts include -

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers including amendments
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses amendments
- IAS 7 Statement of Cash Flows: Disclosure Initiative amendments

IFRS 9 Financial Instruments - The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets. The Council does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis. To this end, on 1st April 2018 the Council irrevocably elected to present changes in the fair value of the following equity investments in other comprehensive income as permitted by the IFRS:

- Columbia Threadneedle Strategic Bond Fund
- M&G Optimal Income Fund
- Investec Diversified Income Fund

The Council does not expect the impairment changes to have a material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets and it already makes a provision for doubtful debts on its service assets.

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 2016/17 Published Accounts (page 33)

This note provides an overview of changes to the Financial Statements from the published Statement of Account in 2016/17 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 34)

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

Comprehensive Income and Expenditure Statement (page 36)

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 37)

This sets out the assets and liabilities of the Council as at 31 March 2018, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 38)

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

Cash Flow Statement (page 40)

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

Supporting notes to the Accounts (page 41)

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

Restatement of 2016/17 Published Accounts

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

Since the production of the 2016/17 Statement of Accounts the Council structure has altered with certain service departments now reporting to different directorates and the alteration of directorate names. As such the statement below shows the movement of funding used to provide services relating to the General Fund, from the originally published 2016/17 Statement of Accounts to the new Council structure.

The restatement is required to align the comparator cost of service to the management structure as at 31 March 2018, for the opening EFA position on page 34. The EFA then shows how these figures feed through to the Comprehensive Income and Expenditure Statement and subsequent EFA notes.

Council Structure as per 2016/17 Statement of Accounts	EFA - Total Net Expenditure Charged to GF & HRA Balances £000's	Restated as per Council Structures 31 March 2018	EFA - Total Net Expenditure Charged to GF & HRA Balances £000's
Administration	9,015	Chief Executive's Office	6,435
Finance	12,901	Finance	13,732
Residents Services	57,749	Residents Services	82,787
Social Care	113,426	Social Care	117,677
Corporate Operating Budgets	3,069	Corporate Operating Budgets	3,069
Priority Growth	400	Priority Growth	400
Budget Requirement	(196,293)	Budget Requirement*	(223,833)
Total General Fund	267	Total General Fund	267
Schools Budget	3,424	Schools Budget	3,424
Housing Revenue Account	(11,882)	Housing Revenue Account	(11,882)
Total Other Funds	(8,458)	Total Other Funds	(8,458)
Net Cost of Services	(8,191)	Net Cost of Services	(8,191)

*The Budget Requirement restatement now includes Public Health grant, New Home Bonus grant and other miscellaneous income which were previously held within the service lines.

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
2017/18	£000's	£000's	£000's	£000's	£000's
General Fund					
Chief Executives Office	7,033	747	(146)	0	7,634
Finance	13,945	1,916	299	0	16,160
Residents Services	75,431	36,276	(953)	(18,050)	92,704
Social Care	117,527	7,053	(1)	(11,185)	113,394
Corporate Operating Budgets	4,085	(3,509)	(2,273)	(506)	(2,203)
Priority Growth	240	0	127	0	367
Budget Requirement*	(219,846)	1,436	(675)	219,085	0
Total General Fund	(1,585)	43,919	(3,622)	189,344	228,056
Other Funds					
Schools Budget	4,424	(241)	0	(622)	3,561
Housing Revenue Account	8,718	(9,297)	0	(7,150)	(7,729)
Total Other Funds	13,142	(9,538)	0	(7,772)	(4,168)
Net Cost of Services	11,557	34,381	(3,622)	181,572	223,888
Other Income and Expenditure on the Provision of Services	0	(8,940)	0	(181,572)	(190,512)
(Surplus)/Deficit on Provision of Services	11,557	25,441	(3,622)	0	33,376

Movement in Balances 2017/18

	£000's
Opening General Fund and HRA Balance	124,938
General Fund declared deficit	1,585
Timing differences	0
General Fund Deficit	1,585
HRA Deficit	(8,718)
Schools Reserve Movements	(4,424)
Other Earmarked Reserve Movements	3,622
Closing General Fund and HRA Balance at 31 March	117,003

* 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 (Restated)	Adjustments between the Funding & Accounting Basis (Note 1A) (Restated)	Earmarked Reserve Adjustments (Note 5) (Restated)	Adjustments between Funding & Other Income and Expenditure to the Provision of Services (Note 1B) (Restated)	Net Expenditure in Comprehensive Income and Expenditure Statement (Restated)
	£000's	£000's	£000's	£000's	£000's
2016/17					
General Fund					
Chief Executives Office	6,435	(74)	206	0	6,567
Finance	13,732	(172)	332	0	13,892
Residents Services	82,787	49,157	355	(18,518)	113,781
Social Care	117,677	686	379	(5,938)	112,804
Corporate Operating Budgets	3,069	828	(1,485)	(1,214)	1,198
Priority Growth	400	(10)	(105)	0	285
Budget Requirement*	(223,833)	(2,520)	(1,436)	227,789	0
Total General Fund	267	47,895	(1,754)	202,119	248,527
Other Funds					
Schools Budget	3,424	293	0	(668)	3,049
Housing Revenue Account	(11,882)	(8,343)	0	(7,317)	(27,542)
Total Other Funds	(8,458)	(8,050)	0	(7,985)	(24,493)
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 surplus	(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	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

Comprehensive Income and Expenditure Statement

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

		31 March 2018			31 March 2017		
		Expenditure	Income	Net Expenditure	Expenditure (Restated)	Income (Restated)	Net Expenditure (Restated)
Note		£000's	£000's	£000's	£000's	£000's	£000's
EXPENDITURE ON SERVICES							
	Chief Executives Office	8,781	(1,147)	7,634	7,681	(1,114)	6,567
	Finance	20,138	(3,978)	16,160	16,310	(2,418)	13,892
	Residents Services	151,256	(58,552)	92,704	171,687	(57,906)	113,781
	Social Care	169,262	(55,868)	113,394	147,561	(34,757)	112,804
	Corporate Operating Budgets	142,499	(144,702)	(2,203)	149,409	(148,211)	1,198
	Priority Growth	367	0	367	285	0	285
	Schools Budget	167,728	(164,167)	3,561	165,026	(161,977)	3,049
	Housing Revenue Account	53,134	(60,863)	(7,729)	34,536	(62,078)	(27,542)
	NET COST OF SERVICES	713,165	(489,277)	223,888	692,495	(468,461)	224,034
	Other Operating Expenditure	1,779	0	1,779	1,815	0	1,815
	Net loss/(gain) on disposal of non-current assets	1,683	0	1,683	0	(11,029)	(11,029)
	Net Financing and Investment Income and Expenditure	22,594	(444)	22,150	23,485	(930)	22,555
	Taxation and Non-Specific Grant Income	0	(216,124)	(216,124)	0	(224,704)	(224,704)
	Other Income and Expenditure on the Provision of Services	26,056	(216,568)	(190,512)	25,300	(236,663)	(211,363)
	(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	739,221	(705,845)	33,376	717,795	(705,124)	12,671
	(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets			(19,440)			(32,919)
	Actuarial (gain)/loss on pension assets and liabilities			(22,727)			123,128
	(Surplus)/Deficit on revaluation of available for sale financial assets			(30)			41
	TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			(8,821)			102,921

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'.

		31 March 2018	31 March 2017
	Note	£000's	£000's
Property, Plant & Equipment	9	1,486,731	1,467,400
Heritage Assets	12	5,341	531
Intangible Assets	13	737	726
Investment Properties	14	5,527	5,624
Long Term Investments	15	57	10,044
Long Term Debtors	18	3,757	5,082
LONG TERM ASSETS		1,502,150	1,489,407
Inventories	16	198	265
Short Term Debtors	17	52,735	39,186
Short Term Investments	15	30,569	50,099
Cash and Cash Equivalents	21	49,578	36,776
Assets Held for Sale	22	44	41
Current Intangible Assets		229	210
CURRENT ASSETS		133,353	126,577
Short Term Provisions	23	(4,759)	(6,174)
Short Term Borrowing	15	(18,360)	(18,480)
Short Term Creditors	19	(102,559)	(79,871)
CURRENT LIABILITIES		(125,678)	(104,525)
Long Term Provisions	23	(1,166)	(806)
Deferred Credits		(11)	(17)
Long Term Borrowing	15	(229,647)	(246,894)
Long Term Creditors	20	(3,721)	(2,796)
Capital Grant Receipts in Advance	36	(10,499)	(8,037)
Deferred Liabilities	38	(1,165)	(1,412)
Net Liabilities Related to Defined Benefit Pension Schemes	46	(524,468)	(521,170)
LONG TERM LIABILITIES		(770,677)	(781,132)
NET ASSETS		739,148	730,327
Usable Reserves		168,245	183,225
Unusable Reserves	24	570,903	547,102
TOTAL RESERVES		739,148	730,327

Paul Whaymand
Corporate Director of Finance
31 May 2018

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	Total Council Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 31 March 2017	38,738	9,857	30,517	45,826	23,148	2,747	32,392	183,225	730,327
Total Comprehensive Income & Expenditure	(41,732)	(4,424)	3,622	9,158	0	0	0	(33,376)	8,821
Adjustments between accounting basis & funding basis under regulations	43,317	0	0	(17,876)	(4,685)	(215)	(2,145)	18,396	0
Increase/(Decrease) in Year	1,585	(4,424)	3,622	(8,718)	(4,685)	(215)	(2,145)	(14,980)	8,821
Balance at 31 March 2018	40,323	5,433	34,139	37,108	18,463	2,532	30,247	168,245	739,148

Note	General Fund Balance	Schools Balances	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Total Usable Reserves	Total Council Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 31 March 2016	41,050	13,281	28,763	33,944	32,144	1,672	28,836	179,690	833,248
Total Comprehensive Income & Expenditure	(40,569)	(3,424)	1,754	29,568	0	0	0	(12,671)	(102,921)
Adjustments between accounting basis & funding basis under regulations	38,257	0	0	(17,686)	(8,996)	1,075	3,556	16,206	0
Increase/(Decrease) in Year	(2,312)	(3,424)	1,754	11,882	(8,996)	1,075	3,556	3,535	(102,921)
Balance at 31 March 2017	38,738	9,857	30,517	45,826	23,148	2,747	32,392	183,225	730,327

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.

Page 144

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	Total Unusable Reserves £000's	Total Council Reserves £000's
Balance at 31 March 2017	160,383	910,332	(317)	(521,170)	3,027	(5,197)	44	547,102	730,327
Total Comprehensive Income & Expenditure	19,440	0	0	22,727	0	0	30	42,197	8,821
Adjustments between accounting basis & funding basis under regulations	(5,401)	13,936	12	(26,025)	(1,437)	519	0	(18,396)	0
Increase/(Decrease) in Year	14,039	13,936	12	(3,298)	(1,437)	519	30	23,801	8,821
Balance at 31 March 2018	174,422	924,268	(305)	(524,468)	1,590	(4,678)	74	570,903	739,148

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	Total Unusable Reserves £000's	Total Council Reserves £000's
Balance at 31 March 2016	130,785	912,251	(330)	(386,483)	508	(3,258)	85	653,558	833,248
Total Comprehensive Income & Expenditure	32,919	0	0	(123,128)	0	0	(41)	(90,250)	(102,921)
Adjustments between accounting basis & funding basis under regulations	(3,321)	(1,919)	13	(11,559)	2,519	(1,939)	0	(16,206)	0
Increase/(Decrease) in Year	29,598	(1,919)	13	(134,687)	2,519	(1,939)	(41)	(106,456)	(102,921)
Balance at 31 March 2017	160,383	910,332	(317)	(521,170)	3,027	(5,197)	44	547,102	730,327

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

	Note	2017/18 £000's	2016/17 £000's
Net deficit on the provision of services	25	33,376	12,671
Adjust net (surplus) on the provision of services for non cash movements	25	(124,768)	(100,988)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	25	63,995	61,301
Net cash flows from operating activities	25	(27,397)	(27,016)
Net cash flows from investing activities	26	10,377	5,870
Net cash flows from financing activities	27	4,218	28,007
(Increase)/Decrease in cash and cash equivalents		(12,802)	6,861
Cash and cash equivalents at the beginning of the reporting period		(36,776)	(43,637)
Cash and cash equivalents at the end of the reporting period		(49,578)	(36,776)

Notes to the 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.

	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
2017/18				
Chief Executives Office	0	640	107	747
Finance	0	1,439	477	1,916
Residents Services	23,735	5,945	6,596	36,276
Social Care	344	4,716	1,993	7,053
Corporate Operating Budgets	(924)	(1,164)	(1,421)	(3,509)
Priority Growth	0	0	0	0
Budget Requirement	0	0	1,436	1,436
Schools Budget	(191)	477	(527)	(241)
Housing Revenue Account	7,910	826	(18,033)	(9,297)
Net Cost of Services	30,874	12,879	(9,372)	34,381
Other Income & Expenditure on the Provision of Services from the Expenditure and Funding Analysis	(23,359)	13,146	1,273	(8,940)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services	7,515	26,025	(8,099)	25,441

	Adjustments for Capital Purposes (1) (Restated)	Net Change for the Pensions Adjustment (2) (Restated)	Other Differences (3) (Restated)	Total Adjustments between Funding & Accounting Basis (Restated)
	£000's	£000's	£000's	£000's
2016/17				
Chief Executives Office	0	(73)	(1)	(74)
Finance	0	(170)	(2)	(172)
Residents Services	32,613	(717)	17,261	49,157
Social Care	459	(586)	813	686
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)	(1,416)	1,904	293
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

Notes to the Main Financial Statements

(1) Adjustments for Capital Purposes

Net Cost of Services

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

Other Income and Expenditure on the Provision of Services

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

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

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

(2) Net Change for the Pensions Adjustments

Net Cost of Services

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

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

Other Income and Expenditure on the Provision of Services

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

(3) Other Differences

Net Cost of Services

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

Other Income and Expenditure on the Provision of Services

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

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

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

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

	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
2017/18						
Residents Services	0	(53)	0	0	(17,997)	(18,050)
Social Care	0	0	0	0	(11,185)	(11,185)
Corporate Operating Budgets	(604)	(2,341)	298	1,179	962	(506)
Budget Requirement	0	0	0	189,903	29,182	219,085
Schools Budget	0	(590)	0	0	(32)	(622)
Housing Revenue Account	0	(6,366)	146	0	(930)	(7,150)
Net Cost of Services	(604)	(9,350)	444	191,082	0	181,572
Timing differences					0	
Total Transfers					0	

	Precepts and Levies	Interest Payable	Interest Receivable	Taxation & Non Specific Grant Income (excl Capital) (Restated)	Transfers (Restated)	Total Adjustments (Restated)
	£000's	£000's	£000's	£000's	£000's	£000's
2016/17						
Residents Services	0	(67)	0	0	(18,451)	(18,518)
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	201,355	26,434	227,789
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	

Notes to the 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 2017/18	Fees charges and other service income	Interest Receivable	Depreciation	Interest Payable
	£000's	£000's	£000's	£000's
Chief Executives Office	(910)	0	0	0
Finance	(3,074)	0	0	0
Residents Services	(32,353)	0	0	53
Social Care	(10,979)	0	0	0
Corporate Operating Budgets	(732)	(298)	0	2,341
Schools Budget	(8,264)	0	0	590
Housing Revenue Account	(60,863)	(146)	10,220	6,366
Net Cost of Services	(117,175)	(444)	10,220	9,350

Segmental Income & Expenditure 2016/17	Fees charges and other service income (Restated)	Interest Receivable	Depreciation	Interest Payable
	£000's	£000's	£000's	£000's
Chief Executives Office	(956)	0	0	0
Finance	(1,705)	0	0	0
Residents Services	(32,666)	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

Notes to the Main Financial Statements

3. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2017/18	2016/17
	£000's	£000's
Expenditure		
Employee benefits expenses	195,774	187,522
Employee benefits of Voluntary Aided & Foundation Schools*	35,112	35,334
Other services expenses	426,468	410,891
Support service recharges	4,512	15,415
Depreciation, amortisation, impairment	51,299	43,333
Interest payments	22,496	23,480
Precepts and levies	604	625
Payments to Housing Capital Receipts Pool	1,175	1,190
Loss on the disposal of assets	1,683	0
Change in the Fair Value of Investment Properties	98	5
Total Expenditure	739,221	717,795
Income		
Fees, charges and other service income	(117,175)	(117,405)
Interest and investment income	(444)	(930)
Income from council tax, non domestic rates	(157,904)	(156,549)
Government grants and contributions	(430,322)	(419,211)
Gain on the disposal of assets	0	(11,029)
Total Income	(705,845)	(705,124)
(Surplus)/Deficit on the Provision of Services	33,376	12,671

*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 the 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 an authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to 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 Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Notes to the Main Financial Statements

ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS 2017/18

2017/18	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	(119)		(2)			(121)		121					121
Depreciation of non current assets	(21,992)		(10,218)			(32,210)	2,825	29,385					32,210
Revaluation and impairment of non current assets	(2,023)	(16,945)				(18,968)		18,968					18,968
Statutory provision for the financing of capital investment	924	9,035				9,959		(9,959)					(9,959)
Revenue expenditure funded from capital under statute	(9,489)	1				(9,488)		9,488					9,488
Capital grants and contributions applied	25,042			215		25,257		(25,257)					(25,257)
Capital expenditure charged in year to the General Fund balance	1,747		32,922			34,669		(34,669)					(34,669)
Use of Capital Receipts Reserve to finance new capital expenditure					26,526	26,526		(26,526)					(26,526)
Amounts written off on disposal of non current assets	(11,103)	9,420			(25,556)	(27,239)	2,576	24,663					27,239
Finance Lease Principal	248					248		(248)					(248)
Gain/Loss Investment Property	(98)					(98)		98					98
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,175)				1,175	0							0
Premiums and discounts	(4)	16				12			(12)				(12)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(49,790)	(3,407)				(53,197)				53,197			53,197
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	25,432	1,740				27,172				(27,172)			(27,172)
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	(1,437)					(1,437)					1,437		1,437
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	520	(1)				519						(519)	(519)
Transfer to Reserve for Capital projects		18,017	(18,017)			0							0
Total Adjustments	(43,317)	17,876	4,685	215	2,145	(18,396)	5,401	(13,936)	(12)	26,025	1,437	(519)	18,396

Notes to the Main Financial Statements

ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS 2016/17

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)
Amounts written off on disposal of non current assets	1,278	9,751			(18,879)	(7,850)	1,097	6,753					7,850
Finance Lease Principal	251					251		(251)					(251)
Gain/Loss Investment Property	(5)					(5)		5					5
Transfer from capital receipts reserve to meet payments 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	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 the Main Financial Statements

5. EARMARKED RESERVE TRANSFERS

	31 March 2018 £000's	Transfers Out 2017/18 £000's	Transfers In 2017/18 £000's	31 March 2017 £000's	Transfers Out 2016/17 £000's	Transfers In 2016/17 £000's	31 March 2016 £000's
Earmarked Reserves:							
Grants Unapplied	2,612	(1,325)	1,221	2,716	(1,021)	2,784	953
Member Initiatives	13,445	(442)	661	13,226	(1,183)	1,242	13,167
Other Reserves	9,360	(5,136)	5,682	8,814	(3,512)	4,192	8,134
*Business Rates Reserve	1,941	(1,075)	1,941	1,075	(1,194)	310	1,959
Treasury Management Reserve	1,928	0	1,928	0	0	0	0
Barnhill PFI	620	(250)	358	512	(547)	355	704
Public Health Reserve	2,629	(76)	0	2,705	0	94	2,611
Parking Revenue Account / New Roads & Street Works Reserve	1,604	0	135	1,469	(654)	888	1,235
Total Earmarked Reserves	34,139	(8,304)	11,926	30,517	(8,111)	9,865	28,763

*This note has been presented differently from 2016/17 to show the Business Rates Reserve separately.

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 2018 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.

Business Rate Retention Reserve

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

Treasury Management Reserve

Funds set aside to protect the Council against risk of volatility from investment returns to smooth the budget requirements.

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.

Notes to the Main Financial Statements

Parking Revenue Account / New Roads & Street Works Reserve

A statutory reserve earmarking monies primarily raised from on-street parking operations to support related investment in local infrastructure, further details on these operations are set out in note 29.

6. OTHER OPERATING EXPENDITURE

	2017/18 £000's	2016/17 £000's
Payments to Government Housing Capital Receipts Pool	1,175	1,190
Precepts and Levies	604	625
Total	1,779	1,815

7. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2017/18 £000's	2016/17 £000's
Interest payable and similar charges	9,350	10,025
Interest receivable	(444)	(930)
Net interest on the net defined benefit liability	13,146	13,455
Changes in the fair value of investment properties	98	5
Total	22,150	22,555

8. TAXATION AND NON-SPECIFIC GRANT INCOME

	2017/18 £000's	2016/17 £000's
Council Tax Income	(109,368)	(109,329)
Non-Domestic Rates Income	(104,909)	(112,558)
Non-Domestic Rates Tariff payable to Central Government	50,117	60,791
Non-Domestic Rates Levy (receivable)/payable to Central	6,256	4,547
Non-Ringfenced Government Grants	(33,178)	(45,260)
Capital Grants & Contributions	(25,042)	(22,895)
Total	(216,124)	(224,704)

Notes to the Main Financial Statements

9. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2017/18

Page 156

	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 2017	720,993	497,380	59,874	264,117	13,524	29,392	17,649	1,602,929
Additions	6,627	871	1,768	19,019	0	9,315	0	37,600
Enhancements	12,428	12,203	1,881	0	43	18,708	95	45,358
Revaluation increases/(decreases) recognised in Revaluation Reserve	(3,464)	7,383	(92)	0	0	0	0	3,827
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	(19,190)	(2,913)	0	0	0	0	0	(22,103)
Derecognition - Disposals	(6,156)	(16,037)	(2,254)	0	0	0	(3,714)	(28,161)
Derecognition - Other	0	0	(1,929)	0	0	0	0	(1,929)
Assets reclassified within Property Plant and Equipment	10,749	10,867	744	0	0	(16,096)	(6,264)	0
Assets reclassified (to) & from Held for Sale & Investment Properties	(44)	0	0	0	0	0	0	(44)
Cost or Valuation as at 31 March 2018	721,943	509,754	59,992	283,136	13,567	41,319	7,766	1,637,477
Accumulated Depreciation & Impairment at 1 April 2017	(1)	(15,713)	(13,838)	(105,469)	(460)	(23)	(25)	(135,529)
Depreciation charge in 2017/18	(9,686)	(10,446)	(5,479)	(6,586)	0	0	(13)	(32,210)
Depreciation written out to Revaluation Reserve	7,380	3,463	115	0	0	0	0	10,958
Depreciation written out to Surplus/Deficit on Services	2,245	890	0	0	0	0	0	3,135
Derecognition - Disposals	61	483	416	0	0	0	11	971
Derecognition - Other	0	0	1,929	0	0	0	0	1,929
Assets reclassified within Property Plant and Equipment	0	15	0	0	0	(5)	(10)	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0
Accumulated Depreciation & Impairment at 31 March 2018	(1)	(21,308)	(16,857)	(112,055)	(460)	(28)	(37)	(150,746)
Balance Sheet amount 1 April 2017	720,992	481,667	46,036	158,648	13,064	29,369	17,624	1,467,400
Balance Sheet amount 31 March 2018	721,942	488,446	43,135	171,081	13,107	41,291	7,729	1,486,731
Nature of asset holding								
Owned	721,942	488,446	42,938	171,081	13,107	41,291	7,729	1,486,534
Finance Lease	0	0	197	0	0	0	0	197
Balance Sheet amount 31 March 2018	721,942	488,446	43,135	171,081	13,107	41,291	7,729	1,486,731

Notes to the Main Financial Statements

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	3,683	10,506	0	10,760	0	45,254
Enhancements	2,512	4,542	771	0	0	7,270	0	15,095
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)
Cost or Valuation as at 31 March 2017	720,993	497,380	59,874	264,117	13,524	29,392	17,649	1,602,929
Accumulated Depreciation & Impairment at 1 April 2016	0	(10,008)	(13,544)	(99,146)	(460)	(58)	(1)	(123,217)
Depreciation charge in 2016/17	(9,089)	(11,533)	(5,224)	(6,323)	0	0	(42)	(32,211)
Depreciation written out to Revaluation Reserve	5,673	4,219	4,761	0	0	5	0	14,658
Depreciation written out to Surplus/Deficit on Services	3,329	1,579	0	0	0	54	0	4,962
Derecognition - Disposals	86	24	161	0	0	0	0	271
Derecognition - Other	0	0	8	0	0	0	0	8
Assets reclassified within Property Plant and Equipment	0	6	0	0	0	(24)	18	0
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	689,988	485,590	47,114	154,465	13,064	15,675	19,307	1,425,203
Balance Sheet amount 31 March 2017	720,992	481,667	46,036	158,648	13,064	29,369	17,624	1,467,400
Nature of asset holding								
Owned	720,992	481,667	45,826	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	0	0	0	0	0	0	0	0
	720,992	481,667	46,036	158,648	13,064	29,369	17,624	1,467,400

Property Plant and Equipment figures for 2016/17 have been restated to reflect minor reclassification between Other Land & Buildings and Vehicle Plant & Equipment.

Notes to the 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 2017/18 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 2018 through a desktop valuation. Valuations are carried out in accordance with professional standards of the Royal Institution of Chartered Surveyors.

During 2017/18, the Council has recognised total revaluation losses of £21,393k (£43,955k in 2016/17) 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 £2,425k (£32,907k in 2016/17) 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 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2018/19 and future years budgeted to cost £32,550k. Similar commitments at 31 March 2017 were £42,542k. The major commitments are:

Scheme	31 March 2018 £000's	31 March 2017 £000's
Schools Expansions Programme	8,537	2,009
New Vehicles	0	117
Housing	17,107	32,961
Other Capital Projects	6,906	7,455
Total	32,550	42,542

Notes to the Main Financial Statements

12. HERITAGE ASSETS

At 31 March 2018 the Council held Civic Regalia and a statue 'Anticipation' that were insured for £501k. As neither a current market valuation, nor a replacement cost is available, this insurance value has been used as the basis for valuation.

The Council took over ownership of the Battle of Britain Bunker in 2017. As neither a current market valuation, nor a replacement cost is available due to the specialist nature of this historic asset, the insurance value has been used as the basis for valuation. In addition a number of artefacts have been added as heritage assets which belonged to Battle of Britain flying ace Wing Commander Ronald Gustave Kellett who was stationed at RAF Northolt in 1940 during the Battle of Britain, these items have been valued based on recent auctions of similar items.

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

	Non Current	
	31 March 2018 £000's	31 March 2017 £000's
Balance at start of year	531	501
Assets newly classified as Heritage Assets	150	30
Increase/(Decrease) in value	4,660	0
Balance at end of year	5,341	531

Heritage Assets of Particular Importance

The Battle of Britain Bunker is an underground operations room and is a historic landmark of national significance. The bunker played a crucial role in the air defence of the United Kingdom throughout World War Two by the No 11 Group Fighter Command. It was vital in directing RAF operations throughout the war with fighter aircraft operations being controlled from the bunker throughout the war but most notably during the Battle of Britain and on D-Day. The bunker was visited by both Winston Churchill and King George VI in 1940 and it was here that Winston Churchill on 16 August 1940 spoke the famous words "Never in the field of human conflict was so much owed, by so many, to so few". Evacuations started in 1938 and the operations bunker was constructed in 1939. The bunker is located 60 feet below ground level and is accessed via a staircase of over 70 steps.

Within the collection which belonged to Wing Commander Ronald Gustave Kellett, are medals awarded for distinguished acts of valour and courage such as the Distinguished Flying Cross (DFC) as well as flying logbooks. A number of items are displayed for residents to view while other items will be preserved researchers and historians to view to represent the historical importance and protect for generations to come.

The Battle of Britain Bunker is signed up to the Museums Association's code of ethics. The site is alarmed and monitored with security services to protect the site and artefacts. Restoration and conservation works have been carried out on a number of exhibited artefacts within the bunker such as the wartime map.

Notes to the 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):

Service	2017/18	2016/17
	£000's	(Restated)
		£000's
Residents Services	119	72
Housing Revenue Account	2	2
Total	121	74

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

	2017/18	2016/17
	£000's	£000's
Software		
Gross carrying amounts	845	514
Accumulated amortisation	(119)	(45)
Net carrying amount at the start of the year	726	469
Purchases	132	331
Amortisation for the period	(121)	(74)
Net carrying amount at end of year	737	726
Comprising:		
Gross carrying amounts	977	845
Accumulated amortisation	(240)	(119)
Total	737	726

Notes to the Main Financial Statements

14. INVESTMENT PROPERTIES

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

	2017/18 £000's	2016/17 (Restated) £000's
Rental income from investment property	(417)	(389)
Direct operating expenses arising from investment property	20	31
Net gain	(397)	(358)

Note: 2016/17 rental income and expenditure has been updated to reflect the true values credited to the CIES.

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

	2017/18 £000's	2016/17 £000's
Opening Balance	5,624	5,629
Net gain/(loss) from fair value adjustments	(97)	(5)
Closing Balance	5,527	5,624

Notes to the Main Financial Statements

15. FINANCIAL INSTRUMENT BALANCES

		Current		Long-Term		Total	
Note		31 March 2018 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's
Investments and Cash Equivalents							
	Loans and receivables	15,051	49,599	0	10,000	15,051	59,599
	Loans and receivables - shown as cash equivalents	902	1	0	0	902	1
	Available-for-sale financial assets	15,518	500	57	44	15,575	544
	Available-for-sale financial assets - shown as cash equivalents	32,909	23,203	0	0	32,909	23,203
	Unquoted equity investment at cost						
	Financial assets at fair value through profit and loss						
	Total investments	64,380	73,303	57	10,044	64,437	83,347
Trade Debtors							
	Financial assets carried at contract amounts	10,587	8,669	0	0	10,587	8,669
	Total included in Trade Debtors	10,587	8,669	0	0	10,587	8,669
Borrowings							
	Financial liabilities at amortised cost	(18,360)	(18,480)	(229,647)	(246,894)	(248,007)	(265,374)
	Financial liabilities at fair value through profit and loss						
	Total included in borrowings	(18,360)	(18,480)	(229,647)	(246,894)	(248,007)	(265,374)
Other Long-Term Liabilities							
	PFI and finance lease liabilities	(247)	(248)	(1,165)	(1,412)	(1,412)	(1,660)
	Total Other Long-Term Liabilities	(247)	(248)	(1,165)	(1,412)	(1,412)	(1,660)
Trade Creditors							
	Financial liabilities carried at contract amount	(28,530)	(21,492)	0	0	(28,530)	(21,492)
	Total Trade Creditors	(28,530)	(21,492)	0	0	(28,530)	(21,492)

Note - 2016/17 Trade Debtors and Trade Creditors have been updated to reflect current arrangements.

Notes to the Main Financial Statements

INCOME, EXPENSE, GAINS AND LOSSES

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

	2017/18				2016/17			
	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	8,702	0	0	8,702	9,284	0	0	9,284
Total Expense in Surplus or Deficit on the Provision of Services	8,702	0	0	8,702	9,284	0	0	9,284
Interest Income	0	(298)	(144)	(442)	0	(611)	(174)	(785)
(Gain) on Derecognition	0	0	0	0	0	0	(132)	(132)
Total Income in Surplus or Deficit on the Provision of Services	0	(298)	(144)	(442)	0	(611)	(306)	(917)
(Gains) / Loss on Revaluation	0	0	(30)	(30)	0	0	41	41
(Surplus)/Deficit arising on Revaluation of Financial Assets in	0	0	(30)	(30)	0	0	41	41
PFI Interest	591	0	0	591	667	0	0	667
Other	57	(2)	0	55	74	(13)	0	61
Net (Gain)/Loss for the year	9,350	(300)	(174)	8,876	10,025	(624)	(265)	9,136

Notes to the 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

	31 March 2018		31 March 2017		
	Fair Value	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	(199,394)	(230,385)	(216,759)	(256,408)
Market Loans	2	(48,613)	(82,370)	(48,615)	(85,616)
Lease & PFI Liabilities	2	(1,412)	(3,115)	(1,660)	(4,005)
Trade Creditors	N/A	(28,530)	(28,530)	(21,492)	(21,492)
		(277,949)	(344,400)	(288,526)	(367,521)

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 2018) 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, these loans were previously 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.

Notes to the Main Financial Statements

- 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.

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.

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

	31 March 2018		31 March 2017		
	Fair Value Level	Carrying amount	Fair value	Carrying amount	Fair value
		£000's	£000's	£000's	£000's
Financial Assets Held at Fair Value					
Money Market Funds	1	33,409	33,409	23,703	23,703
Pooled Funds	1	15,018	15,018	0	0
Shares in Listed Companies (Long-	1	57	57	44	44
Financial Assets Held at Amortised Cost					
Long-Term Deposits	2	0	0	10,000	10,065
Short-Term Deposits & Deposit Accounts	N/A	15,051	15,051	49,599	49,599
Instant Access Bank Accounts	N/A	902	902	1	1
Trade Debtors	N/A	10,587	10,587	8,669	8,669
		75,024	75,024	92,016	92,081

Note - 2016/17 Trade Debtors and Trade Creditors have been updated to reflect current arrangements.

Offsetting Financial Assets and Liabilities

Financial assets or liabilities are set off against each other where the Council has a legally enforceable right to do so. The Council's bank accounts held with Lloyds Bank have a right of offset; for 2017/18 there were no accounts in an overdraft position where an offset was applied.

Notes to the Main Financial Statements

16. INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2017/18 £000's	2016/17 £000's	2017/18 £000's	2016/17 £000's	2017/18 £000's	2016/17 £000's
Balance outstanding at start of year	54	50	211	246	265	296
Purchases	938	913	280	286	1,218	1,199
Recognised as expense in year	(944)	(909)	(341)	(321)	(1,285)	(1,230)
Balance outstanding at year-end	48	54	150	211	198	265

17. SHORT TERM DEBTORS

	31 March 2018 £000's	31 March 2017 £000's
Central Government Bodies	6,682	6,514
Other local authorities	3,921	2,265
NHS bodies	4,263	1,804
Housing rents	1,175	865
Council taxpayers	10,059	8,715
Non-domestic rate payers	2,164	2,786
Other entities and individuals	24,471	16,237
	52,735	39,186

18. LONG TERM DEBTORS

	31 March 2018 £000's	New Debtors £000's	To Short Term £000's	Repayments £000's	31 March 2017 £000's
Housing advances & associations	11	0	0	6	17
Sale of Council houses	5	0	0	1	6
Other loans & advances	281	51	6	0	236
Developer Contributions	3,460	0	1,363	0	4,823
	3,757	51	1,369	7	5,082

19. SHORT TERM CREDITORS

	31 March 2018 £000's	31 March 2017 £000's
Council Taxpayers	(4,029)	(4,213)
Central Government Departments	(34,682)	(19,906)
NHS Bodies	(834)	(1,936)
Housing Rents	(933)	(1,016)
Non-Domestic Ratepayers	(6,474)	(6,777)
Other Local Authorities	(8,904)	(7,494)
Sundry Creditors	(46,703)	(38,529)
	(102,559)	(79,871)

Notes to the Main Financial Statements

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 amounted to £3,721k at 31 March 2018 (£2,796k at 31 March 2017).

21. CASH AND CASH EQUIVALENTS

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

	31 March 2018 £000's	31 March 2017 £000's
Cash held by the Council	15,767	13,572
Liquid deposits	33,811	23,204
Total Cash and Cash Equivalents	49,578	36,776

22. ASSETS HELD FOR SALE

At 31 March 2018 the Council held £44k (£41k at 31 March 2017) 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 2018 £000's	31 March 2017 £000's
Balance outstanding at start of year	41	120
Assets newly classified as held for sale	44	41
Enhancements	8	0
Assets sold	(49)	(120)
	44	41

Notes to the Main Financial Statements

23. PROVISIONS

	1 April 2017	Additional provisions made in 2017/18	Amounts used in 2017/18	Unused amounts reversed in 2017/18	31 March 2018	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	(245)	(484)	0	0	0
CRC Allowance Purchase	169	152	(168)	0	153	153	0
Dilapidation Provision	793	0	(15)	(153)	625	625	0
Non Domestic Rates Appeal Losses	1,394	699	(230)	(336)	1,527	1,527	0
Ordinary Residency Disputes	702	119	0	(314)	507	85	422
Insurance Provision	2,450	1,435	(389)	(1,220)	2,276	1,592	684
MMI	71	0	(1)	(69)	1	1	0
Other provisions	672	779	(288)	(327)	836	776	60
Total Provisions	6,980	3,184	(1,336)	(2,903)	5,925	4,759	1,166

CRC Allowance Purchase

The 2017/18 financial year was the seventh 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 and again in 2017/18. The Council is required to surrender to the scheme by the last working day in July 2018, the proportion of reported emissions for the preceding scheme year (2017/18). 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.

Dilapidation Provision

The Council is contractually obliged to fund dilapidation costs on a number of leased properties. During the year, provisions were released and drawn upon. The latest schedule of works has resulted in a decreased estimate for works which are expected to be carried out during 2018/19.

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 2018.

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

Notes to the Main Financial Statements

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 for Housing decision reviews, fly tipping clearance and tenancy management issues.

Notes to the Main Financial Statements

24. UNUSABLE RESERVES

24A. 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.

	2017/18		2016/17	
	£000's	£000's	£000's	£000's
Balance at 1 April		910,332		912,251
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	(32,210)		(32,211)	
- Revaluation gains/(losses) on Property, Plant and Equipment	(18,968)		(11,048)	
- Amortisation of intangible assets	(121)		(74)	
- Revenue expenditure funded from capital under statute	(9,488)		(20,456)	
- 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	(27,239)	(88,026)	(7,849)	(71,638)
Adjusting amounts written out of the Revaluation Reserve		5,401		3,321
Net written out amount of the cost of non-current assets consumed in the year		(82,625)		(68,317)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	26,526		14,133	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	25,042		22,895	
- Application of grants to capital financing from the Capital Grants Unapplied Account	215		(1,075)	
- Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	9,959		11,473	
- Finance Lease Principal	248		251	
- Capital expenditure charged against the General Fund and HRA balances	34,669	96,659	18,726	66,403
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(98)		(5)
Balance at 31 March		924,268		910,332

Notes to the Main Financial Statements

24B. 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 Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2017/18 £000's	2016/17 £000's
Balance at 1 April	(317)	(330)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	99	99
Proportion of discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(87)	(86)
Balance at 31 March	(305)	(317)

24C. 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.

	2017/18 £000's	2016/17 £000's
Balance at 1 April	3,027	508
Amount by which Council Tax and Non-Domestic Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(1,437)	2,519
Balance at 31 March	1,590	3,027

Notes to the Main Financial Statements

24D. 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.

	2017/18		2016/17	
	£000's	£000's	£000's	£000's
Balance at 1 April		160,383		130,785
Upward revaluation of assets				
- Land & Buildings	11,863		26,443	
- Council Dwellings	8,355		21,086	
- Assets Under Construction	0		887	
- Plant and Equipment	23		0	
- Heritage Assets	4,654	24,895	0	48,416
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(1,016)		(12,935)	
- Council Dwellings	(4,439)		(1,954)	
- Assets Under Construction	0	(5,455)	(608)	(15,497)
Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or (Deficit) on the Provision of Services		19,440		32,919
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(2,005)		(1,669)	
- Surplus Assets	(14)		(38)	
- Plant and Equipment	(4)		(4)	
- Council Dwellings	(802)	(2,825)	(513)	(2,224)
Accumulated gains on assets sold or scrapped				
- Land & Buildings	(1,753)		(706)	
- Surplus Assets	(448)		0	
- Assets Held for sale	(1)		0	
- Council Dwellings	(374)	(2,576)	(391)	(1,097)
Amount written off to the Capital Adjustment Account		(5,401)		(3,321)
Balance at 31 March		174,422		160,383

Notes to the Main Financial Statements

24E. 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.

	2017/18 £000's	2016/17 £000's
Balance at 1 April	(521,170)	(386,483)
Actuarial gains/(losses) on pensions assets and liabilities	22,727	(123,128)
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	(53,197)	(37,652)
Employer's pension contributions and direct payments to pensioners payable in the year	27,172	26,093
Balance at 31 March	(524,468)	(521,170)

24F. 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.

	2017/18 £000's	2016/17 £000's
Balance at 1 April	(5,197)	(3,258)
Settlement or cancellation of accrual made at the end of the preceding year	5,197	3,258
Amounts accrued at the end of the current year	(4,678)	(5,197)
Balance at 31 March	(4,678)	(5,197)

24G. 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.

	2017/18		2016/17	
	£000's	£000's	£000's	£000's
Balance as at 1 April		44		85
Recognition of New Assets	18		0	
Derecognition of Assets	0		(46)	
Change in Fair Value in year	12	30	5	(41)
Balance as at 31 March		74		44

Notes to the Main Financial Statements

25. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2017/18 £000's	2016/17 £000's
(Surplus)/Deficit on the provision of services	33,376	12,671
Depreciation and impairment of non-current assets	(51,178)	(43,259)
Amortisation of intangible fixed assets	(121)	(74)
Revenue Expenditure Funded from Capital under Statute	(9,488)	(20,456)
Pension Fund adjustments	(26,025)	(11,559)
(Increase)/Decrease in impairment for provision for bad debts	3,834	2,760
(Increase)/Decrease in creditors	(21,763)	(4,249)
Increase/(Decrease) in debtors	8,390	(10,286)
Increase/(Decrease) in inventories	(67)	(31)
Carrying amount of non-current assets sold	(27,239)	(7,849)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(1,111)	(5,985)
Total adjusting items	(124,768)	(100,988)
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	25,556	18,879
Capital Grants and other contributions credited to Surplus or Deficit on the Provision of Services	25,042	22,895
Billing Authorities - Council Tax and NNDR adjustments	13,397	19,527
Total included elsewhere on Cash Flow Statement	63,995	61,301
Net cash flows from operating activities	(27,397)	(27,016)

Interest received, interest paid and dividends received

	2017/18 £000's	2016/17 £000's
Interest paid	(9,350)	(10,025)
Interest received	444	930

26. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2017/18 £000's	2016/17 £000's
Cash Outflows		
Purchase of property, plant and equipment	83,098	60,680
Other payments for investing activities	9,488	20,456
	92,586	81,136
Cash Inflows		
Sale of property, plant and equipment	(25,556)	(18,879)
Capital grants received	(18,113)	(9,421)
Other receipts from investing activities	(9,023)	(6,821)
	(52,692)	(35,121)
Net Cash Outflow	39,894	46,015
Net Increase/(Decrease) in Short-Term Investments	(19,530)	(50,150)
Net Increase/(Decrease) in Long-Term Investments	(9,987)	10,005
Net cash flows from investing activities	10,377	5,870

Notes to the Main Financial Statements

27. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2017/18 £000's	2016/17 £000's
Cash Outflows		
Repayments of amounts borrowed	17,367	47,283
Capital element of finance lease rental and on-balance sheet PFI payments	248	251
Cash Inflows		
Billing Authorities - Council Tax and NNDR adjustments	(13,397)	(19,527)
Net cash flows from financing activities	4,218	28,007

28. EXTERNAL AUDIT COSTS

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

	2017/18 £000's	2016/17 £000's
Fees payable in regard to external audit services carried out by the appointed auditor	159	157
Fees payable for the certification of grant claims and returns	45	29
Total External Audit costs	204	186

Non Audit Fees - The Council did not incur any non-audit costs in 2017/18 or 2016/17 with Ernst and Young.

29. PARKING REVENUE ACCOUNT

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

	2017/18 £000's	2016/17 £000's
Income	(4,933)	(4,778)
Expenditure	3,396	3,059
(Surplus)/ Deficit	(1,537)	(1,719)
Contribution to transport services	1,401	1,486
Total (Surplus)/ Deficit	(136)	(233)

30. MEMBER ALLOWANCES

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

	2017/18 £000's	2016/17 £000's
Salaries & Allowances	1,342	1,347
Total	1,342	1,347

Further details on Members' allowances are available on the Council website.

Notes to the Main Financial Statements

31. POOLED BUDGETS

A section 75 agreement is in operation between London Borough of Hillingdon and Hillingdon Clinical Commissioning Group (HCCG) in respect of Learning Disability Services and was effective from 1st April 2008. This is not operating as a Pooled Budget in that it clearly identifies the financial liabilities of the two partners on an individual client basis. The object of the agreement is to enable the effective commissioning of services for this client group thereby providing a seamless service to the individual. For 2017/18 this service provided support to approximately 665 clients at a gross cost of £35,065k which included approximately 41 HCCG clients and 19 Joint Funded clients for which the Council received £4,864k.

Better Care Fund Pooled Budget

The Better Care Fund Pooled Budget was set up in 2015/16. LB Hillingdon and Hillingdon CCG have Pooled Funds to work on joint services for Hillingdon residents. There is a compulsory contribution that each party must contribute but additional funds can be pooled. In 2017/18, £12,091k additional contributions were added to the Pooled Budget.

The aims of the Pooled Budget are to reduce Emergency Hospital Admissions and Delayed Transfers of Care. To increase the effectiveness of the Reablement Service and other community services to improve the independence and wellbeing of Hillingdon residents in need of these services. Under the terms of the Pooled Budget each party is responsible for risks associated with their own share of the Pooled Budget with the exception of the Community Equipment Funding which is risk shared on a 50:50 basis.

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

	2017/18			2016/17		
	Hillingdon CCG £000's	LB Hillingdon £000's	Total £000's	Hillingdon CCG £000's	LB Hillingdon £000's	Total £000's
BCF Grant	16,854	0	16,854	16,558	0	16,558
DFG Base Allocation	0	3,815	3,815	0	3,457	3,457
iBCF	0	4,054	4,054	0	0	0
Voluntary Contributions	6,389	5,702	12,091	1,344	1,172	2,516
	23,243	13,571	36,814	17,902	4,629	22,531

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

	2017/18			2016/17		
	Hillingdon CCG £000's	LB Hillingdon £000's	Total £000's	Hillingdon CCG £000's	LB Hillingdon £000's	Total £000's
BCF Grant	10,769	6,085	16,854	10,619	5,937	16,556
DFG Base Allocation	0	3,815	3,815	0	3,457	3,457
iBCF	0	4,054	4,054	0	0	0
Voluntary Contributions	6,389	5,702	12,091	1,346	1,172	2,518
	17,158	19,656	36,814	11,965	10,566	22,531

Note the presentation of the above tables has changed from the 2016/17 published accounts to provide more detail.

32. RELATED PARTY TRANSACTIONS

The Council is required to disclose any material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Notes to the Main Financial Statements

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in note 36.

London Housing Consortium

The Council, in partnership with other councils and housing associations, participates in the London Housing Consortium (LHC). The LHC provides specialist architectural services and bulk procurement arrangements for the public sector.

West London Waste Authority

West London Waste Authority is a statutory waste disposal authority created in 1986 with membership of the London Borough of Hillingdon and five other London Boroughs. It is primarily funded by a levy paid by each of the six participating councils. The amount contributed for 2017/18 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 2017/18 was £22,006k (£21,635k in 2016/17). A precept of £348k was paid to the London Pension Fund Authority in 2017/18 (£351k in 2016/17).

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 2017/18 is shown in note 30.

This note concerns the disclosure of additional information on transactions between the Council and its related parties. The purpose of the note is to demonstrate fairness and openness in the accounts. All councillors and relevant officers are required to complete declarations to meet the requirements of IAS 24 - Transactions with Related Parties. Disclosures of Interest have been made in respect of the following organisations, the payment amount will not necessarily be just in respect of grants but will be a total of transactions between the Council and the organisation during the year. There were no material outstanding balances at year end.

Organisation	Name	Payment
Hillingdon Carers	Councillor Becky Hagger	762,096.50
Hillingdon Carers	Councillor Beulah East	762,096.50
Age UK	Councillor David Simmonds	711,575.62
Age UK	Councillor Ian Edwards	711,575.62
Central Middlesex Skills Development Centre	Councillor Tony Burles	411,552.00
Central Middlesex Skills Development Centre	Councillor John Morgan	411,552.00
Hillingdon and Ealing Citizens Advice Bureau	Councillor John Riley	397,380.75
Hillingdon and Ealing Citizens Advice Bureau	Councillor Raymond Graham	397,380.75
Hillingdon and Ealing Citizens Advice Bureau	Councillor Tony Burles	397,380.75
Carers Trust	Councillor Judith Cooper	135,615.00
Imperial College Healthcare NHS Trust	Councillor June Nelson	108,355.49
Ruislip and Northwood Old Folks Association	Councillor Catherine Dann	79,600.00
Ruislip and Northwood Old Folks Association	Councillor Michael White	79,600.00
Harlington Hospice Association	Councillor Kuldeep Lakhmana	64,662.45
Hillingdon Outdoor Activities Centre	Councillor Henry Higgins	58,675.00
Hillingdon Outdoor Activities Centre	Councillor Jane Palmer	58,675.00
Hillingdon Aids Response Trust	Councillor Peter Curling	33,999.99
Hillingdon Shopmobility	Councillor John Hensley	24,000.00
Hillingdon Shopmobility	Councillor Beulah East	24,000.00
Groundwork South Trust Ltd	Councillor George Cooper	18,000.00
Relate London North West Family Mediation	Councillor Beulah East	15,000.00
Relate London North West Family Mediation	Councillor Tony Burles	15,000.00
Relate London North West Family Mediation	Councillor Jem Duducu	15,000.00
London Youth Games Ltd	Councillor Richard Mills	8,400.00
Friends of the 11 Group Operations Rooms	Councillor Ray Puddifoot	6,200.00

Notes to the Main Financial Statements

32. RELATED PARTY TRANSACTIONS (Continued)

Precepts/Levies

In 2017/18 the following precepts and levies are considered related party transactions:

	2017/18 £000s	2016/17 £000s
Business Rate Retention - DCLG	158,944	217,603
Business Rate Retention - GLA	131,138	73,438
Greater London Authority Precept	27,349	27,129
Greater London Authority Crossrail	13,488	13,669
West London Waste Authority Levy	10,645	10,275
TFL Concessionary Fares	8,037	8,219
Lee Valley Regional Park Authority	255	274
Environment Agency	221	218

33. OFFICER EMOLUMENTS

The number of employees in 2017/18 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				SCHOOL EMPLOYEES			
	2017/18		2016/17		2017/18		2016/17	
	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum
£50,000 - £54,999	73	(2)	49	(3)	49	0	59	0
£55,000 - £59,999	40	0	34	(4)	25	0	22	0
£60,000 - £64,999	27	(6)	15	(3)	14	0	6	0
£65,000 - £69,999	5	(1)	8	(1)	14	0	17	0
£70,000 - £74,999	5	(1)	7	0	14	0	11	0
£75,000 - £79,999	7	(2)	2	0	6	0	7	0
£80,000 - £84,999	3	0	1	0	7	0	8	0
£85,000 - £89,999	5	0	3	(1)	7	0	4	0
£90,000 - £94,999	2	0	1	0	1	0	2	0
£95,000 - £99,999	1	0	0	0	1	0	0	0
£100,000 - £104,999	1	0	1	0	1	0	1	0
£105,000 - £109,999	0	0	0	0	0	0	1	0
£110,000 - £114,999	0	0	0	0	1	0	0	0
	169	(12)	121	(12)	140	0	138	0

Disclosure of Remuneration for Senior Employees (Schools):-

Details of school employees in the above table earning over £100,000 during 2017/18 is listed below.

Job Title	Pensionable Pay 2017/18	Pensionable Pay 2016/17	Due to Lump Sum
Headteacher - Harlington Community School	£114,929	£109,280	No
Headteacher - Yeading Infant School	£100,193	N/A	No

Notes to the Main Financial Statements

Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2017/18.

Group	Job Title		2017/18			
			Pensionable Pay	Compensation for loss of employment	EER's pension Contributions	Total
Chief Executives Office	Chief Executive and Corporate Director of Administration (F Beasley)		£226,318	£0	£0	£226,318
	Head of Democratic Services		£96,106	£0	£22,200	£118,306
	Head of Legal Services and Borough Solicitor		£133,508	£0	£30,840	£164,348
Finance	Corporate Director of Finance (P Whaymand)		£177,435	£0	£0	£177,435
	Head of Business Assurance		£107,758	£0	£0	£107,758
	Deputy Director Corporate Finance		£118,548	£0	£27,385	£145,933
	Head of Revenues & Benefits		£92,724	£0	£21,419	£114,143
	Head of Pensions, Treasury and Statutory Accounts		£80,081	£0	£18,499	£98,579
Residents Services	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)		£220,181	£0	£0	£220,181
	Deputy Director, Infrastructure, Procurement, Waste Services & ICT		£144,753	£0	£33,438	£178,191
	Head of Planning, Transportation & Regeneration		£98,385	£0	£22,727	£121,112
	Head of Administrative, Technical Support, Licensing and Business Services		£103,865	£0	£23,993	£127,857
	Deputy Director of Housing, Environment, Education and Health		£128,598	£0	£29,706	£158,304
	Head of HR, Performance Improvement and Communications		£132,704	£0	£30,655	£163,359
Social Care	Corporate Director of Social Care (T Zaman)		£159,855	£0	£36,927	£196,782
	Deputy Director of Children's Services		£119,685	£0	£27,647	£147,332
	Assistant Director of Provider and Commissioned Care		£84,893	£0	£19,610	£104,503
	Assistant Director of Children's Early Intervention		£95,505	£0	£22,062	£117,567
	Assistant Director of Social Care, Mental Health & Learning Disabilities		£79,113	£0	£18,275	£97,388
	Assistant Director of Social Care, Older People, Physical Disabilities & OT Health and Social Care Integration Manager		£77,703	£0	£17,949	£95,653
			£60,525	£0	£13,981	£74,506
Leavers	Head of Children's Safeguarding & QA	1	£0	£7,748	£0	£7,748
	Head of Disability Services	2	£32,151	£46,447	£7,427	£86,025
	Deputy Director Planning, Transportation & Community Projects	3	£122,718	£119,607	£28,348	£270,673
	Head of Special Projects	4	£21,424	£78,616	£4,949	£104,988
	Deputy Director Residents Services	5	£26,111	£105,970	£6,032	£138,113
	Deputy Director Strategic Finance	6	£30,189	£45,638	£6,974	£82,801

Page 179

1. Employment ended 07/04/2017
2. Employment ended 07/08/2017
3. Employment ended 28/02/2018
4. Employment ended 30/06/2017
5. Employment ended 11/06/2017
6. Employment ended 31/08/2017

Note: During 2017/18 there have been a number of changes to post titles within the Council's management structure.

Notes to the Main Financial Statements

Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2016/17.

Group	Job Title		2016/17			Total
			Pensionable Pay	Compensation for loss of employment	EER's pension Contributions	
Administration	Chief Executive and Corporate Director of Administration (F Beasley)	1	£223,713	£0	£0	£223,713
	Head of Democratic Services		£95,153	£0	£21,980	£117,133
	Head of Legal Services		£124,792	£0	£28,827	£153,619
	Head of Policy & Partnerships		£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
	Deputy Director Strategic Finance		£94,026	£0	£21,720	£115,746
Residents Services	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 &		£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
	Head of Business Improvement & HR		£132,908	£0	£30,702	£163,610
Social Care	Director of Adults Services and Interim Director of Children & Young People's Services (T Zaman)		£156,261	£0	£36,096	£192,357
	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	Deputy Director ICT, Digital Strategy & Communication	2	£35,322	£31,623	£7,267	£74,212
	Head of Adult Safeguarding, Quality & Partnerships	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 the Main Financial Statements

34. EXIT PACKAGES

The number of exit packages that have been agreed by the Council during the year are listed below. These packages include redundancy costs, pension 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	2017/18 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	108	92	16	1,079	37	1,116
£20,001 - £40,000	39	34	5	893	197	1,090
£40,001 - £60,000	8	5	3	147	235	382
£60,001 - £80,000	4	4	0	129	168	297
Over £80,001	10	2	8	465	1,193	1,658
	169	137	32	2,713	1,830	4,543

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	52	14	778	38	816
£20,001 - £40,000	40	34	6	675	399	1,074
£40,001 - £60,000	12	10	2	196	394	590
£60,001 - £80,000	5	4	1	156	193	349
Over £80,001	9	8	1	237	725	962
	132	108	24	2,042	1,749	3,791

SCHOOL EMPLOYEES						
Cost Band	2017/18 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	9	8	1	16	8	24
£40,001 - £60,000	1	0	1	26	0	26
	10	8	2	42	0	50

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

Notes to the Main Financial Statements

35. DEDICATED SCHOOLS GRANT

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

The Council's expenditure on schools is funded by grant monies provided by the Department for Education through the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budgets as defined in the School and Early Years Finance (England) Regulations 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 2017/18 are as follows:

Schools Budget Funded by Dedicated Schools			
Central Expenditure £000's	Individual Schools Budget £000's	Total £000's	
		269,799	
		(125,974)	
		143,825	
		(1,136)	
		1,136	
Final DSG for 2017/18 before academy recoupment			
Academy figure recouped for 2017/18			
Total DSG after academy recoupment for 2017/18			
Plus Brought-forward from 2016/17			
Less Carry-forward to 2018/19 agreed in advance			
Agreed initial budgeted distribution in 2017/18	33,065	115,370	148,435
In year adjustments	141	(5,831)	(5,690)
Final budgeted distribution for 2017/18	33,206	109,539	142,745
Less actual central expenditure	35,695		35,695
Less actual ISB deployed to schools		110,040	110,040
Plus Local Authority contribution for 2017/18	0	0	0
Total	(2,489)	(501)	(2,990)
Plus Carry-forward agreed in advance			(1,136)
Carry-forward to 2018/19			(4,126)

Notes to the Main Financial Statements

36. GRANT INCOME

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

REVENUE GRANT INCOME

	2017/18 £000's	2016/17 £000's
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	19,513	29,431
Education Services Grant	654	2,570
Housing Benefit Administration Subsidy	1,225	1,190
Local Council Tax Support Administration Subsidy	329	352
New Homes Bonus	7,104	9,183
Other Grants	4,353	2,534
Total Non-Specific Revenue Grants	33,178	45,260
Revenue Grant Income Credited to Services		
<u>Department for Education</u>		
Dedicated Schools Grant (DSG)	143,484	140,728
Pupil Premium	6,236	6,447
Sixth Form & Adult Learning Grants	2,252	2,367
Universal Infant Free School Meals Grant	2,869	2,857
Private Finance Initiative	1,778	1,778
Adult & Community Learning	1,568	1,684
PE & Sports Grant	765	497
<u>Department for Communities and Local Government:</u>		
Flexible Homelessness Support	1,269	0
Troubled Families Grant	704	1,180
Business Rates Cost of Collection Allowances	576	598
<u>Department of Health</u>		
Public Health Grant	17,998	18,452
Better Care Fund	20,908	16,558
Independent Living Fund	525	543
<u>Arts Council</u>		
Music Education Hub	455	450
<u>Department for Work and Pensions:</u>		
Housing Benefit Subsidy	143,072	147,258
Discretionary Housing Payments	962	831
<u>Home Office:</u>		
Funding for Unaccompanied Asylum Seeking Children	3,789	4,825
Other Grants	3,476	2,567
<u>Contributions</u>		
Other Contributions	19,577	8,702
Total Grants Credited to Services	372,263	358,322
Total Revenue Grant Income	405,441	403,582

Note the presentation of the above tables has changed from the 2016/17 published accounts to provide more detail.

Notes to the Main Financial Statements

CAPITAL GRANT INCOME

	2017/18 £000's	2016/17 £000's
Capital Grant Income credited to the Comprehensive Income and Expenditure Statement		
Disabled Facilities Grant	4,227	3,457
Education Funding Agency	7,213	5,905
Transport for London	6,266	5,947
British Cycling	0	11
GLA London Regeneration	738	62
Total Capital Grant Income	18,444	15,382
Schools Capital Contributions	1,690	1,204
S106 Contributions	1,097	2,453
Community Infrastructure Levy	3,455	3,679
Other Capital Contributions	356	177
Total Capital Grants and Contributions Received	25,042	22,895

All of the capital grant income applied to the Comprehensive Income and Expenditure account within Taxation and Non Specific Grant income was used to fund the Capital Programme.

GRANTS RECEIVED IN ADVANCE

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the awarding body should condition for use fail to be met. Revenue grants with these conditions are included within Creditors under the amounts owed to Government Departments. The balances for capital grants at the year-end are as follows:

	2017/18 £000's	2016/17 £000's
Capital Grant & Contribution Receipts in Advance		
EFA Capital Grants	377	325
S106	10,122	7,712
Total Capital Grant & Contribution Receipts in Advance	10,499	8,037

Notes to the Main Financial Statements

37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in this note.

	2017/18 £000's	2016/17 £000's
Opening Capital Financing Requirement	403,891	389,132
Capital investment		
Property, Plant and Equipment	83,121	60,379
Intangible Assets	132	332
Revenue Expenditure Funded from Capital under Statute	9,488	20,457
Sources of finance		
Capital receipts	(26,526)	(14,133)
Government grants and other contributions	(25,257)	(21,820)
Sums set aside from revenue:		
Direct revenue contributions	(34,669)	(18,726)
Minimum Revenue Provision (MRP) / loans fund principal	(9,959)	(11,473)
Other Revenue Provision	(254)	(257)
Closing Capital Financing Requirement	399,967	403,891
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow :		
- unsupported by Government financial assistance	(3,924)	14,759
Increase/(Decrease) in Capital Financing Requirement	(3,924)	14,759

The Capital Financing Requirement (CFR) is a measure of the Council's underlying need to borrow for capital purposes. It does not represent the Council's actual borrowing which is determined following consideration of other balances such as reserves, provisions, working capital and timing differences of cash inflows and outflows.

38. LEASES

In financial years prior to 2017/18 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.

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:

Notes to the Main Financial Statements

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	
2017/18 £000's	2016/17 £000's	2017/18 £000's	2016/17 £000's
247	248	806	892
1,009	998	2,246	2,650
156	414	201	602
1,165	1,412	2,447	3,252
1,412	1,660	3,253	4,144

Operating Leases - Lessee

Plant, Property and Equipment Outstanding obligations on 31 March

Within 1 year
2 - 5 years

Total future lease payments

Operating Lease	
2017/18 £000's	2016/17 £000's
635	825
472	969
1,107	1,794

Operating lease obligations include commitments held by Hillingdon maintained schools as well as those held by the Council. Operating lease expenditure of £74k (£124k in 16/17) 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	
2017/18 £000's	2016/17 £000's
1,300	763
3,618	2,550
7,232	8,561
12,150	11,874

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 the Main Financial Statements

39. LONG TERM CONTRACTS AND PRIVATE FINANCE INITIATIVE

The Council has entered into a number of Long Term Contracts, committing itself to revenue expenditure over future years. 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 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
2018/19	1,152
2019/20	1,076
2020/21	1,023
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 2017/18 the Council paid principal of £234k, interest of £590k and service charges of £2,375k. Current forecasts of future payments, assuming satisfactory performance over the remaining 6 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 (2018/19)	2,494	230	509	3,233
2 - 5 years	11,288	884	1,094	13,266
More than 5 years	3,268	102	32	3,402
Total	17,050	1,216	1,635	19,901

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 £234k matching the principal repayment. The outstanding liability of the capital value at 31 March 2018 is £1,216k, of this £230k is due within a year and therefore included in creditors and the remaining £986k is included as a deferred liability.

40. 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.

A claim has been raised against the Council for damages for misrepresentation. The claim could amount to £730k but the Council has a counterclaim for £374k.

There is a claim in relation to a patient under care which could amount to £200k. The Council will defend and counter claim to reduce this.

Notes to the Main Financial Statements

The Council has entered into legal proceeding to recover historic unclaimed VAT which could result in an asset for £1m.

41. EVENTS AFTER THE BALANCE SHEET DATE

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

42. 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 £2,061k have been received this year and £1,978k has been paid over to the charging authority (Transport for London). The balance of £82k has been retained by the Council to cover administrative expenses.

Notes to the Main Financial Statements

43. SUMMARY OF TREASURY MANAGEMENT POLICY

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

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

The Council's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement which represents the cumulative capital expenditure of the Council that has not been financed from internal resources (see note 37).

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

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

44. 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 is based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities expose 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 2017/18 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.

Notes to the Main Financial Statements

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 the Main Financial Statements

The table below summarises the amortised value of the Council's investment portfolio at 31 March 2018, and demonstrates that all investments were made in line with the Council's approved credit rating criterion.

Outstanding Investments as at 31 March 2018							
	Rating at time of Deposit*	Rating at 31 March 2018*	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			0	0	0	0	0
Sub-Total			0	0	0	0	0
Government & Local Authorities							
Lancashire County Council	AA	AA-	5,038	0	0	0	5,038
Northumberland County Council	AA	AA	0	0	5,011	0	5,011
London Borough of Brent	AA	AA	5,002	0	0	0	5,002
Sub-Total			10,040	0	5,011	0	15,051
Total			10,040	0	5,011	0	15,051
Liquid Accounts							
UK Banks & Building Societies							
Lloyds Call Account	A	A	901	0	0	0	901
Santander Call Account	A	A	1	0	0	0	1
Sub-Total			902	0	0	0	902
Money Market Funds							
All funds held explicitly money market fund equivalent ratings of AAA, with at least one of the rating agencies			33,409				33,409
Sub-Total			33,409	0	0	0	33,409
Pooled Funds							
Insight Liquidity Plus Fund 3	AAA	AAA	5,021	0	0	0	5,021
Payden Rygel Sterling Reserve Fund	AAA	AAA	4,979	0	0	0	4,979
Standard Life Sterling Short Duration Cash Fund	AAA	AAA	5,018	0	0	0	5,018
Sub-Total			15,018	0	0	0	15,018
Total			49,329	0	0	0	49,329
Notice Accounts							
UK Banks			0	0	0	0	0
Total			0	0	0	0	0
Available for Sale Assets							
Available for Sales Trust Funds	N/a	N/a	0	0	0	57	57
Total Investments			59,369	0	5,011	57	64,437

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 31/03/2018 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 the 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							
All funds held explicitly money market fund equivalent ratings of AAA, with at least one of the rating agencies			23,703	0	0	0	23,703
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	0	0	0	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

Notes to the Main Financial Statements

Other Financial Instruments

Trade Debtors of £10,587k (£8,669k in 2016/17). 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 2018			31 March 2017		
	PWLB £000's	Market £000's	Total £000's	PWLB £000's	Market £000's	Total £000's
Nominal Value	202,115	48,000	250,115	219,393	48,000	267,393
Premium	(3,191)	0	(3,191)	(3,221)	0	(3,221)
Accrued Interest	470	613	1,083	587	615	1,202
Amortised Value	199,394	48,613	248,007	216,759	48,615	265,374

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 2018	31 March 2018 £000's	31 March 2017 £000's
Less than 1 year	25%	7.40%	18,360	18,480
Between 1 and less than 2 years	25%	6.97%	17,278	17,278
Between 2 and less than 5 years	50%	12.45%	30,889	34,667
Between 5 and less than 10 years	100%	11.09%	27,500	32,500
Between 10 and less than 20 years	100%	23.39%	58,000	57,000
Between 20 and less than 30 years	100%	9.10%	22,571	32,071
Between 30 and less than 40 years	100%	10.25%	25,409	25,378
Between 40 and less than 50 years	100%	15.72%	39,000	39,000
Over 50 years	100%	3.63%	9,000	9,000
Total		100.00%	248,007	265,374

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 the 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 and pooled funds – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

If interest rates had been 1% higher (based 2017/18 balances and with all other variables held constant) the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	40
Increase in interest receivable on variable rate investments	(965)
Impact on Surplus or Deficit on the Provision of Services	(925)
Share of overall impact credited to the HRA	(896)
Decrease in fair value of Pooled Funds (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(68)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	38,367

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. 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 £57k 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.

The market prices of the Council's units in pooled funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

Foreign Exchange Risk

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

Notes to the Main Financial Statements

Financial Liabilities

The majority of borrowing made by the Council is sourced from the PWLB (£202,115k nominal value 31 March 2018; £199,115k fixed rates, £3,000k variable rate). Borrowing at fixed rates enables the Council to enjoy stability of costs in future years and helps improve budgetary processes. Fixed rates protect the Council from interest rate increases but in contrast exposes it to opportunity costs should rates fall. Borrowing at variable rates currently allows the Council to source debt at levels which are considerably lower than fixed rate debt. Sourcing debt from the PWLB allows the Council to reschedule or prematurely redeem debt and the portfolio is continually monitored to take advantage of opportunities that may present themselves periodically to reduce overall costs.

£36,000k of debt (nominal value) is held in "Lenders Option Borrowers Option" (LOBO) market loans. These have been set to provide varying periods of fixed rate ranges with subsequent options for the lender to change this rate on agreed dates. Over the next three years loans totalling £10,000k, £6,000k and £5,000k respectively are scheduled for rate change options. In addition the Council holds £12,000k of fixed-rate market loans

In order to minimise debt costs the Council did not take any new borrowing during 2017/18, instead utilising internal resources to finance its long term borrowing requirement. The loan portfolio reduced this year with naturally maturing debt of £17,278k.

Financial Assets

The Council had a weighted average balance of investments for 2017/18 of £110,656k. Throughout the year deposits were placed in instant access accounts, pooled funds 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.

45. PENSION SCHEMES

Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits that include retirement pensions, dependent pensions, death grants and lump sum payments. Although these benefits will not actually be payable until employees retire, the Council's commitment to make future payments needs to be disclosed as the future entitlement is 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 2017/18 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 2018/19 is 24.1% with any pension strain costs being directly attributable to the service area, as was the case in 2017/18.

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 the 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 2017/18 was 16.48% (16.48% 2016/17). The total contribution to the fund by the Council in 2017/18 was £7,108k (£7,123k in 2016/17), of this amount £589k was outstanding at 31 March 2018 (£593k at 31 March 2017).

The Teachers Pension Scheme is a defined benefit scheme. Although the scheme is unfunded a notional fund is used as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers scheme. There was £507k paid in respect of on-going early retirement payments in 2017/18 (£847k in 2016/17).

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, Council is responsible for deduction of pension contributions, both employees and employers from transferred staff. These contributions are forwarded on directly to the National Health Service Pension Scheme. The National Health Service Pension Scheme is unfunded and administered by National Health Service Business Services Authority (NHSBSA). It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The pension cost charged to the accounts is the contribution rate set by the NHSBSA. In 2017/18 the Council paid a total of £31,796.89 (£36,256.48 in 2016/17) to the NHS Pension Scheme, representing 14.3% of pensionable pay. Contributions to the fund are expected to remain unchanged for 2018/19.

Notes to the 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 2018 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's
Comprehensive Income and Expenditure						
Cost of Services						0
Current Service Cost	41,348	23,029	0	0	41,348	23,029
Past Service Costs (Including curtailments)	1,087	1,166	0	0	1,087	1,166
(Gain)/Loss Settlements	(2,386)	0	0	0	(2,386)	0
Administration Expenses	0	0	2	2	2	2
Financing and Investment Income and Expenditure: Net Interest Expense	13,104	13,378	42	77	13,146	13,455
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	53,153	37,573	44	79	53,197	37,652
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)	2,139	(110,415)	(51)	(498)	2,088	(110,913)
Actuarial gains and losses arising on changes in financial assumptions	(24,295)	233,208	(150)	431	(24,445)	233,639
Other	(370)	624	0	(222)	(370)	402
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(22,526)	123,417	(201)	(289)	(22,727)	123,128
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	(25,985)	(11,484)	(40)	(75)	(26,025)	(11,559)
Actual amount charged against the General Fund						
Employer's contributions payable to scheme	(25,057)	(23,897)	0	0	(25,057)	(23,897)
Contributions in respect of unfunded benefits	(2,111)	(2,192)	(4)	(4)	(2,115)	(2,196)
Total Employers Contributions Payable to Scheme	(27,168)	(26,089)	(4)	(4)	(27,172)	(26,093)

In addition the Comprehensive Income and Expenditure Statement included an actuarial gain of £22,727k in 2017/18 (£123,128k actuarial loss in 2016/17). Any impact of foreign exchange rates will come through as a result of market value movements in asset holdings.

The Council expects to make payments of £23,760k (£22,006k in 2017/18) in respect of contributions to the LBH Pension Fund during the financial year 2018/19.

Notes to the Main Financial Statements

46. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2018 £000's	31 March 2017 £000's	31 March 2018 £000's	31-Mar 2017 £000's	31 March 2018 £000's	31 March 2017 £000's
Opening Benefit Obligation	1,381,086	1,123,590	4,283	4,660	1,385,369	1,128,250
Current Service Cost	41,348	23,029	0	0	41,348	23,029
Interest on defined liability	34,549	39,032	61	111	34,610	39,143
Contributions by Members	6,867	6,383	0	0	6,867	6,383
Remeasurement (gains) and losses:						
- Actuarial (gains)/losses arising from changes in financial assumptions	(24,295)	233,208	(150)	431	(24,445)	233,639
- Other	(370)	624	0	(444)	(370)	180
Past Service Cost including Curtailments	1,087	1,166	0	0	1,087	1,166
Liabilities Extinguished on Settlements	(3,038)	0	0	0	(3,038)	0
Estimated Unfunded Benefits Paid	(2,111)	(2,192)	(4)	(4)	(2,115)	(2,196)
Estimated Benefits Paid	(39,936)	(43,754)	(407)	(471)	(40,343)	(44,225)
Closing Defined Benefit Obligation	1,395,187	1,381,086	3,783	4,283	1,398,970	1,385,369

Reconciliation of fair value of scheme assets

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2018 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's
Opening Fair Value of Employer Assets	862,749	740,154	1,450	1,613	864,199	741,767
Interest Income on Plan Assets	21,445	25,654	19	34	21,464	25,688
Contributions by Members	6,867	6,383	0	0	6,867	6,383
Contributions by the Employer	25,057	23,897	0	0	25,057	23,897
Contributions in respect of Unfunded Benefits	2,111	2,192	4	4	2,115	2,196
Remeasurement (gains) and losses:						
- The return on plan assets, excluding the amount in the net interest expense	(2,139)	110,415	51	252	(2,088)	110,667
- Other	0	0	0	24	0	24
Assets Distributed on Settlements	(652)	0	0	0	(652)	0
Administration Expenses	0	0	(2)	(2)	(2)	(2)
Estimated Unfunded Benefits Paid	(2,111)	(2,192)	0	0	(2,111)	(2,192)
Estimated Benefits Paid	(39,936)	(43,754)	(411)	(475)	(40,347)	(44,229)
Closing Fair Value of Employer Assets	873,391	862,749	1,111	1,450	874,502	864,199

The LBH return on scheme assets is estimated based on the actual fund returns and index returns where necessary. The LPFA return is based on investment returns and market returns estimated where necessary.

Note the presentation of the preceding Comprehensive Income & Expenditure Statement and Scheme Liabilities & Assets has changed from 2016/17 to provide a clearer breakdown of remeasurement gains and losses.

Notes to the Main Financial Statements

Pension Scheme assets comprised

Page 199

	LBH Pension Fund				LPFA Pension Fund				Total	
	Quoted Prices in Active Markets 17/18 £000's	Quoted Prices not in Active Markets 17/18 £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 17/18 £000's	Quoted Prices not in Active Markets 17/18 £000's	Quoted Prices in Active Markets 16/17 £000's	Quoted Prices not in Active Markets 16/17 £000's	31 March 2018 £000's	31 March 2017 £000's
	Equity Instruments									
Consumer	13,102		13,303		127		160		13,229	13,463
Manufacturing	0		0		64		90		64	90
Energy & Utilities	23,800		24,034		18		15		23,818	24,049
Financial Institutions	35,177		30,394		67		59		35,244	30,453
Health & Care	7,067		6,823		33		74		7,100	6,897
Information Technology	777		1,430		107		88		884	1,518
Other	39,597		34,670		31		20		39,628	34,690
Debt Securities										
UK Government			0						0	0
Other			0						0	0
Private Equity		18,999		26,874		118		151	19,117	27,025
Real Estate		106,487		105,874		80		74	106,567	105,948
Investment Funds & Unit Trusts										0
Equities	393,139		431,490		9		7		393,148	431,497
Bonds	133,855		78,572		8		16		133,863	78,588
Hedge Funds				0			12	3	0	15
Commodities				0					0	0
Infrastructure		23,350		24,884		49		7	23,399	24,959
Other		57,729		59,235		52		209	57,781	59,444
Derivatives									0	0
Liability Driven Investments									0	0
Target Returns					123	103	151	115	226	266
Commodities									0	0
Cash & Cash Equivalents	20,312		25,166		228	(106)	240	(109)	20,434	25,297
	666,826	206,565	645,882	216,867	867	244	1,148	302	874,502	864,199

Notes to the Main Financial Statements

Pensions Assets and Liabilities recognised in the Balance Sheet

	2017/18 £000's	2016/17 £000's	2015/16 £000's	2014/15 £000's	2013/14 £000's
Present value of liabilities:					
LBH	(1,395,187)	(1,381,086)	(1,123,590)	(1,218,712)	(1,051,794)
LPFA	(3,783)	(4,283)	(4,660)	(5,201)	(5,254)
Fair Value of Assets:					
LBH	873,391	862,749	740,154	736,612	672,603
LPFA	1,111	1,450	1,613	2,123	2,505
Deficit in the scheme:					
LBH	(521,796)	(518,337)	(383,436)	(482,100)	(379,191)
LPFA	(2,672)	(2,833)	(3,047)	(3,078)	(2,749)
Total	(524,468)	(521,170)	(386,483)	(485,178)	(381,940)

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,399m is offset by the scheme assets of £875m to give the net pension liability of £524m as disclosed on the balance sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains viable: the deficit on the LBH scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, in addition to ongoing investment returns.

47. PENSION SCHEMES BASIS OF ESTIMATION

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The scheme liabilities for both LBH and LPFA have been assessed by their appointed actuary, estimates for the LBH scheme being based on the latest full valuation of the scheme as at 31 March 2016. The appointed actuary for LBH is Hymans Robertson LLP and for LPFA is Barnett Waddingham.

	LBH Pension Fund		LPFA Pension Fund	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
<u>Financial Assumptions: (% p.a.)</u>				
Pension Increase Rate	2.4%	2.4%	2.3%	2.1%
Salary Increase Rate	2.8%	2.8%	3.8%	3.6%
Discount Rate	2.6%	2.5%	2.3%	1.5%
<u>Mortality Assumptions:</u>				
Longevity at 65 for current pensioners:				
- Men	22.6	22.6	22.2	22.1
- Women	24.6	24.6	24.5	24.4
Longevity at 65 for future pensioners:				
- Men	24.0	24.0	24.5	24.4
- Women	26.5	26.5	26.7	26.6
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 the 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 2018				
0.5% Decrease in Real Discount Rate	9%	126,311	4%	135
1 Year Increase in Member Life Expectancy	3-5%	n/a*	5%	174
0.5% Increase in the Salary Increase Rate	1%	14,103	0%	0
0.5% Increase in the Pension Increase Rate	8%	110,797	4%	135

*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. The current contribution rate was set over the last triennial valuation period ending March 2016 to cover contribution rates of the Council for three years from April 2017, contributions are set for three years to minimise disruption in cash flow impacts of the Council.

The weighted average duration of the defined benefit obligation for 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 Council Comprehensive Income and Expenditure Statement. It includes the major elements of Council housing revenue expenditure on maintenance, administration and capital financing costs and major income sources such as rents and other income.

The Collection Fund Account (page 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.

The Pension Fund Account (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.

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 2018 £000's	31 March 2017 £000's
Expenditure			
Repairs and maintenance		8,228	6,360
Supervision and management		17,554	17,177
Rents, rates, taxes & other charges		187	72
Increase in provision for bad debts		0	722
Depreciation of non current assets	3	10,220	9,610
Impairment or Reversal of previous impairment / revaluation loss		16,945	595
		53,134	34,536
Income			
Gross dwelling rents		(55,696)	(56,470)
Gross non dwelling rents		(1,263)	(1,157)
Charges for services and facilities		(3,185)	(3,247)
Contributions towards expenditure		(719)	(1,204)
		(60,863)	(62,078)
Net Cost of HRA Services as included in the HRA Income and Expenditure Statement			
		(7,729)	(27,542)
HRA Services share of Corporate Operating Budgets		930	930
Net Cost of HRA services		(6,799)	(26,612)
(Gain) on sale of HRA non current assets		(9,420)	(9,751)
Interest payable and similar charges		7,207	7,007
Interest & Investment income		(146)	(212)
(Surplus)/Deficit for the year on HRA services		(9,158)	(29,568)

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.

	2017/18 £000's	2016/17 £000's
HRA Balance 31 March	(45,826)	(33,944)
(Surplus)/Deficit for the year on HRA services	(9,158)	(29,568)
Adjustments between accounting basis & funding basis under regulations		
Gain/(Loss) on sale of HRA non current assets	9,420	9,751
Premium on early redemption of HRA debt	16	16
HRA share of contributions to or from the Pension Reserve	(1,667)	(351)
Revaluation of Non Current Assets	(16,945)	(595)
Annual Leave Accrual Adjustment	(1)	1
Revenue Expenditure funded by Capital Under Statute	1	(2)
Provision for repayment of debt	9,035	8,801
Net Increase before transfer to reserves	(9,299)	(11,947)
Transfer to Major Repairs Reserve	18,017	65
(Increase)/Decrease in year on HRA	8,718	(11,882)
HRA Balance at 31 March	(37,108)	(45,826)
Major Repairs Reserves	(18,463)	(23,148)
Total HRA Balances	(55,571)	(68,974)

Note

7

Notes to the Housing Revenue Account

1. HOUSING STOCK

The Council was responsible at 31 March 2018 for managing dwellings (including shared ownership). The stock was as follows:

	Total Properties 31 March 2018	Total Properties 31 March 2017
1 Bed Properties	3,563	3,562
2 Bed Properties	3,457	3,460
3 Bed Properties	2,705	2,709
4 Bed plus Properties	234	235
Total	9,959	9,966

2. VALUE OF HRA ASSETS

	Net Book Value 31 March 2018 £000's	Net Book Value 31 March 2017 £000's
Council Dwellings	721,942	720,990
Other Land & Buildings	1,106	1,266
Vehicle, Plant & Equipment	4,508	4,653
Surplus Assets	419	427
Intangible Asset	2	4
Assets Held For Sale	44	40
Assets Under Construction	32,452	15,244
Total	760,473	742,624

The vacant possession value of dwellings within the Council's HRA as at 31 March 2018 was £2,887m; this differs from the balance sheet value of £722m which is based on the economic use value of social housing. The difference of £2,165m 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 2017/18 £000's	Depreciation 2016/17 £000's
Council Dwellings	9,686	9,089
Other Land & Buildings	21	21
Intangibles	2	2
Surplus Assets	8	8
Vehicle, Plant & Equipment	503	489
Total	10,220	9,609

Notes to the Housing Revenue Account

4. CAPITAL EXPENDITURE

Capital Expenditure on HRA Council dwellings during 2017/18 totalled £47,416k. This was financed by:

	31 March 2018 £000's	31 March 2017 £000's
Capital Receipts	14,494	8,564
Transfer from Major Repairs Reserve	32,922	18,670
	47,416	27,234

Capital receipts from the sale of HRA RTB properties during 2017/18 totalled £11,650k of which £1,175k was paid to Central Government under the pooling arrangements, with £10,475k remaining with the Council.

5. RENT ARREARS

At 31 March 2018 the gross HRA rent arrears amounted to £2,252k (£2,608k in 2016/17).

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2018 was £1,707k (£2,380k in 2016/17). In the year, £673k 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.

	2017/18 £000's	2016/17 £000's
Balance as at 1 April	23,148	32,144
Depreciation transferred to Reserve	10,220	9,609
Transfer to MRR	18,017	65
Capital programme funding	(32,922)	(18,670)
	18,463	23,148

The £18,463k held in this reserve will be used to finance capital expenditure on dwellings.

8. CONTRIBUTIONS TO PENSION RESERVE

The cost of employer's pension contributions in the HRA Income and Expenditure is reported in-line with IAS 19, which requires the current service cost, rather than the actual employer's contribution, be recognised. The HRA Increase for 2017/18 was £1,667k.

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 2018 £000's	31 March 2017 £000's
Council Tax Income		(136,231)	(133,714)
Contribution towards previous years' estimated Council Tax (Surplus)/Deficit	1	625	3,321
Write-offs Uncollectable Council Tax Debt		211	209
Write-back Uncollectable Council Tax Debt		(7)	(277)
Provision for Doubtful Council Tax Debts		(871)	(2,660)
London Borough of Hillingdon Council Tax Precept	1	108,199	106,585
Greater London Authority Council Tax Precept	1	27,224	26,433
Council Tax (Surplus)/Deficit for the Year		(850)	(103)
Opening Council Tax (Surplus)/Deficit Balance		(3,128)	(3,025)
Council Tax (Surplus)/Deficit for the Year		(850)	(103)
Brought Forward Council Tax (Surplus) / Deficit Balance		(3,978)	(3,128)

National Non-Domestic Rates (NNDR) & Business Rate Supplement (BRS)	Note	31 March 2018 £000's	31 March 2017 £000's
National Non-Domestic Rates Income		(375,859)	(376,437)
Business Rate Supplement Income		(12,986)	(13,687)
Contribution towards previous years' estimated NNDR (Surplus)/Deficit		4,982	(7,500)
Write-offs Uncollectable NNDR Debt		643	1,196
Write-back Uncollectable NNDR Debt		(33)	(42)
Provision for Doubtful NNDR Debts		(517)	(883)
Provision/(Release of Provision) for Backdated Appeal Losses	3	444	148
London Borough of Hillingdon Share NNDR Income	2	105,520	112,407
Greater London Authority Share NNDR Income	2	130,142	74,939
Central Government Share NNDR Income	2	116,072	187,345
Transitional Payment Protection Receivable		25,050	228
Payment to Greater London Authority in respect of BRS Income		12,975	13,673
NNDR Cost of Collection Allowance		576	598
BRS Cost of Collection Allowance		11	13
NNDR (Surplus)/Deficit for the Year		7,020	(8,002)
Opening NNDR (Surplus)/Deficit Balance		(1,725)	6,277
NNDR (Surplus)/Deficit for the Year		7,020	(8,002)
Brought Forward NNDR (Surplus)/Deficit Balance		5,295	(1,725)

Notes to the Collection Fund Account

1. Calculation of the Council Tax Base and 2017/18 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 2017/18 base agreed by full Council on 19 January 2017.

Band	Estimated Number of Properties	Discounts & Exemptions	Council Tax Support Scheme	Net Estimated Number of Properties	Band D Equivalent Ratio	Band D Equivalent 2017/18	Band D Equivalent 2016/17	
A	1,004	(176)	(173)	655	6/9	438	422	
B	6,043	(1,164)	(1,193)	3,686	7/9	2,867	2,837	
C	25,211	(3,241)	(3,617)	18,353	8/9	16,314	15,706	
D	46,041	(3,792)	(4,392)	37,857	9/9	37,857	37,236	
E	18,591	(1,609)	(886)	16,096	11/9	19,673	19,552	
F	9,880	(832)	(210)	8,838	13/9	12,766	12,678	
G	5,051	(660)	(47)	4,344	15/9	7,240	7,273	
H	458	(38)	(4)	416	18/9	832	806	
Total	112,279	(11,512)	(10,522)	90,245		97,986	96,509	
						Adjustment for Non-collection	(1,470)	(1,448)
						Ministry of Defence Contribution	704	74
						Council Tax Base	97,220	95,135
						London Borough of Hillingdon Band D Council Tax (£)	1,112.93	1,112.93
						Greater London Authority Band D Council Tax (£)	280.02	276.00
						Total Band D Council Tax (£)	1,392.95	1,388.93
						Demand on Collection Fund (£'000)	135,423	132,136

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 2017 £000's	2017/18 Precept £000's	Release of Prior Year Estimated Surplus £000's	2017/18 Council Tax Revenues £000's	2017/18 Surplus £000's	Balance 31 March 2018 £000's
London Borough of Hillingdon	(2,510)	108,199	500	(109,368)	(669)	(3,179)
Greater London Authority	(618)	27,224	125	(27,530)	(181)	(799)
Grand Total	(3,128)	135,423	625	(136,898)	(850)	(3,978)

Notes to the 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 2018 the aggregate Rateable Value across the 8,683 hereditaments within the borough totalled £815,388k, with rates payable determined by the National Non-Domestic multiplier which is set annual by Central Government. For 2017/18 the standard multiplier was 47.9p in the pound and for small businesses 46.6p in the pound.

The Business Rate Retention System requires that locally raised income is shared between the Council (30%), the Greater London Authority (37%) and Central Government (33%) 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 2017 £000's	2017/18 Budgeted Share of Income £000's	Release of Prior Year Estimated Surplus £000's	2017/18 Non- Domestic Rates Revenues £000's	2017/18 Surplus £000's	Balance 31 March 2018 £000's
London Borough of Hillingdon	(517)	105,520	1,495	(104,909)	2,106	1,589
Greater London Authority	(346)	130,142	996	(129,386)	1,752	1,406
Central Government	(862)	116,072	2,491	(115,401)	3,162	2,300
Grand Total	(1,725)	351,734	4,982	(349,696)	7,020	5,295

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. 877 such appeals relating to 1,193 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2018. Given the inherent uncertainty around the financial impact of such appeals, a provision of £5,183k has been established on the basis of past experience. This represents an increase of £443k on the previously held provision, within this movement £767k was released to fund refunds paid during 2017/18, £1,120k was released where provision was no longer required and an additional £2,330k was added to the provision in respect of outstanding appeals.

Pension Fund Account

FUND ACCOUNT

	Note	31 March 2018 £000's	31 March 2017 £000's
Contributions	4	42,829	41,466
Transfers In from other pension funds	5	34,362	1,241
		77,191	42,707
Less: Benefits	6	(42,003)	(39,353)
Less: Payments to and on account of leavers	7	(3,297)	(2,243)
		(45,300)	(41,596)
Net additions/(withdrawals) from dealings with members		31,891	1,111
Less: Management expenses	8	(7,332)	(8,385)
Net additions/(withdrawals) including fund management expenses		24,559	(7,274)
Return on investments			
Investment income	9	15,289	16,004
Profit and losses on disposal of investments and changes in market value of investments	10A	19,302	137,690
Taxes On Income		(86)	0
Net return on investments		34,505	153,694
Net Increase in the fund during the year		59,064	146,420
Net Assets at start of year		956,707	810,287
Net Assets at end of year		1,015,771	956,707

NET ASSETS STATEMENT

		31 March 2018 £000's	31 March 2017 £000's
Investment Assets	10	1,013,896	955,190
Investment Liabilities	10	(326)	0
Total net investments		1,013,570	955,190
Current Assets	11	2,480	2,198
Current Liabilities	12	(279)	(681)
Net assets of the fund available to fund benefits at the end of the reporting		1,015,771	956,707

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 18.

Paul Whaymand
Corporate Director of Finance
31 May 2018

Notes to Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

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

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

b. Membership

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

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

Admitted Bodies:

Bellrock	Heathrow Travel Care
Braybourne Facilities	Hillingdon & Ealing Citizens Advice
<i>Bishop Ramsey Cleaners</i>	Kingdom Security
Caterlink	Mitie Facilities Management
Frays Academy	NHS - Michael Sobel House
Caterplus	The Pantry
Churchill Services - Mitie & McMillan Cleaning	<i>Whiteheath Infant</i>
Cucina	<i>Warrender School</i>
<i>Haydon Academy</i>	<i>Frithwood School</i>
<i>Ruislip High School</i>	<i>Hillside School</i>
Greenwich Leisure	Taylor Shaw
Hayward Services	<i>West Dayton Primary School</i>

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
Charville Academy	<i>Park Federation Trust</i>
Douay Martyrs Academy	Central Payroll
<i>Eden Academy Trust</i>	Cranford Park Academy
Moorcroft School	Lake Farm Park Federation

Notes to Pension Fund Account

Pentland Field School	Wood End Academy
Grangewood School	West Drayton Academy
<i>Elliot Foundation Trust</i>	<i>QED Academy Trust</i>
Hillingdon Primary School	Coteford Academy
John Locke Academy	Queensmead Academy
Pinkwell School	Northwood Academy
<i>Guru Nanak Academy Trust</i>	<i>Rosedale Hewens Academy Trust</i>
Nanak Sar Primary School	Rosedale College
Guru Nanak Sikh Academy	Mellowlane School
Global Academy	Brookside Primary School
Harefield Academy	Ruislip High School
Harrow & Uxbridge College	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	William Byrd School
St. Matthews Primary School	Willows Academy
St. Martins Primary School	
Central Payroll	

As at 31 March 2018 there were 8,591 active members contributing to the fund, with 6,453 members in receipt of benefit and 8,510 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2018	31 March 2017
Number of employers with active members	62	53
Number of employees in scheme		
London Borough of Hillingdon	5,401	5,862
Other employers	3,190	2,822
Total	8,591	8,684
Number of Pensioners		
London Borough of Hillingdon	6,106	5,314
Other employers	347	880
Total	6,453	6,194
Deferred Pensioners		
London Borough of Hillingdon	7,135	6,279
Other employers	1,375	946
Total	8,510	7,225

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, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Newton Asset Management (assets transferred to London CIV Nov 2017), Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

Notes to Pension Fund Account

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 2017/18:

Pensions Committee

Cllr Phillip 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 (Employee Representative)
Mr Andrew Scott (Employee Representative)	Roger Hackett (Employee 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 2017/18 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 2018.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2018).

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.

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 administering authority's payment system and recharged to the Pension fund.

Notes to Pension Fund Account

- 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 2018 was £118,347k (£114,851k at 31 March 2017).
- 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 Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £19,545k. 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 2018. 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 £27,374k. 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 £13,220k. 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 £58,114k. 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. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivity analysis to the method of assumptions used for year ended 31 March 2018 by the fund's actuaries.

Sensitivity to Unquoted Alternative Assets valuation and Pricing: Information on sensitivities of the valuation and pricing methodologies of these asset classes are disclosed in notes 14 and 16.

Notes to Pension Fund Account

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	122
0.5% p.a. increase in the Salary Increase Rate	1%	20
0.5% p.a. decrease in the Real Discount Rate	10%	150

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

4. CONTRIBUTIONS

By category	31 March 2018 £000's	31 March 2017 £000's
Employees	9,920	9,356
Employers Contributions:		
Normal	27,356	27,134
Deficit Funding	5,553	4,976
	42,829	41,466

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 2018 £000's	31 March 2017 £000's
LB Hillingdon	30,938	30,535
Scheduled Bodies	11,484	10,459
Admitted Bodies	407	472
	42,829	41,466

5. TRANSFERS IN

	31 March 2018 £000's	31 March 2017 £000's
Individual transfers in from other schemes	3,313	1,241
Bulk Transfers In	31,049	0
	34,362	1,241

Notes to Pension Fund Account

6. BENEFITS

	31 March 2018 £000's	31 March 2017 £000's
By category		
Pensions	(33,721)	(32,435)
Commutations and Lump Sum Retirement Benefits	(7,607)	(6,236)
Lump Sum Death Benefits	(675)	(682)
	(42,003)	(39,353)

	31 March 2018 £000's	31 March 2017 £000's
By authority		
LB Hillingdon	(40,220)	(37,561)
Scheduled Bodies	(1,428)	(1,443)
Admitted Bodies	(355)	(349)
	(42,003)	(39,353)

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2018 £000's	31 March 2017 £000's
Refunds to members leaving service	(62)	(81)
Individual transfers out to other schemes	(3,235)	(2,162)
	(3,297)	(2,243)

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2018 as follows:

	31 March 2018 £000's	31 March 2017 £000's
Administrative Costs	(753)	(902)
Investment Management Expenses	(6,392)	(6,761)
Oversight and Governance	(187)	(722)
	(7,332)	(8,385)

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2018 £000's	31 March 2017 £000's
Management Fees	(5,291)	(5,359)
Performance Related Fees	(525)	(917)
Custody Fees	(56)	(96)
Transaction Costs	(520)	(389)
	(6,392)	(6,761)

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2018 £000's	31 March 2017 £000's
Equities	(14)	(72)
Pooled Investments	(506)	(317)
	(520)	(389)

Notes to Pension Fund Account

8C. EXTERNAL AUDIT COSTS

	31 March 2018 £000's	31 March 2017 £000's
Payable in Respect of External Audit	(20)	(21)
	(20)	(21)

External Audit costs are included in Oversight and Governance within Management Expenses

9. INVESTMENT INCOME

	31 March 2018 £000's	31 March 2017 £000's
Income from Equities	5,294	5,071
Income from Bonds	0	37
Private Equity Income	11	4,209
Pooled Property Investments	4,838	4,774
Pooled Investments- Unit trusts and other managed funds	5,496	2,669
Interest on cash deposits	55	63
Other (for example from stock lending or underwriting)	(405)	(819)
	15,289	16,004

10. INVESTMENTS

	31 March 2018 £000's	31 March 2017 £000's
Investment Assets		
Bonds		0
Equities	128,306	123,992
Pooled investments	683,922	672,256
Pooled property investments	127,808	114,894
Private equity	19,545	27,128
Other Investment balances		
Cash deposits	53,558	16,276
Investment income due	757	644
Total investment assets	1,013,896	955,190
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(326)	0
Total investment liabilities	(326)	0
Net investment assets	1,013,570	955,190

Notes to Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Value 1 April 2017 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2018 £000's
2017/18					
Bonds	0				0
Equities	123,992	257,437	(254,089)	966	128,306
Pooled Investments	672,256	197,317	(188,869)	3,218	683,922
Pooled Property Investments	114,894	4,006	0	8,908	127,808
Private Equity	27,128	370	(9,669)	1,716	19,545
	938,270	459,130	(452,627)	14,808	959,581
Forward Foreign Exchange	0	12	(19)	7	(0)
Other investment balances		459,142	(452,646)	14,815	959,581
Cash Deposits	16,276			(575)	53,558
Investment Income Due	644				757
Adjustments to Market Value Changes				5,062	
Total Investment Assets	955,190			19,302	1,013,896
	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
Other investment balances		883,325	(866,921)	131,492	938,270
Cash Deposits	17,296			256	16,276
Investment Income Due	980				644
Adjustments to Market Value Changes				5,942	0
Total Investment Assets	808,650			137,690	955,190

Outstanding trade of settlements (liabilities) are not included in the above reconciliation

Notes to Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2018 £000's	31 March 2017 £000's
Equities		
UK		
Quoted	128,306	123,992
	128,306	123,992
Pooled funds - additional analysis		
UK		
Fixed income unit trust	56,312	54,622
Unit trusts	233,063	242,454
Unitised insurance policies	295,839	287,498
Limited liability partnerships	98,708	87,682
	683,922	672,256
Pooled property Investments	127,808	114,894
Private equity	19,545	27,128
Cash deposits	53,558	16,276
Investment income due	757	644
	201,668	158,942
Total investment assets	1,013,896	955,190
Investment liabilities		
Purchase Settlements Outstanding	(326)	0
Total investment liabilities	(326)	0
Net investment assets	1,013,570	955,190

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2018 £000's	%	Market Value 31 March 2017 £000's	%
Adams Street Partners	13,206	1	17,532	2
AEW UK	54,361	5	47,565	5
JP Morgan Asset Management	56,312	6	54,622	6
Legal & General Investment Management	295,839	29	287,498	30
LGT Capital Partners	6,339	1	9,596	1
London CIV - Ruffer	233,020	23	104,440	11
M&G Investments	13,220	1	22,447	2
Macquarie Infrastructure	27,374	3	27,002	3
Newton Asset Management	0	0	137,948	14
Permira Credit Solutions	58,114	6	38,233	4
UBS Global Asset Management (Equities)	133,133	13	130,119	14
UBS Global Asset Management (Property)	75,192	7	68,499	7
Other*	47,460	5	9,689	1
Total	1,013,570	100	955,190	100

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

There are no fund investments which constitute more than 5% of net assets of the scheme.

Notes to Pension Fund Account

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 £31,377k (31 March 2017: £21,444k). 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 £34,288k (31 March 2017: £23,412k) 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. CURRENT ASSETS

	31 March 2018 £000's	31 March 2017 £000's
Debtors		
Employers' contributions due	50	68
Employees' contributions due	16	19
Cash balances	2,414	2,111
	2,480	2,198

12. CURRENT LIABILITIES

	31 March 2018 £000's	31 March 2017 £000's
Creditors		
Other local authorities (LB Hillingdon)	(8)	(227)
Other entities	(271)	(454)
	(279)	(681)

Note: Other entities balance is due to the pension fund from bodies external to the government e.g. fund managers.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2018 £000's	Market Value 31 March 2017 £000's
Prudential Assurance Company	5,546	5,975
	5,546	5,975

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.

Notes to Pension Fund Account

14. FAIR VALUE - BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018. It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in note 16 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2018 £000's	Value on Increase £000's	Value on Decrease £000's
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	27,373	30,111	24,636
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	71,388	78,526	64,248
Private Equity	5%	19,545	20,522	18,568
Venture Capital	5%	41	43	39
Total		118,347	129,202	107,491

Notes to Pension Fund Account

14A. FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2018	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
Financial Assets at Fair Value through Profit and Loss	128,307	712,927	118,347	959,581
Loans and Receivables	54,315	0	0	54,315
Financial Liabilities at Fair Value through Profit and Loss	(326)	0	0	(326)
Net investment Assets	182,296	712,927	118,347	1,013,570

Values as at 31 March 2017	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
Financial Assets at Fair Value through Profit and Loss	124,016	699,403	114,851	938,270
Loans and Receivables	16,920	0	0	16,920
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net investment Assets	140,936	699,403	114,851	955,190

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2017/18.

Notes to Pension Fund Account

14C.RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2017	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2018
	£000's	£000's	£000's	£000's	£000's	£000's
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	27,128	370	(9,670)	(1,798)	3,514	19,545
Private Finance - M&G	22,447	3	(11,176)	(2,522)	4,521	13,273
Infrastructure - Maquarie	27,002	99	(1,315)	1,396	192	27,373
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	38,233	34,725	(16,208)	1,120	245	58,114
	114,851	35,197	(38,368)	(1,805)	8,472	118,347
Other investment balances	0				0	0
Total Investment Assets	114,851				8,472	118,347

There were no transfers in or out of level 3 assets in 2017/18.

14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital

The significant unobservable inputs used in the fair value measurement of privately held securities are: Revenue multiples, EBITDA multiple, net income multiple and discount for lack of marketability and potential bids.

Private Finance: M&G

The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie

The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets.

- The acquisition financial model is used as a base case.
- Update for any material changes in economic, operational and financial assumptions.
- Discount equity cash flows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira

The following key terms are confirmed as inputs for each yield analysis calculation:

- Cash / PIK (Payment In Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

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

Notes to Pension Fund Account

available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Private Finance: M&G

These assets are floating rate and are held to maturity they are valued at par unless suffering from impairment. Impairments may be applied if an asset's credit rating deteriorates.

Direct Lending: Permira

- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that investment.
- Each valuation is reviewed to ensure:
 - Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;
 - That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie

Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines, and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cash flow (DCF) analysis.

DCF-Based Market Valuation Process

Financial Model

The acquisition financial models of all of the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

Update for Economic, Operational and Financial Assumptions

The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g. distributions received in an intervening period and year to date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:

- The actual operational results to date
- The revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put into place, current base rates and any material change in outlook with regards to future leverage.

Discount Rate

Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

Notes to Pension Fund Account

Narrative and Quantitative description of sensitivity to changes in valuation methods and market conditions:

Private Equity

Market valuation method applied to investments is sensitive to four main components:

- i) changes in actual market prices;
- ii) interest rate risk;
- iii) foreign currency movements; and
- iv) other price risks

Private Finance (M&G)

The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an analyst impairing an asset if there is a change in the asset's credit rating.

Infrastructure: Macquarie

The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

Direct Lending: Permira

The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:

- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	Designated as fair value through P&L	Loans & receivables	Financial Liabilities At amortised Cost	Total	Designated as fair value through P&L	Loans & receivables	Financial Liabilities At amortised Cost	Total
	31 March 2018 £000's	31 March 2018 £000's	31 March 2018 £000's	31 March 2018 £000's	31 March 2017 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's
Financial Assets								
Equities	128,306	0	0	128,306	123,992	0	0	123,992
Pooled Investments	683,922	0	0	683,922	672,256	0	0	672,256
Pooled property investments	127,808	0	0	127,808	114,894	0	0	114,894
Private Equity	19,545	0	0	19,545	27,128	0	0	27,128
Cash	0	53,558	0	53,558	0	16,276	0	16,276
Other Investment balances	0	757	0	757	0	644	0	644
	959,581	54,315	0	1,013,896	938,270	16,920	0	955,190
Financial Liabilities								
Purchase Settlements								
Outstanding	0	0	(326)	(326)	0	0	0	0
	0	0	(326)	(326)	0	0	0	0
Total	959,581	54,315	(326)	1,013,570	938,270	16,920	0	955,190

Notes to Pension Fund Account

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the pension fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer, or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The potential losses from shares sold short are unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund Investment Strategy Statement.

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following potential change in market price risk are reasonably possible for the relevant reporting periods.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund asset allocations. The potential volatilities are consistent with one standard deviation movement of the change in value of assets over the last three years. This can then be applied to period end asset mix.

Had the market price of the fund investments increased or decreased in line with the percentage change below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset Type	Value as at 31 March 2018 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Global Equity	344,271	8.40%	373,190	315,352
UK Equity	214,794	10.00%	236,273	193,315
Bonds	154,478	4.30%	161,121	147,835
Alternatives	118,253	5.10%	124,284	112,222
Property	127,785	5.40%	134,685	120,885
Total	959,581		1,029,553	889,609

Notes to Pension Fund Account

Asset Type	Value as at 31 March 2017 (Restated)	Percentage Change	Value on Increase	Value on Decrease
	£000's	%	£000's	£000's
Global Equity	348,733	8.70%	379,073	318,393
UK Equity	210,953	9.60%	231,204	190,702
Bonds	148,817	5.20%	156,555	141,079
Alternatives	114,851	6.20%	121,972	107,730
Property	114,916	3.40%	118,823	111,009
Total	938,270		1,007,628	868,912

Note: changes in asset values as at 31 March 2017 restated by asset type for comparative reason based on the current analysis provided by PIRC, our fund's analytics information provider.

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 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Assets exposed to income rate risks	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000's	£000's	£000's	£000's
Cash balances	53,558	535	54,093	53,023
Bonds - pooled funds	154,478	1,545	156,023	152,934
Total change in assets available	208,036	2,080	210,116	205,957

Assets exposed to income rate risks	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
Cash balances	16,276	163	16,439	16,113
Bonds - pooled funds	148,817	1,488	150,305	147,329
Total change in assets available	165,093	1,651	166,744	163,442

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 2018 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 2018 and as at the previous period ending 31 March 2017.

Notes to Pension Fund Account

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 8.70%, based on the data provided by PIRC. A 8.70% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. An 8.70% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset Value 31 March 2018	Potential market movement	Value on increase	Value on decrease
		8.70%		
	£000's	£000's	£000's	£000's
Overseas Managed Funds	111,250	9,679	120,929	101,571
Private Equity/Infrastructure	46,919	4,082	51,001	42,837
	158,169	13,761	171,929	144,408

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	£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

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 A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2018 was £55,972k (31 March 2017: £18,387k) and this was held with the following institutions

Notes to Pension Fund Account

Summary	Rating S&P	Balances as at 31 March 2018 £000's	Rating S&P	Balances as at 31 March 2017 £000's
Money market funds				
Northern Trust	AAAf S1+	53,758	AAAf	16,476
Bank current accounts				
Lloyds	A	2,214	A	1,911
Total		55,972		18,387

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 (£2,414k). 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 2018 these assets totalled £713,477k, with a further £53,558k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as at 31 March 2016 setting rates for the period April 2017 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).

Notes to Pension Fund Account

Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%) 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 2016, a different regulatory regime was in force. Therefore a contribution rate that is directly comparable to the rates above is not provided.

The valuation of the fund has been undertaken using a risk based approach 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 cash flows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into 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 previous 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

Notes to Pension Fund Account

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

Description	31 March 2018	31 March 2017
	% per annum	% per annum
Inflation /Pensions Increase Rate	2.4%	2.4%
Salary Increase Rate	2.8%	2.8%
Discount Rate	2.6%	2.5%

An IAS 26 valuation was carried out for the fund as at 31 March 2018 by Hymans Robertson with the following results:

Description	31 March 2018	31 March 2017
	£000's	£000's
Present Value of Promised Retirement Benefits	1,548	1,522
Active Members	624	569
Deferred Members	350	355
Pensioners	574	598

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 pension legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the fund.

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

19. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note 4 to the Pension Fund accounts.

No senior officer or Pension Committee member had any interest with any related parties to the pension fund.

Governance

There are 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.

Notes to Pension Fund Account

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 (post deleted September 2017) and the Head of Pensions, Treasury & Statutory Accounts. Total remuneration payable to key management personnel is set out below:

	31 March 2018 £000's	31 March 2017 £000's
Short term benefits	82	69
Post employment benefits	84	31
	166	100

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 website: www.hillingdon.gov.uk and included in the Annual Report.

20. BULK TRANSFER

There was a bulk transfer of £31,049k into the fund from Harrow College as a result of a merger with Uxbridge College during the 2017/18 financial year. There were no bulk transfers in 2016/17.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2018 totalled £23,859k (£46,472k at 31 March 2017).

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.

There were no contingent liabilities outstanding for the fund at the end of the financial year 2017/18.

22. 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.

23. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

Annual Governance Statement 2017/18

1. Scope of Responsibility

- 1.1 The London Borough of Hillingdon (LBH) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, LBH is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.
- 1.2 LBH follows an approach to corporate governance which is in accordance with the principles of the CIPFA/SOLACE 2016 Framework and guidance '*Delivering Good Governance in Local Government*'. This statement meets the requirements of Regulation 6 (1)(a) of the Accounts and Audit Regulations 2015 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 (AGS) which must be prepared in accordance with proper practices in relation to the accounts.

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. The embedded process evaluates the likelihood of those risks and the impact should they be realised in order to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at LBH for the year ended 31st March 2018 and up to the date of approval of the 2017/18 Statement of Accounts.

3. The Governance Framework

- 3.1 LBH has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined overleaf demonstrate how LBH maintains effective internal controls and an effective governance system.
- 3.2 LBH's **Constitution** sets out how the authority operates, how decisions are made, and the procedures that are followed to ensure that they are efficient, transparent and accountable to local people. The Constitution is reviewed at full Council meetings as required and also more comprehensively on an annual basis at each Annual General Meeting, as required.
- 3.3 Part 2 of the Constitution outlines the roles and responsibilities of the Executive, Non-executive, Mayoralty, Overview and Scrutiny Committees, Standards Committee and officer functions. Part 5 of the Constitution sets out the ethical framework governing the conduct of Members and co-opted members. The governance arrangements for LBH comprise of:
- A structure of the Leader of the Council, a Cabinet, Regulatory Committees and Policy Overview and Scrutiny Committees;
 - A Corporate Management Team;
 - Senior Management Teams;
 - The Audit Committee, led by an independent chairman; and
 - The Standards Committee and a Code of Conduct for Members and Co-opted Members.
- 3.4 The LBH constitution is set out in full on the Council's website at <http://www.hillingdon.gov.uk/article/7604/Constitution>.
- 3.5 Part 2, article 7.08 of the Constitution sets out the '**Cabinet Scheme of Delegations**'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet Members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Directors' responsibilities. Executive decision-making is

Annual Governance Statement 2017/18

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.

- 3.6 Part 2, articles 6 and 8 and Part 4E set out how the Council's non-executive decisions by Members are taken. **Policy Overview and Scrutiny Committees** undertake regular monitoring of services, performance and the budget and an annual programme of major, Member-led service reviews involving witness testimony aimed at influencing Executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained elected Councillors, in accordance with the Council's ethical standards.
- 3.7 Part 2, article 8 also sets out how the Authority works with its partners in LBH through the **Health and Wellbeing Board**, which is chaired by the Cabinet Member for Social Services, Housing, Health and Wellbeing and Chairman of Pensions Committee, which complies with the requirements of the Health and Social Care Act 2012. The Health and Wellbeing Board seeks to improve the quality of life of the local population and provide high-level collaboration between LBH, the NHS and other agencies to develop and oversee the strategy and commissioning of local health and social care services.
- 3.8 Part 3 of the Constitution sets out the **'Scheme of Delegations to Officers'**. This governs the responsibilities allocated to officers to perform the authority's activities.
- 3.9 These officers include the Chief Executive, the Borough Solicitor and the Head of Democratic Services. The schemes are updated when required to reflect changes to Corporate Directors' responsibilities in line with business priorities. Each Directorate has individual Schemes of Delegations, setting out how Corporate Directors' responsibilities are sub-delegated.
- 3.10 Part 5 of the Constitution sets out formal **'Codes of Conduct'** governing the behaviour and actions of all Council Members, co-opted members and Council officers. A formal 'Code of Conduct for Members and Co-opted Members' was adopted in July 2012. This Code requires that Councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority periodically reviews the code and guidance to ensure these requirements reflect changes to the Council structure. A revised Code of Conduct for Officers and Protocol for Member/Officer Relations were approved by full Council in February 2015. The Member/Officer Protocol governs and regulates the relationship between the elected Members and appointed officers.
- 3.11 Rather than adopting a formal **Code of Corporate Governance**, the Council ensures that LBH's governance structure, decision making process and areas of responsibility are covered in the Council's Constitution and Schemes of Delegation.
- 3.12 A **training programme for Members** is conducted in each municipal year. All new Members are trained on the Code of Conduct by the Borough Solicitor and Head of Democratic Services and refresher training is delivered where appropriate. Complaints about alleged breaches of the Code are handled in accordance with the requirements of the Localism Act 2011. The Standards framework includes a 'Whips Protocol' which complainants are expected to make use of 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.
- 3.13 The **Member Register of Interests** records the pecuniary and non-pecuniary interests of Members and co-opted members of LBH. There is a separate 'Related Parties' register that all Members and a selection of senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.
- 3.14 A formal **Whistleblowing Policy**, which sets out how the Council complies with the Public Interest Disclosure Act 1998, allows Council staff, contractors working for the authority and residents to raise complaints regarding any behaviour or activity connected to the authority, ranging from unlawful conduct to 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. The Counter Fraud Manager is in the process of strengthening the Council's arrangements in this area including raising awareness of the Whistleblowing Policy and the LBH Investigations Protocol.
- 3.15 LBH has set out its **vision of 'Putting Our Residents First'** and established four priority themes for

Annual Governance Statement 2017/18

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.

- 3.16 These include the Hillingdon Improvement Programme (HIP), the Business Improvement Delivery (BID) Programme and the financial and service planning process (the Medium Term Financial Forecast).
- 3.17 The **Hillingdon Improvement Programme (HIP)** is LBH's strategic improvement programme which aims to deliver excellence as set out in the Council vision – 'Putting Our Residents First'. The HIP vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. The HIP has helped to change the culture of the organisation and continues to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from residents about customer care, waste and recycling services, libraries, LBH primary and secondary schools and how well they feel informed, through regular feedback. The HIP is consistently trying to improve Council services by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance LBH's reputation. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors are also responsible for specific HIP projects.
- 3.18 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 £15.5 million were delivered in 2017/18, taking total savings since 2010 to approximately £123 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.
- 3.19 The **Medium Term Financial Forecast (MTFF)** is the Council's key process for service and corporate financial planning, providing a forward view of the Council's financial position over the forthcoming five years and a framework to manage the development of savings proposals to manage emerging budget gaps. This follows an annual cycle from initial scoping in February/March through a robust challenge process involving both Senior Managers and Members to deliver a consultation budget in December before Council Tax setting for the subsequent financial year in February. Throughout this process updates are communicated through key officer forums, such as CMT and BTB, with regular monthly updates to HIP SG through the Corporate Finance work stream.
- 3.20 **Hillingdon Partners** is a voluntary body which 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.
- 3.21 The **Safer Hillingdon Partnership (SHP)** is the statutory Community Safety Partnership for the borough established under the Crime and Disorder Act 1998, the Police and Justice Act 2006 and Police and Crime Act 2009. The SHP has a duty to conduct an annual strategic assessment of community safety trends and agree key community safety priorities for implementation across the partnership. Performance and progress made against the annual plan is monitored and scrutinised by the SHP Board at every meeting. The relevant Cabinet Member is a member of the SHP Board. Scrutiny of the SHP Board's performance is undertaken by elected councillors sitting on the Council's External Services Policy Overview Committee.
- 3.22 A **Joint Strategic Needs Assessment (JSNA)** outlines the current and future health and wellbeing needs of the population over 3 to 5 years and informs the Council's service planning, commissioning strategies and links to strategic plans such as LBH's Joint Health and Wellbeing Strategy. The JSNA is 'live' and can be accessed via the LBH website and is updated throughout the year rather than being refreshed annually.
- 3.23 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 Terms of Reference for the Audit Committee has been updated in 2017/18 and formally approved. Some relevant training has been undertaken for Members of the Committee and a new Independent Chairman has been recently appointed to further strengthen the Council's governance arrangements.

Annual Governance Statement 2017/18

- 3.24 The **Performance Management Framework** is a Council-wide framework requiring all service areas and teams to set annual service delivery plans, targets, identify risk and report performance against Council priorities. Key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.
- 3.25 LBH has established an effective **risk management framework**, including:
- The **Risk Management Policy and Guidance** outlines the roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. The Corporate Risk Register enables the identification, quantification and management of the key strategic risks to delivering the Council's objectives. Directorate 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 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. The Audit Committee has previously commented that good progress has been made in strengthening the process for updating the Council's Corporate Risk Register on a quarterly basis. The Council's Risk Management framework is reviewed annually by the Business Assurance Internal Audit team, as well as Corporate Management Team and the Audit Committee.
 - 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.
 - **Risk Management training** for staff and Audit Committee Members is available via an e-learning training module. Completion rates have been steady with 22% of the management workforce having completed training. Business Assurance continues to raise awareness and promote the module via staff publications. Further improvement work in this area is planned which will include the provision of bite size training sessions for staff in relation to risk management.
- 3.26 LBH recognises there is a continued need for effective strategic and operational **risk management processes** and procedures across the council. Effective risk management helps to mitigate against the financial and reputation risks arising from the broad range of **insurable risks** to which LBH is exposed. It is anticipated that the LBH insurance contracts will support the transfer of financial risk through a mixed portfolio of suppliers specialising in particular insurance sectors, alongside proactive actions by the Insurance Team to raise awareness of such risks.
- 3.27 The Business Assurance **Health and Safety (H&S) Team** provides advice and support to the Hillingdon H&S Group (HHSG), to Directorate H&S Champions as well as to managers regarding H&S issues. The HHSG assists in ensuring a consistent approach to H&S management is adopted throughout the Council. It reviews H&S performance across the Council and discusses matters of topical and strategic interest that have corporate H&S consequences.
- 3.28 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 Improvement Action Plan (IGIAP). The relevant policies, procedures and guidelines for staff are updated in line with the IGIAP. Where identified, learning from any data protection incidents that have occurred is integrated into the IGIAP. As a result of the introduction of the General Data Protection Regulations (GDPR) in May 2018, the Council has been preparing staff by reviewing all of its data protection policies and procedures. In addition, bite-size training sessions have been delivered to staff all across the Council and a revised e-learning training module has been developed and rolled out. The Council's preparations for GDPR are on track and the e-learning training module is now live (and in line with corporate policy this will be mandatory for all staff to complete).
- 3.29 LBH has a comprehensive **Counter Fraud Strategic Plan 2018/19** which has been endorsed by CMT and formally approved by the Audit Committee. This is underpinned by the ongoing development of the Fraud Universe and a full range of investigative policies and procedures including the Council's Whistleblowing Policy. Work is ongoing to progress the updates to these policies and procedures and once finalised they will be communicated to all key stakeholders to help increase fraud awareness at LBH.
- 3.30 The **Committee Standing Orders** (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme

Annual Governance Statement 2017/18

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 LBH's internal web pages (Horizon).

- 3.31 LBH monitors **legislative changes**, considers implications and opportunities and ensures that the authority is substantially compliant with laws and regulations. CMT is briefed on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review key committee and all executive reports prior to decision, for legal compliance.
- 3.32 LBH's **training and development programme** enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon'. This helps ensure they have the skills, knowledge and behaviours to deliver the Council's priorities. This training includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework.
- 3.33 An updated combined **GDPR training programme** (refer to para 3.28) was rolled out to staff in March 2018 to raise awareness and train staff on the new data protection requirements. 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.
- 3.34 The **Performance and Development Appraisal (PADA)** process at LBH requires all staff to record employees' key objectives and tasks, set targets for when these must be delivered and identify staff learning and development needs. There are competency frameworks for all levels of staff (updated this year), with descriptors outlining the performance that is expected at each level, with a revised competency framework scheduled to be launched in 2018/19. Performance reviews are required to be completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support all staff and managers through the process.
- 3.35 LBH has a set of general **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out LBH's commitment to engage, consult and respond to the views of local communities. The standards also support LBH's commitment to transparency and the need for sharing information with LBH residents. All resident and stakeholder feedback supports and informs the Council's corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. A customer engagement approach is in place covering all Council services to align customer engagement to support the delivery of Council priorities.
- 3.36 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.
- 3.37 **Fire Safety** - Following the tragedy at Grenfell Tower in June 2017 and the subsequent concerns across the country regarding fire safety practices in all high-rise residential properties, LBH immediately accelerated its planned programme of remedial work including fire door renewals. Every one of LBH's properties has undergone an updated fire risk assessment and the Council confirmed that none of its properties had the cladding which was used at Grenfell Tower. The planned rolling programme of remedial work to LBH properties continues to be progressed. The Fire Safety Risk will carry on being monitored by the Council via the Residents Services Directorate Risk Register.
- 3.38 **Unaccompanied Asylum Seeking Children (UASC)** - As a consequence of having Heathrow Airport within the borough, the Council remains over the 0.07% limit of UASC which as a result places undue pressure on LBH capacity to find suitable placements for these young people. This will in turn increase the numbers of care leavers which under the new legislation means that LBH has to support up to the age of 25. As a consequence, this has resulted in a significant drop in grant income, as there are a high proportion of UASC who turned 18 during 2017/18, where the grant funding is less than that provided for under 18's. Strengthened governance practices and positive action is underway with LBH Social Care dispersing 112 UASCs since the introduction of the National Transfer Scheme (NTS).
- 3.39 **Homelessness Reduction Act and Universal Credit** - During 2017/18 good progress was made to deliver the outstanding actions from the Internal Audit review of homeless prevention services. The service has committed to review its procedures during 2018/19 in light of the new Homeless Reduction Act. Although the service has considered the implications and opportunities to ensure that LBH is substantially compliant with this new legislation, there is inherently an increased risk of legal challenge in this area.

Annual Governance Statement 2017/18

4. Review of Effectiveness

- 4.1 The Council has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment. It is also informed by the Head of Business Assurance's Annual Internal Audit Report and Head of Internal Audit Opinion Statement, as well as comments and observations made by the Council's independently appointed external auditors (Ernst & Young) 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; and
 - 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 Business Assurance, which develops its quarterly Internal Audit plans after an assessment of risk and priorities including discussions with senior managers. The Head of Business Assurance (& Head of Internal Audit) reported quarterly during the year to both the CMT and the Audit Committee. Overall the Head of Internal Audit has provided a 'reasonable' level of assurance on the Council's internal control environment for 2017/18.
- 4.4.5 Management Assurance Statements (MASs) were completed by all Deputy Directors and Heads of Service covering the financial year 2017/18. The MASs 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 LBH has continued to maintain effective financial management throughout the financial year, with unallocated reserves of £40 million as at 31st March 2018.
- 4.4.7 LBH 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 and governance systems were in place for the financial year ended 31st March 2018 and, except where identified in section 5, the LBH's management and control systems are operating effectively in accordance with good practice.

Annual Governance Statement 2017/18

5. Significant Governance Issues

- 5.1. LBH 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 **2016/17 AGS** and in previous years have been addressed and the following points are noted:
- 5.2.1 LBH continues to review and strengthen its **Business Continuity/Disaster Recovery** measures in the ICT team. The risk that *'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'* is still present. However, LBH has appointed a consultant to support it in mitigating this risk. An action plan with clear aims and deadlines has been devised. Across the Council all services are expected to have a Business Continuity Plan in place in which they have advised their staff on what to do in the event that ICT becomes unavailable during an incident. The Council's ICT team is also looking at providing support to critical services (such as Social Care) and have been reviewing the viability of cloud computing, which allows more robust access and flexibility. All proposals to improve controls in this area will be put forward to the Council's CMT. Capital funding has provisionally been identified and CMT are to further review alternate location options for emergency command and control.
- 5.2.2 An Internal Audit of **Building Control** services identified a number of operational and financial risks. Positive management actions with appropriate timescales were agreed to address these risks and in 2017/18 all actions were implemented.
- 5.2.3 The **Dedicated Schools Grant Budget** remains under significant pressure, with a projected in year deficit and an increased cumulative deficit in 2017/18 expected to be around £3.5m. This can be directly attributed to an increase in the cost of High Needs placements.
- 5.2.4 There has been a 15% increase over the last year in High Needs placements and the number of students being supported that are over 18 has more than doubled. This is the full effect of the **Children and Families Act 2014** as it feeds through the system. Alongside this, LBH maintained schools are showing signs of funding pressures, with 30 schools out of 56 having experienced a reduction in their school balances at the end of 2016/17 and the majority predicting a further use of balances in 2017/18. At the beginning of 2017/18, 8 schools had balances of less than £50k, of which 3 schools had deficit balances. Of these, 2 schools set a licensed deficit budget in 2017/18.
- 5.2.5 Additionally there are currently a further **5 schools in receipt of cash loans**; aimed at assisting with cash flow management. The DfE has issued revised guidance on responsibility for school deficits and the definition of loans which may increase the exposure of the Council's general fund in this area.
- 5.2.6 The Social Care Finance team previously identified there was 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 have made improvements to the data collected relating to clients with dedicated resource in Social Care and Housing. By working collaboratively, there is a better understanding on the data and the families the Council is supporting, so although there is still a financial risk/burden, there is now confidence these are being fully captured as part of the monthly budget monitoring process.
- 5.3 Following a review of the effectiveness of the system of internal control including the Council's risk management framework and its corporate governance arrangements, the following significant governance issues have been identified in 2017/18:
- 5.3.1 **Houses of Multiple Occupancy (HMO)** - An Internal Audit (IA) follow-up review on the Council's HMO finalised in November 2017 identified a number of governance issues requiring improvement. The IA recommendations were deemed not implemented at the time of this review, with significant further action required to ensure the associated risk is effectively managed. Further to this, the Council's Housing Standards Team moved reporting lines and positive action was progressed. This included the introduction of a mechanism to log complaints, tests undertaken to verify whether any HMO landlords have committed any offence under the Housing Act 2004, enhanced management information regarding compliance of the processing of applications and the introduction of schedules and template for inspections. A second follow-up Internal Audit review was completed in March 2018 which focused on the progress of each of these recommendations. It was confirmed that good

Annual Governance Statement 2017/18

progress had been made to implement actions in response to the recommendations raised.

- 5.3.2 **Trading Standards** - During 2017/18 Internal Audit issued an opinion of limited assurance in relation to the management of Trading Standards. Some inadequate governance issues were identified regarding the risk assessment and scoring process for referrals. Operating procedures were inconsistent and required review and updating to include prescribing the standards for electronic case recording and document retention. This will ensure all documentation pertaining to a Trading Standards investigation is appropriately stored and retained on Civica APP. The service has committed to fully implement all recommendations during Quarter 1 2018/19.
- 5.3.3 **Anti Social Behaviour Investigations Team (ASBIT)** - An Internal Audit follow up review of ASBIT finalised in March 2018 highlighted lack of progress of recommendations to establish a clear procedure and protocol for referrals and management of cases for community trigger casework. Positive management actions have been proposed and agreed to address these risks. LBH work has commenced to update the process map for community triggers and CST service plan which will clearly define roles and responsibilities and management oversight. The service has identified and is moving towards a web based system to improve recording and streamline data arrangements.
- 5.3.4 **Disabled Facilities Grant (DFG)** - An Internal Audit assurance review of the DFG process finalised in March 2018 identified opportunities to strengthen governance, clarify roles and responsibilities and strengthen the use of systems and key performance indicators to track contractor performance. LBH management action has been agreed to fully implement all recommendations by the end of 2018/19 Quarter 2.

- 5.4. The Council continues to operate in an environment of declining financial support from government against a backdrop of rising inflation costs and significant demographic changes (i.e. there are an increasing number of children in the borough and people are living longer). As a result, this presents the Council with the challenge of managing the greater demand for its broad range of services, which in the absence of any response would result in a rising annual deficit that would reach £55m by 2022/23. However, LBH continues to review and transform services to drive improvement and efficiency through initiatives such as the successful BID programme, which has bridged the budget gap by delivering £15.5m savings in 2017/18. This proven successful approach is set to be continued beyond 2017/18, enabling the Council to continue 'putting our residents first' despite the challenging financial conditions and demographic pressures.

Fran Beasley
Chief Executive
XX XXX 2018

Cllr Ray Puddifoot MBE
Leader of the Council
XX XXX 2018

Glossary

ACCRUAL - A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end of the period.

ACCUMULATED ABSENCES ACCOUNT - Absorbs the differences arising from the statutory requirement to neutralise the impact on the General Fund Balance of accruing for compensated absences earned but not taken in year.

ACTUARIAL VALUATION - A valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

ACTUARY - An independent professional who advises on the financial position of the pension fund.

AGENCY SERVICES - The provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

AMORTISED COST - The initial measurement will be at fair value, normally the amount of the originating transaction such as the receipt or loan advance less transaction costs. The effective interest rate is then calculated to the amount in the balance sheet at initial measurement. The result in the balance sheet carrying amount (the amortised cost) and a profile of interest charges that might be different from the amounts specified in the contract as being for interest and principal.

ASSET - Something that will be used by the Council over a long period of time and has a lasting value (e.g. land, buildings, and roads). See also **COMMUNITY ASSETS, NON CURRENT ASSET, INFRASTRUCTURE ASSETS, ASSETS HELD FOR SALE, NON-OPERATIONAL** and **OPERATIONAL ASSETS**.

ASSETS HELD FOR SALE - Assets that are being actively marketed for sale and are expected to be sold within the next financial year.

BAD DEBT PROVISION - Amounts set-aside in the accounts towards potentially irrecoverable debts. This amount is netted against Debtors in the Consolidated Balance Sheet.

BALANCES - Unallocated reserves held to resource unpredictable expenditure demands.

BUDGET - A statement of the Council's plans for services expressed in money shown over one or a number of years.

CAPITAL ADJUSTMENT ACCOUNT - The Capital Adjustment Account represents the balance of capital resources set aside to finance capital expenditure awaiting the consumption of those resources (i.e. depreciation or impairment).

CAPITAL CHARGE - A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE - Spending on assets (e.g. land, buildings, roads etc.) that adds to and not merely maintains the value of an existing fixed asset.

CAPITAL RECEIPTS - The proceeds from the sale of land, buildings or other assets. Capital receipts can be used to pay for new capital expenditure, within rules set down by the Government, or to repay outstanding loans.

CASH EQUIVALENT - Amounts held as short term deposits which are readily convertible into cash.

CIPFA - The Chartered Institute of Public Finance and Accountancy is the professional accounting body that specialises in the public services.

COMMUNITY ASSETS - Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CONTINGENCY - Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Glossary

CONTINGENT ASSET - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY - A contingent liability is either:

a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or

b) Past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE - The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities with a responsibility for making choices in the use of taxpayers' money. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COUNCIL TAX - The local tax based on relative market values of residential property, which helps to fund local services.

CREDITORS / PAYABLES - Amounts owed by the Council for goods and services received where payment has not been made at the date of the balance sheet.

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

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

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

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

DEBTORS / RECEIVABLES - Amounts owed to the Council for goods and services provided but not received at the date of the balance sheet.

DEDICATED SCHOOLS GRANT - A specific grant for the funding of schools and which is ring fenced to the Schools Budget.

DEPRECIATION - The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

DIRECT REVENUE FINANCING (revenue contributions to capital) - Resources provided from the Council's revenue budget to finance the cost of capital projects.

DISTRICT AUDITOR - An auditor employed directly by the Audit Commission to audit the accounts of local authorities.

EARMARKED RESERVES - Amounts set aside for a specific purpose or a particular service or type of expenditure.

EFFECTIVE INTEREST RATE - The rate of interest that will discount the estimated cash flows that take place over the life of the instrument.

EMOLUMENTS - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Glossary

EXCEPTIONAL ITEMS - Material items that fall within the ordinary activities of the Council that need to be disclosed in order to present the accounts fairly.

EXTRAORDINARY ITEMS - Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

FAIR VALUE - the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FEES AND CHARGES - Income raised by charging users of services.

FINANCE LEASE - A method of paying for capital expenditure where a rent is paid for an asset during its useful life. Finance Leases are treated as capital. See **OPERATING LEASE**.

FINANCIAL YEAR - The period covered by a set of financial accounts - the Council's financial year commences 1 April and finishes 31 March the following year.

GENERAL RESERVE - amounts remaining unspent on revenue account after taking account of all expenditure and income for the year. The General Reserve is required to enable the Council to meet potential business risks in the future so that services will not be affected financially should unexpected events occur.

GOING CONCERN - The concept that an entity will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assumes no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS - Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the Council.

GROSS EXPENDITURE - The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

IMPAIRMENT - A reduction in the value of a fixed asset below its previously assessed value in the balance sheet.

INCOME - Amounts due that has been or is expected to be received.

INFRASTRUCTURE ASSETS - Fixed assets that have no alternative use and are intended to be held in perpetuity. Examples of infrastructure assets are highways and footpaths.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - Statutory guidelines by which the accounts have to be prepared, implemented for the first time in the 2010/11 accounts.

INVENTORIES - The amount of unused or unconsumed stocks held in expectation for future use.

INVESTMENT PROPERTIES - Assets held solely for capital appreciation or to earn rental and not to meet service objectives.

INVESTMENTS - Short-term investments are those maturing within one year if the balance sheet date, any investments maturing more than one year after the balance sheet date are treated as long-term investments.

LOANS AND RECEIVABLES - Financial assets (excluding derivatives) that have fixed or determinate payments and that are not quoted in any in any active market. Loans and receivables are carried at amortised cost. The income and expenditure account is charged with interest receivable, impairment losses and any gain or loss on "de-recognition". Movements in fair value during the life of the asset are not recognised.

LIABILITIES - Money owed to individuals or organisations that will be paid at some time in the future.

Glossary

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

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

MINIMUM REVENUE PROVISION - (MRP) - The minimum amount, which must be charged each year to the Council's revenue account to set aside funds to repay the principal sum of borrowing for capital purposes.

NATIONAL NON-DOMESTIC RATE (NNDR) - A levy on businesses based on a national rate in the pound multiplied by the ratable value of the premises occupied. NNDR is redistributed among all local authorities and police authorities on the basis of population.

NET BOOK VALUE - The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET EXPENDITURE - Gross expenditure less specific service income but before deduction of revenue support grant.

NET CURRENT REPLACEMENT COST - The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE - The open market value of the asset in its existing use (open market value in the case of non-operational assets), or sale proceeds for stocks and stores less the expenses to be incurred in realising the asset.

NON-CURRENT ASSET - An asset that has value beyond one financial year.

NON-DISTRIBUTABLE COST - These include overheads for which no user now benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

NON-OPERATIONAL ASSETS - Non Current assets held by the Council not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets under construction and assets that are surplus to requirements, pending sale or redevelopment.

OPERATIONAL ASSETS - Non Current Assets held, occupied, used or contracted to be used on behalf of the Council or consumed by the Council in the direct delivery of the services for which it has a responsibility, whether statutory or discretionary or for the service or strategic objectives of the Council.

OPERATING LEASE - A lease under which the asset can never become the property of the lessee.

OUTTURN - Actual income and expenditure for a financial year.

PAST SERVICE COST - The increase in present value of Pension Fund liabilities arising in the current year from previous years' service.

PENSION FUND - The Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer and employees and from investment income.

PENSION INTEREST COSTS - Expected increases in present value of Pension Fund liabilities because benefits are due one year sooner.

POST BALANCE SHEET EVENTS - Those events, both favorable and unfavorable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

PRECEPT - The charge made by one authority on another to finance its net expenditure.

Glossary

PRIOR YEAR ADJUSTMENTS - Material adjustments applicable to prior years arising from changes in accounting policies or to correct errors.

PRIVATE FINANCE INITIATIVE (PFI) - A central government initiative that aims to increase the level of funding available for public services by attracting private involvement. The Council has one such scheme relating to the provision of Barnhill School. The school has been developed and its ancillary services are provided by a private-company with which the Council has a long-term contract.

PROVISION FOR DISCOUNT AND PREMIUMS ON LOAN REDEMPTION - A provision to spread over an appropriate period discounts received and premiums paid when loans from the Public Works Loan Board are prematurely repaid.

PROVISION - An amount, set-aside in the accounts, for liabilities that have to be met but where timing is uncertain.

PRUDENCE - The concept that revenue is not anticipated but is recognised only when realised in the form of cash or other assets and full and proper allowance is made for all known and foreseeable losses and liabilities.

PUBLIC WORKS LOAN BOARD (PWLB) - A government agency that provides long term and medium term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

RELATED PARTY - Relationships between a senior officer or elected member or their families with another body that has, or might develop, a business relationship with the Council.

RESERVES - Money set aside by the authorities to meet particular expenditure in future years, which do not fall within the definition of provisions.

REVALUATION RESERVE - a new account opened on 1st April 2007 that records all accumulated gains from fixed assets held by the Council offset by that part of depreciation relating to the revaluation.

REVENUE EXPENDITURE - The day-to-day running costs incurred by the Council in providing services, for example payment of salaries to employees or purchase of materials.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE - A charge arising from capital expenditure but where there is no tangible asset. An example is grants given for private property improvement. The Council is permitted to borrow for such expenditure

REVENUE SUPPORT GRANT - A grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

SERCOP - Service Reporting Code of Practice

SOLACE - Society of Local Authority Chief Executives

SPECIFIC GRANTS - These are grants paid by various government departments outside the main formula. They include ring-fenced grants and specific formula grants.

SURPLUS ASSETS - Assets which are no longer in use by the Council but which are not being actively marketed and are not expected to be sold within the next financial year.

TAXBASE - The number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its Council Tax, and when central government calculates entitlement to Formula Grant.

TRANSFER VALUE - A payment one superannuation fund makes to another when a member changes employment.

TRUST FUNDS - Money held in trust by the Council for a specified purpose.

USABLE RESERVES - Balances held by the Council which can be used to meet service expenditure.

Glossary

UNUSABLE RESERVES - Balances held by the Council which cannot be used to meet service expenditure

USEFUL LIFE - The period over which the Council will derive benefits from the use of a fixed asset.

VIREMENT - The permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head, i.e. an authorised switch of resources between budget heads.

WORKS IN PROGRESS - Cost of work done on an uncompleted project at the balance sheet date.

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

This page is intentionally left blank

AUDIT COMMITTEE - Annual Internal Audit Report & Opinion Statement 2017/18

Committee name	Audit Committee
Officer reporting	Muir Laurie, Head of Business Assurance
Papers with report	Annual Internal Audit Report & Opinion Statement 2017/18
Ward	All

HEADLINES

The UK Public Sector Internal Audit Standards (PSIAS) requires the Head of Business Assurance (HBA), as the Council's Head of Internal Audit, to deliver an Annual Internal Audit Report and Opinion Statement that can be used by the Council to inform and support its Annual Governance Statement. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how Internal Audit (IA) has supported the Council in meeting the requirements of the Accounts and Audit (England) Regulations 2015. The report also summarises the main findings arising from the work performed by IA during 2017/18 and provides the opportunity for the HBA to highlight to the Committee any significant matters arising from the work of IA during 2017/18. The draft report was considered by Corporate Management Team on 11th July 2018 to allow comment by the officer body responsible for the Council's internal control, corporate governance and risk management arrangements.

RECOMMENDATIONS:

That the Audit Committee:

- 1. Note the Annual IA Report and Opinion Statement 2017/18.**

SUPPORTING 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.

BACKGROUND PAPERS

See attached report.

This page is intentionally left blank

BUSINESS ASSURANCE

Annual Internal Audit Report & Opinion Statement 2017/18

6th July 2018



Contents

The Business Assurance key contacts in connection with this document are:

Muir Laurie
Head of Business Assurance
t: 01895 556132
e: mlaurie@hillingdon.gov.uk

Sarah Hydrie
Internal Audit Service Manager
t: 01895 277907
e: shydrie@hillingdon.gov.uk

<u>Section</u>	<u>Page</u>
1. Introduction	3
2. Executive Summary	3
3. Head of IA Opinion Statement 2017/18	5
4. Analysis of Internal Audit Activity 2017/18	13
5. Internal Audit Follow-up 2017/18	15
6. Review of IA Performance 2017/18	17
7. Forward Look 2018/19	20
<u>Appendices</u>	
<u>Appendix A</u> – Detailed IA Activity 2017/18	21
<u>Appendix B</u> – IA Assurance Levels and Recommendation Risk Ratings	26
<u>Appendix C</u> – Recommendation Risk Ratings	27

1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA), which is part of the Council's Business Assurance (BA) Service, provides an independent assurance and consultancy service that underpins good governance. This is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon (LBH). 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 public sector internal auditing standards or guidance.
- 1.1.2 IA give an objective opinion to the Council on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA service at LBH fully embraces the risk based approach which means IA provides greater assurance to the Council because it is focused on the key risks to the achievement of the organisation's objectives. As a result, IA does not just comment on whether the controls operate, but whether they are the right controls to mitigate risk and enhance the likelihood of achieving the overall aims of the service.
- 1.1.3 The UK Public Sector IA Standards (PSIAS) 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).

1.2 The Purpose of the Annual Internal Audit Report and Opinion Statement

- 1.2.1 This annual report summarises the main findings arising from all of the 2017/18 IA assurance and consultancy work. The report also provides IA key stakeholders including the Council's Corporate Management Team (CMT) and the Audit Committee, with an opportunity to hold the Council's Head of Business Assurance (HBA) [as the Council's statutory Head of Internal Audit (HIA)] to account on delivery of the 2017/18 IA Plan and on the effectiveness of the IA service.
- 1.2.2 The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Authority in meeting the requirements of the Accounts and Audit (England) Regulations 2015.

2. Executive Summary

- 2.1 Despite a significant reduction in IA capacity during the year, the HBA is pleased to report that **the 2017/18 IA plan was 90% complete to draft report stage by 31st March 2018 and 98% complete to final report stage by 30th June 2018**. This is a very good achievement in light of the IA resource constraints in Quarter 4 and highlights the continued collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Council.
- 2.2 Delivery of the IA plan for 2017/18 has been achieved in a relatively timely manner against a backdrop of continuous change and improvement for BA and the Council. These improvements have included continuing to embed a risk based approach to help focus IA resources and enhancing the application of lean auditing principles to the IA process. This has incorporated the further evolution of IA software (TeamMate) which continues to improve the efficiency of the IA service, in particular in relation to the IA follow-up process. Further details of IA performance can be found at section 6 of this report.

2.3 From the work undertaken and from the other sources of assurance referred to in para 3.7:

*It is the HIA's opinion that overall IA can provide **REASONABLE** assurance that the system of internal control that has been in place at Hillingdon Council for the year ended 31st March 2018 accords with proper practice, except for the significant internal control issues referred to in para 3.8 (see para 3.12 for further details).*

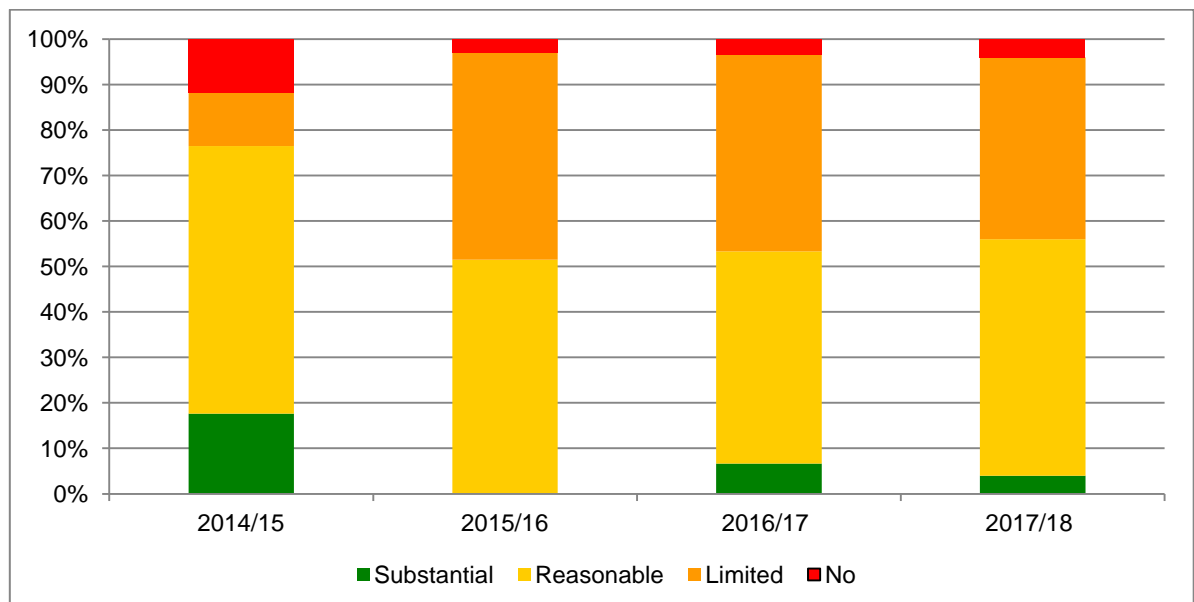
2.4 In total **60** pieces of IA work have been delivered as part of the 2017/18 IA plan. This included **25** assurance reviews, **10** follow-up reviews, **16** consultancy reviews and **9** grant claim audits. Nearly half of the assurance reviews resulted in a **LIMITED (40%)** or **NO (4%)** assurance IA opinion. Whilst this may appear concerning, this provides positive assurance to the Audit Committee and CMT that IA resource is focused on the right areas, often highlighted by management as known areas of concern.

2.5 All of the 2017/18 **HIGH** and **MEDIUM** risk recommendations raised by IA were accepted by the relevant managers/risk owners, with positive action proposed to TREAT all these risks (this includes the issues highlighted in the quarterly IA progress reports presented to the Audit Committee and CMT during 2017/18). Further analysis of the IA assurance levels issued in 2017/18 along with a breakdown of the risk recommendations raised can be found at section 4 of this report.

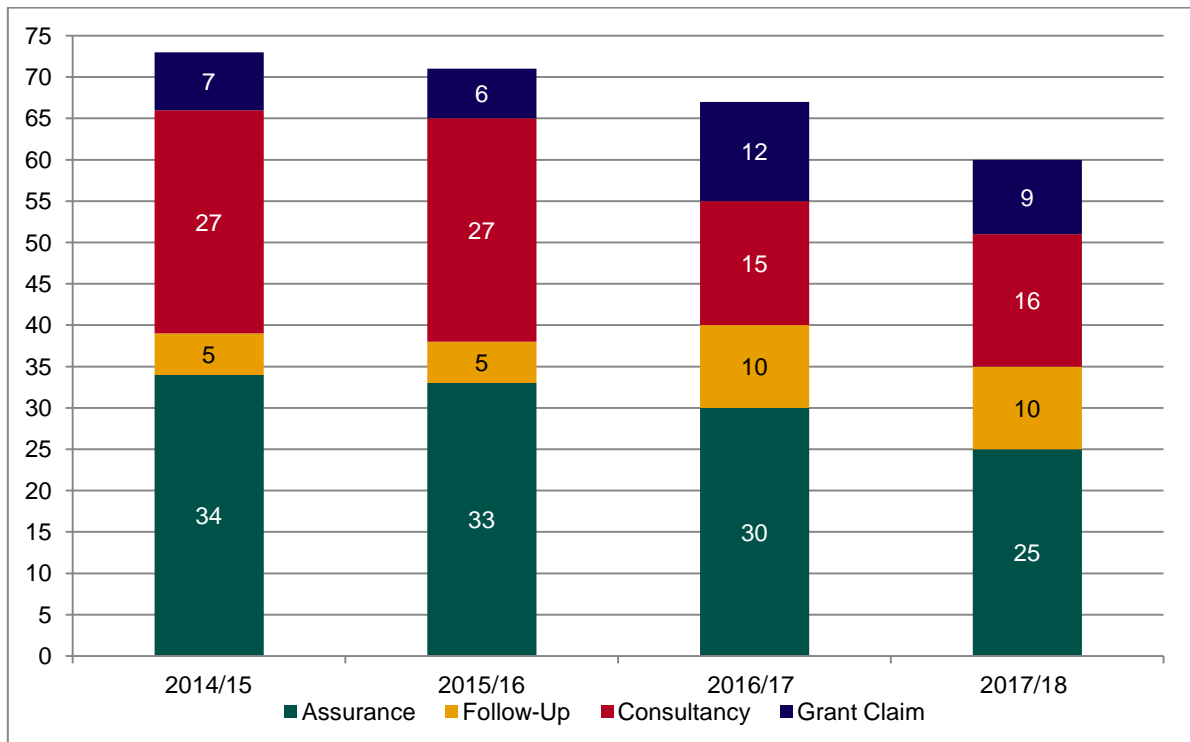
2.6 The table below provides an analytical review of assurance opinions issued by IA over the last 4 years which demonstrates a broadly consistent picture, in particular over the last two years:

Assurance Level	2014/15	2015/16	2016/17	2017/18
Substantial	6 (17%)	0 (0%)	2 (7%)	1 (4%)
Reasonable	20 (59%)	17 (51.5%)	14 (47%)	13 (52%)
Limited	4 (12%)	15 (45.5%)	13 (43%)	10 (40%)
No	4 (12%)	1 (3%)	1 (3%)	1 (4%)
Totals	34	33	30	25

2.7 The bar chart below highlights that IA assurance reviews continue to be focussed on the areas of greatest risk:



2.8 Despite a significant shortfall in IA resource during the year, deployment has broadly been consistent with the prior year, as highlighted by the bar chart below:



2.9 Focussing dedicated IA resource to the process of **following-up recommendations** that are due to have been implemented, has helped to continue to achieve a positive outcome for the Council during 2017/18. Specifically, as at 16th July 2018, **100%** of the **HIGH** risk recommendations raised in 2017/18 that have fallen due (6) have been confirmed by management as in place. IA verification work is ongoing to confirm these recommendations are embedded and operating as intended. The remaining **HIGH** risk recommendations implementation date has not yet passed. Further details of the follow-up of previous IA recommendations can be found at section 5 of this report.

3. Head of Internal Audit Opinion Statement 2017/18

3.1 Background

3.1.1 The HIA opinion statement is provided partly to help inform the Chief Executive and Leader of the Council to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2017/18 year. The AGS provides public assurances about the effectiveness of the Council's governance arrangements, including the system of internal control. The HIA opinion statement meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (England) Regulations 2015 and is in line with the UK PSIAS.

3.2 Scope of Responsibility

3.2.1 The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council 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 Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. Specifically, the Council has a statutory responsibility for conducting a review of the effectiveness of the system of internal control on at least an annual basis.

3.3 The Purpose of the System of Internal Control

- 3.3.1 The Council's system of internal control is designed to manage risk to a reasonable level rather than to completely eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable, and not absolute, assurance of effectiveness.
- 3.3.2 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's vision, strategic priorities, policies, aims and objectives. It also is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.4 Annual Opinion Statement on the Effectiveness of the System of Internal Control

- 3.4.1 The IA Plan for 2017/18 was developed primarily to provide CMT and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Council's corporate governance arrangements and risk management framework.
- 3.4.2 The HIA opinion is based primarily on the work carried out by the Council's IA service during 2017/18, as well as a small number of other assurance providers. Where the work of the Business Assurance Counter Fraud Team (BACFT) has identified weaknesses of a systematic nature that impact on the system of internal control, this has been considered in forming the HIA opinion.

3.5 Basis of Assurance

- 3.5.1 All of the IA reviews carried out in 2017/18 have been conducted in accordance with the UK PSIAS. An independent external quality assurance (EQA) review of the IA service, finalised in September 2017, confirmed that **Hillingdon's IA service fully conforms** to the PSIAS, complies with each of the statements of good practice and core principles. The EQA stated that IA has a very positive impact on the governance, risk and control environment within the organisation.
- 3.5.2 In line with the UK PSIAS, the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team has evolved during the year with every single member of the IA team either fully qualified or actively studying for a relevant professional IA qualification. This has been supported by our external IA partner provider (Mazars). As a result, the 2017/18 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and suitably experienced staff.

3.6 Qualifications to the Opinion

- 3.6.1 During 2017/18 the Council's IA service:
- had **unrestricted access to all areas and systems** across the authority;
 - received **appropriate co-operation from officers and members**; and
 - had **sufficient resources to enable it to provide adequate coverage** of the authority's control environment to provide the overall opinion (refer to para 3.12.4).

As a consequence, **there are no qualifications to the 2017/18 HIA opinion statement.**

3.7 Other Assurance Providers

- 3.7.1 In formulating the HIA overall opinion on the Council's system of internal control, the HBA has taken into account the work undertaken by other sources of assurance, and their resulting findings and conclusions.

3.7.2 These other assurance providers which included:

- Coverage of the BACFT;
- The work of the Corporate Risk Management Group (refer to para 3.10);
- The work of the Corporate Governance Working Group (refer to para 3.11);
- The work of the Business Continuity Management Group;
- The work of the Hillingdon Information Assurance Group;
- The work of the Hillingdon Health & Safety Group;
- The Audit Committee - an IA assurance review of the effectiveness of the Audit Committee was reported in 2016/17;
- External inspections i.e. Ofsted; and
- Coverage by External Audit (EY) including grant claim certification i.e. HB Subsidy.

3.8 Significant Internal Control Weaknesses

3.8.1 IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year.

3.8.2 **There were several significant control weaknesses identified by IA during 2017/18.** Work is ongoing to strengthen the Council's control environment in relation to the significant control weaknesses identified. These included (but are not limited to):

1. The 2017/18 IA review of **Houses in Multiple Occupation registration, including fit and proper person** identified a wide range of gaps which cumulatively created significant concerns in the undertaking and documenting of checks performed to satisfy that the property passed the required safety checks and has supporting certification. As a result we were unable to provide assurance that a license was appropriately recorded and was issued following performance of sufficient checks, potentially exposing residents to health and safety risks, with potential for severe reputational damage in the event of an untoward incident. Management have taken prompt action in response to these issues being highlighted, including a change in senior management reporting line. Two subsequent IA follow-ups have been completed within the year providing assurance of positive action that reduces risk exposure in this area.
2. Following the decision taken by Schools Forum in October 2015, IA no longer carries out thematic audits or cyclical reviews in local authority (LA) **maintained schools**. IA coverage in this area is now reduced to the statutory minimum and as a result LBH maintained schools are only subject to IA reviews where there is a known significant risk. Known risks in schools will be considered and identified with LA partners including Members, Schools Finance and the Schools Improvement Team. There of course remains an obligation for all maintained schools to appropriately manage their risks and to comply with their policies and financial regulations. Given that accountability for the internal control environment rests with School Management and their Governing Body, risk management, internal control and policy compliance should continue to be monitored appropriately within the existing school's governance and committee structures. However, where there are concerns raised regarding practice or risk management at a LBH maintained school, the Council retains the authority to carry out an independent assurance audit of that school at any reasonable time.
3. Continued gaps in **records management and document retention** persist as Capita e-sourcing is embedded. This has been highlighted in IA reviews during the year in relation to the retention of key contractual documentation i.e. signed agreements, terms and conditions of contract, service specifications, pricing schedules, SLAs and the agreed contractor performance metrics/KPIs. Greater clarity over the corporate records management and document retention processes and defining roles and responsibilities is still required.

-
4. The 2017/18 IA review of **Trading Standards** identified the absence of a consistent complaint assessment process, in particular the lack of recording of referrals scoring below the set threshold and rationale for scores, limiting the ability for Trading Standards to utilise historic complaints scoring below this threshold as part of the assessment. Reports into most complained about traders are currently not utilised and, at present, would be limited by the non recording of complaints below the threshold score. However, our analysis of the Civica data for our sample of referrals identified instances where more than one referral had been received against the same trader with one case where 12 complaints for underage alcohol sales at a particular premise had been received with limited action evidenced as taken by Trading Standards.
 5. Our assurance and consultancy work continues to identify thematic **contract management shortcomings** across the Council (as previously reported in the IA Annual Reports for both 2014/15, 2015/16 and 2016/17). Generally, weaknesses identified stem from a lack of clarity over strategic and operational contract management/monitoring responsibilities. This has in some areas of the organisation impacted oversight and monitoring of contractor delivery. Specifically IA coverage has highlighted varying degrees of contract management by service managers and their interaction with the Corporate Procurement team. Improvement in this area was evidenced during 2017/18, yet instances remain where responsibilities between managers and Corporate Procurement are still unclear.
 6. A key theme identified throughout a number of IA reviews within 2017/18 continues to be the noticeable control weaknesses and/or gap in the **'second line of defence'**. This included service risk management (refer to para. 3.10) and in particular quality control and inspection. In line with this theme, several audits within 2017/18 have identified gaps in, or the absence of, data quality and quality assurance controls, impacting and potentially compromising the accuracy, reliability and integrity of data. Whilst the reduction in focus on the 'second line of defence' may be attributed to reducing resource as a result of austerity, its absence could negatively impact service delivery, including management information, decision making and statutory compliance.

3.9 Internal Control Improvements

3.9.1 In addition to the action taken by senior management to address the significant control weaknesses, IA has identified during the year a number of areas where other improvements have strengthened the control environment. These include:

- **Management and organisational structures have strengthened within the year.** In particular, Senior Management restructures within Residents Services and Social Care have enhanced the control framework, stabilising and enhancing the robustness of the internal environment and associated monitoring activities within 2017/18.
- The Council has been successful at continuing to **achieve transformational savings and improve its financial resilience**. This has been done whilst at the same time continuing to deliver a range of innovative projects to help drive forward major change across the Council. The Hillingdon Improvement Programme (HIP) has been a fundamental part of this success and helped **improve the services delivered to residents** in line with the Council's vision of *'Putting Our Residents First'*.

3.10 Risk Management

3.10.1 Risk Management (RM) is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council to achieve its objectives and fulfil its strategic priorities. The IA opinion on the effectiveness of the Council's RM arrangements is based on **the Chartered Institute of Internal Auditors' Risk Maturity Model**. IA has identified that there is good RM practice in an increasing number of areas of the Council's operations, but there remains that the majority of service's understanding of RM could be improved.

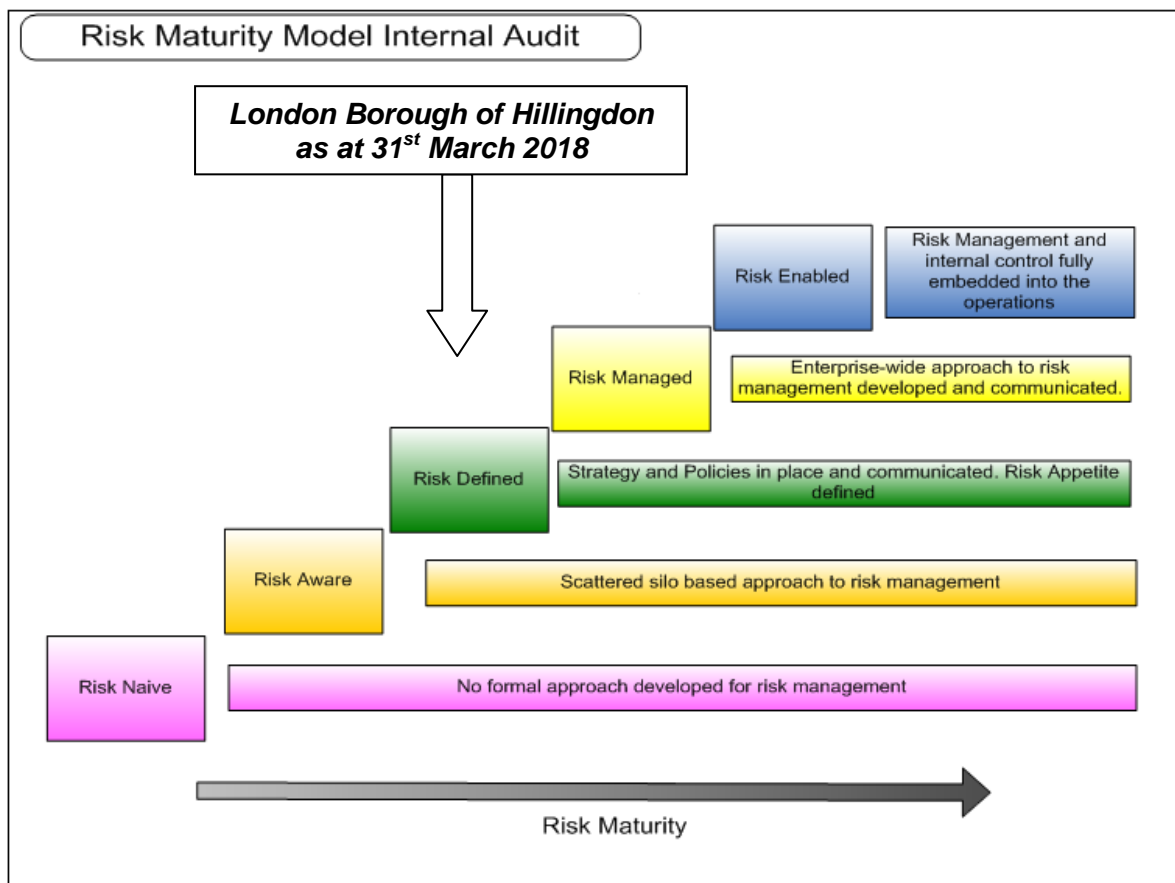
3.10.2 IA's review of the Council's RM arrangements concluded that whilst the approach to RM at a strategic level was good, risk identification and management at a more operational level remains that of a scattered, silo based approach.

3.10.3 The RM policy and guidance was updated and approved in January 2018 with comprehensive detail as well as the clarity of roles, responsibilities and accountabilities of Members and Officers in relation to RM. The Council has a well established Corporate Risk Management Group (CRMG) in place which meets quarterly and discusses strategic (corporate) risk issues in a sufficient manner. Strategic risks are monitored and reviewed by Group SMTs, CMT as well as the Audit Committee on a quarterly basis. In addition, whilst it is the responsibility of all employees to identify and manage risks effectively, there are designated risk champions representative for each Group (Directorate) with accountability assigned for each identified strategic risk to own and manage, in liaison with the lead Cabinet Member.

3.10.4 However, the Council needs to further improve the process for identifying and recording risks at an operational level. In particular, IA's judgement in this area is that risks below Group level are not being consistently identified, treated and escalated across the organisation. Further, service risk registers, whilst encouraged, are not in place for a large number of areas across the Council. We have therefore concluded that the approach to managing operational risks still requires significant work if the Council is to achieve a **Risk Managed** enterprise-wide approach to risk management.

3.10.5 Nevertheless, a number of enhancements to risk management arrangements have been noted throughout the year. This includes the establishment of risk appetite statements for each risk within the corporate risk register and the communication of the updated RM policy and guidance. As a result, the IA assessment of **the Council's Risk Management maturity is** that the Council was **Risk Defined** as at 31st March 2018. In our opinion, the Council demonstrates all the main characteristics of a **Risk Defined** maturity level and the key requirements that apply to this maturity level are now in place.

CHARTERED INSTITUTE OF INTERNAL AUDITORS' RISK MATURITY MODEL



3.11 Corporate Governance

3.11.1 The 2017/18 IA opinion on the effectiveness of the Council's corporate governance arrangements is based on the **Langland's Report on 'Good Governance Standard for Public Services'**. The Langland's report contains best practice governance in the public sector and IA's assessment is highlighted in the table overleaf:

Langland's Governance Principles	IA Assessment of Hillingdon
1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.	SUBSTANTIAL Assurance - The Council's vision and strategic priorities are clearly communicated and understood by officers. The Council's vision ' <i>putting our residents first</i> ' provides the clear direction that is required to fulfil the Council's purpose and achieve positive outcomes for residents. Even without a formal corporate business plan, the overarching strategies of the Hillingdon Improvement Programme /Business Improvement Delivery programme and Medium Term Financial Forecast provides the steer and focus to achieve the Council's vision and strategic priorities.
2. Good governance means performing effectively in clearly defined functions and roles.	REASONABLE Assurance - The Council's Constitution comprehensively sets out how the Council is governed with the function/role of the Cabinet clearly defined and documented. Further, the roles and responsibilities for the HIP Steering Group and CMT have strengthened during the year. As a result, it is IA's opinion, that the organisational structure is fit for purpose to deliver the Council's vision and priorities. Nevertheless, there is scope to further improve understanding of governance across the Council and to provide additional clarity relating to roles and responsibilities.
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.	REASONABLE Assurance - The Council has a Code of Conduct in place for both officers and Members to ensure values and behaviours are upheld consistently across the Council. Member and officer relations were found to be good with no significant concerns. A Counter Fraud Strategic Plan was approved by the Audit Committee in April 2018. This is still to be underpinned by the full range of supporting policies and procedures including the Council's Whistleblowing Policy. The Council does not maintain a Local Code of (Corporate) Governance; this would assist the Council to demonstrate that the Council adheres to the desired CG culture. It would also help improve accountability to stakeholders and allow staff to better understand the benefits of good governance.
4. Good governance means taking informed, transparent decisions and managing risk.	REASONABLE Assurance - The Cabinet operates as an effective Member decision making body which is known by officers for usually making swift decisions. IA confirmed that a Cabinet Scheme of Delegations (SD) was in place, supported by Group SDs which have been updated within the year. (cont'd)

Langland's Governance Principles	IA Assessment of Hillingdon
	<p>(cont'd)</p> <p>RM arrangements were found to be in place and have been reviewed separately by IA. The Council's AGS process was enhanced within 2017/18, however there remains scope for further improving understanding across the Council of what governance is and what it means.</p>
<p>5. Good governance means developing the capacity and capability of the governing body to be effective.</p>	<p>REASONABLE Assurance - The Council's Cabinet brings direction and stability to the organisation. It has demonstrated that it provides continuity of knowledge and relationships, with minimal change to the Cabinet Members/ roles this year. There are induction, training and development arrangements in place to help ensure Members have the rights skills and knowledge to perform their Cabinet duties effectively. Member performance is evaluated by their respective political groups. Officers were positive about the role and clear direction that the Cabinet provides.</p>
<p>6. Good governance means engaging stakeholders and making accountability real.</p>	<p>REASONABLE Assurance - The Council engages with stakeholders using an array of engagement and consultation activities to make accountability real. There is clear accountability between the Cabinet and its Executive Committees. Policy Overview (PO) and Scrutiny arrangements are in place and appropriately reported. The recommendations proposed by PO Committees are generally endorsed by the Cabinet. Various mechanisms are in place to obtain feedback and engage with officers, residents and service users. Petition and consultation arrangements were also found to be in place. IA identified there is further scope for improvement with regards to reporting of key information in relation to the Council's Vision, Strategic Priorities, Strategies, financial position, performance, achievements, outcomes and satisfaction of service users. This, including alignment to Service Planning, will improve accountability and enhance stakeholder confidence, trust and interest.</p>

3.11.2 As a result, **Hillingdon's overall Governance arrangements were assessed by IA as REASONABLE**. The Council's vision and strategic priorities provides both officers and Members with a very clear direction. This is complimented by a strong and stable political leadership that controls and leads the organisation to achieve positive outcomes for residents. The Council's governance arrangements are underpinned by its Constitution which explains how the Council is governed and how it operates.

3.11.3 IA also noted the Cabinet is collectively viewed as effective and renowned for generally quick decision making. In IA's opinion, although the Council's CG arrangements are not fully in line with more traditional CG models, **the outcomes the Council has achieved within a period of austerity measures and constant change are exceptionally good**. This demonstrates that the overall direction and control is a good fit for the organisation at this time. It is clear that the Council put their residents at the forefront of all activity that it engages in, maintaining a high resident satisfaction rating.

3.11.4 The Council exemplifies strong financial management and control that is illustrated by the relatively healthy reserves balances. The Council continues to uphold a 0% council tax increase for all Hillingdon residents for the 10th consecutive year, and up to and including 2018/19 (12 years in total for those aged over 65).

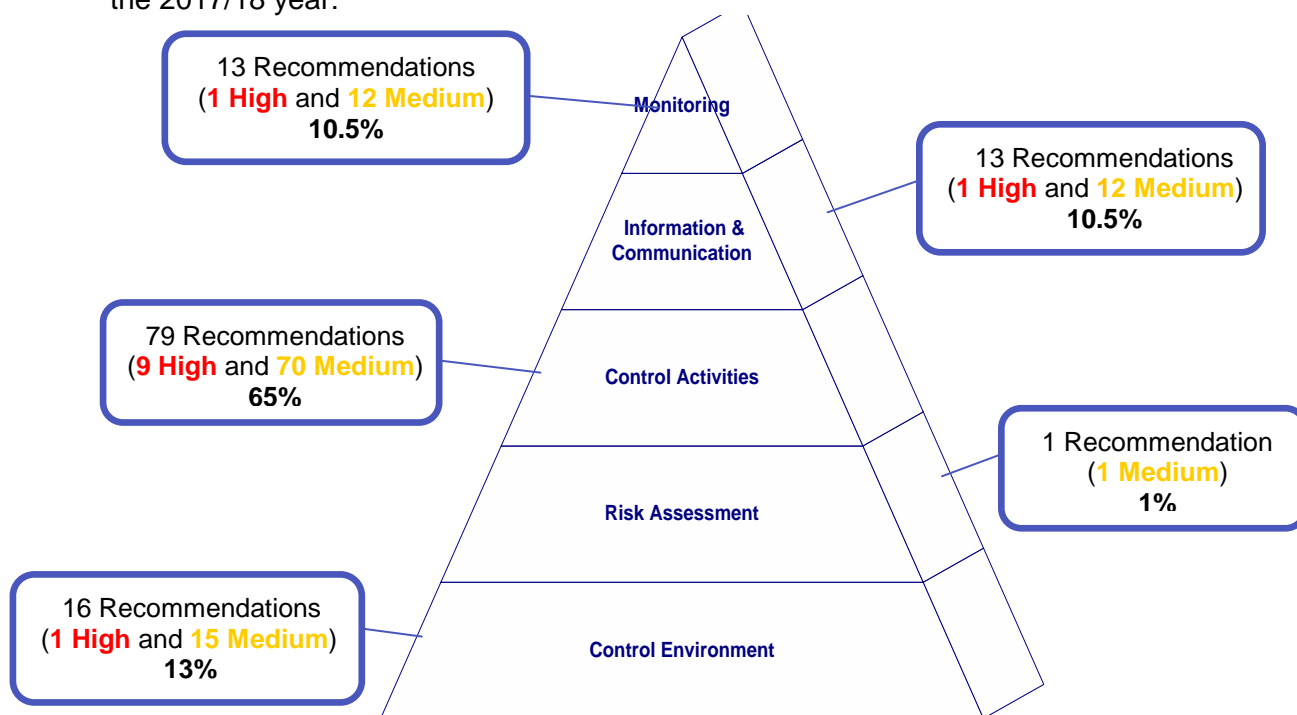
3.11.5 During the last financial year, the Council also invested in the highway resurfacing programme to maintain roads and pavements, supporting high streets and boosting the local businesses. Regeneration projects are ongoing in Hayes, Uxbridge, Eastcote, Hillingdon, Yiewsley and West Drayton with the Hayes £6m regeneration project, the largest of its kind ever undertaken by the Council, drawing to an end.

3.11.6 Education and leisure facilities continue to be a Council priority. LBH continues to ensure that every child in Hillingdon is offered a primary or secondary place close to where they live. All of LBH's libraries and leisure centres are set to be enhanced through borough-wide refurbishment programmes with a new swimming pool planned. Finally, the new state-of-the-art visitor and exhibition centre at the Battle of Britain Bunker opened to the public in March 2018, offering a range of exhibits and an opportunity to learn more about the invaluable part the bunker played in our country's history with events to mark the centenary of the founding of the RAF and the end of the First World War.

3.12 Internal Control

3.12.1 The IA opinion on the Council's internal control system is **based on the best practice on Internal Control from the Committee of Sponsoring Organisations of the Treadway Committee (COSO)**.

3.12.2 The diagram below details the elements of the COSO internal control framework and analyses all **122 HIGH** and **MEDIUM** risk IA recommendations (per para. 5.8) raised during the 2017/18 year:



The COSO Internal Control Framework

3.12.3 As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to written procedures, authorisations, reconciliations and segregation of duties. The other components have a relative proportionate share of recommendations. As noted at para 3.10, there are some weaknesses within the operational risk management processes. However, it should not be inferred that risk assessment is completely robust.

3.12.4 The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too. From the IA work undertaken in 2017/18, and the other sources of assurance referred to in para 3.7, it is the HIA's opinion that overall IA can provide **REASONABLE** assurance that the system of internal control that has been in place at the Council for the year ending 31st March 2018 accords with proper practice, except for the significant internal control issues referred to in para 3.8.

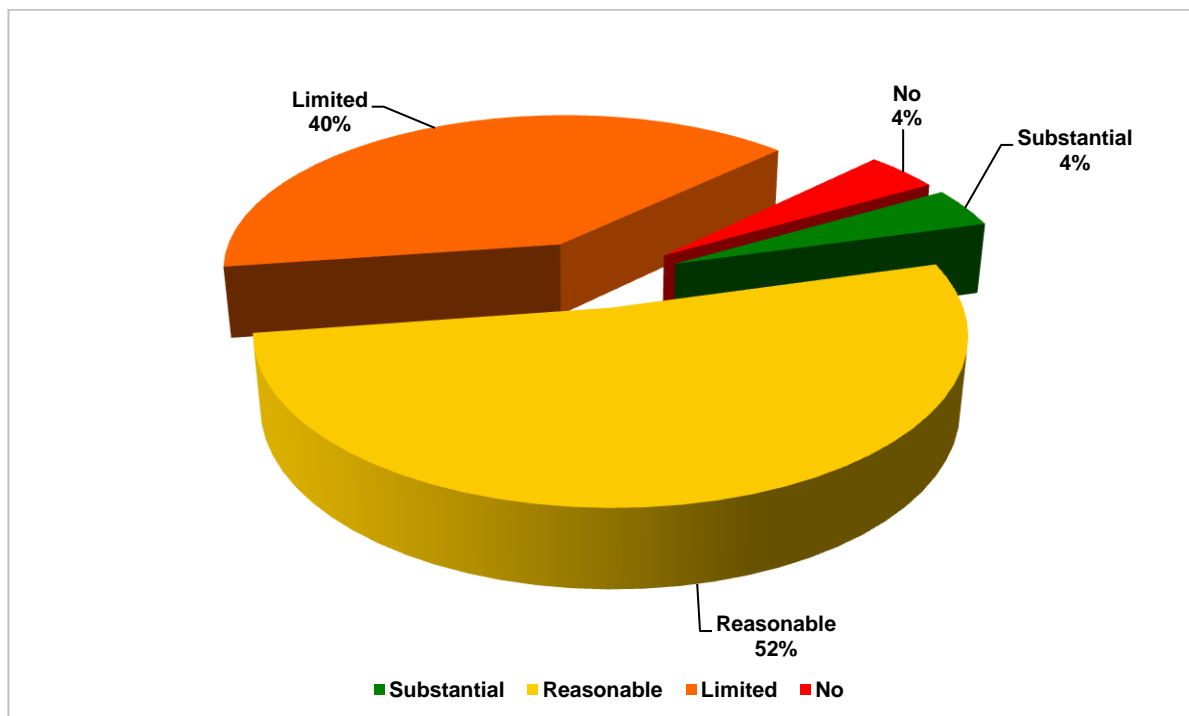
4. Analysis of Internal Audit Activity 2017/18

4.1 Internal Audit Assurance Work 2017/18

4.1.1 The 2017/18 IA assurance work is summarised by the assurance level achieved (definitions of the IA assurance levels are included at **Appendix B**) as per the table below:

Assurance Level	2017/18 IA Assurance Reports	Percentage Split 2017/18	Comparison		
			2016/17	2015/16	2014/15
SUBSTANTIAL	1	4%	7% (2)	0% (0)	18% (6)
REASONABLE	13	52%	47% (14)	52% (17)	59% (20)
LIMITED	10	40%	43% (13)	45% (15)	12% (4)
NO	1	4%	3% (1)	3% (1)	12% (4)
TOTAL	25	100%	100% (30)	100% (33)	100% (34)

4.1.2 The pie chart below depicts the levels of assurances achieved based on a percentage of the total 2017/18 assurance audits completed by IA:



4.1.3 The Chart above highlights the positive news for the Council that 56% of the areas audited in 2017/18 were assessed by IA as providing **REASONABLE** or **SUBSTANTIAL** levels of assurance over the management of the key risks top achieving the service objectives. Further, results from 2017/18 IA Assurance work represent a slight improvement when compared to 2016/17 outturn figures. This is positive given the risk based focus of IA coverage and the increased alignment of IA work to the key risks facing the Council, and demonstrates consistency in the control environment across the Council in 2017/18.

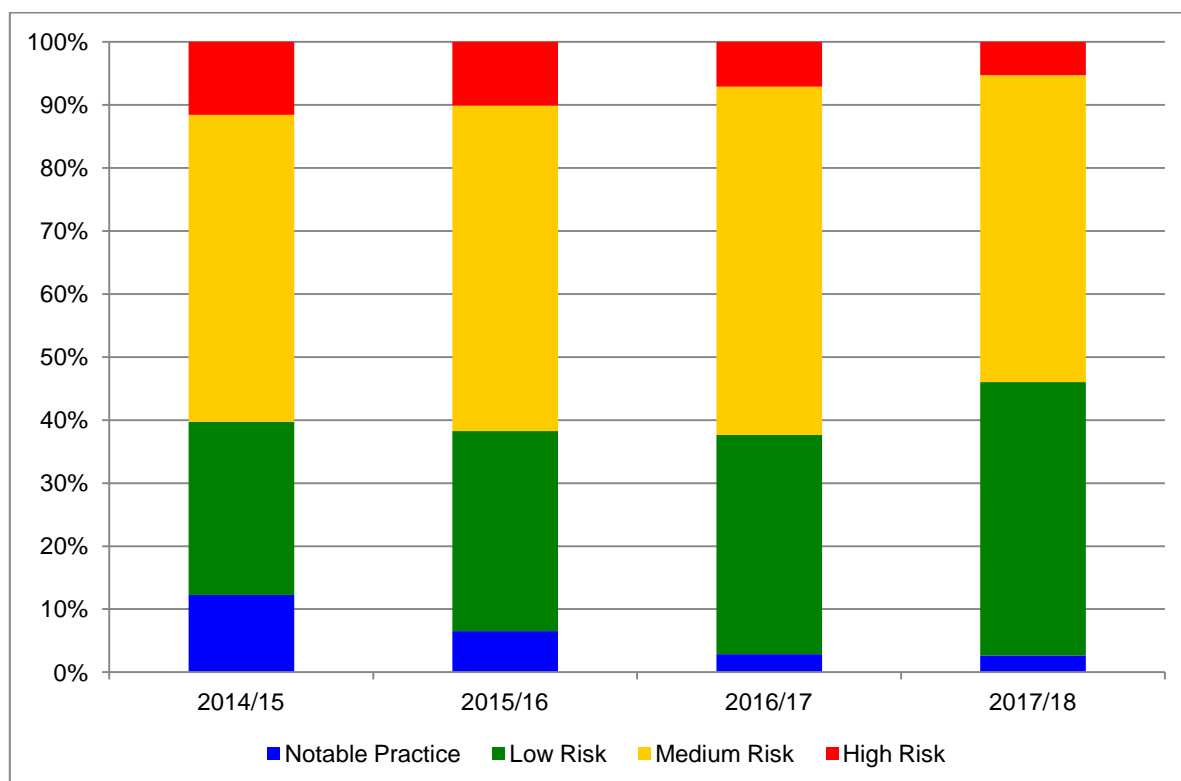
4.1.4 The individual assurance reviews carried out during 2017/18 are fully listed at **Appendix A** which highlights the assurance levels achieved (as outlined at **Appendix B**) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at **Appendix C**).

4.1.5 For the **25** IA assurance reviews we raised **220** IA assurance recommendations in total within 2017/18:

Risk Rating	2017/18		Comparison		
	Recommendations	Percentage	2016/17	2015/16	2014/15
HIGH	12	5%	15% (7)	11% (31)	13% (35)
MEDIUM	110	50%	57% (116)	55% (158)	56% (147)
LOW	98	45%	36% (73)	34% (97)	31% (83)
TOTALS	220	100%	100% (204)	100% (286)	100% (265)
NOTABLE PRACTICE	6	-	6	20	37

4.1.6 Given that an increasingly risk based IA approach has been applied in 2017/18, it is in line with IA's expectations that just over half of the IA recommendations raised were rated as either **HIGH** or **MEDIUM** risk.

4.1.7 The breakdown of all 2017/18 IA recommendations (plus notable practices) by risk rating (as outlined at **Appendix C**), is provided in the bar chart below, including a comparison with comparative prior year data:



4.1.8 The bar chart above highlights that **5% (12)** of recommendations raised by IA in 2017/18 were rated as **HIGH** risk. We therefore believe that the results depicted above, given the risk based approach to IA work introduced since 2013/14, demonstrate an overall improvement in the control environment across the Council over the prior four years with a notable reduction in the proportion of **HIGH** and **MEDIUM** risk recommendations raised within 2017/18.

4.2 Internal Audit Consultancy Work 2017/18

- 4.2.1 During 2017/18 there has been a continued volume of consultancy work, advice and guidance that IA has been asked to provide across the Council. This, in addition to the enhanced role that IA now has in helping Council services improve, is a sign of the achievement of the collaborative approach that IA strives to deliver to help services to succeed.
- 4.2.2 In addition to the traditional consultancy reviews, this type of work includes IA staff sitting on project/working groups, whilst ensuring IA staff are clear about whether they are there in an assurance or advisory capacity. This type of approach is helping increase IA's knowledge of corporate developments which feeds into the risk based deployment of IA resource on assurance work. Also, participation in project/ working groups as well as secondments within the business is helping individual IA staff develop, whilst at the same time increasing the value IA provides to the Council.
- 4.2.3 Further to this, in line with the UK PSIAS, IA coverage this year included a range of consultancy work. This included testing/ certification of several grant claims including **the Housing Benefits Subsidy grant claim** on behalf of External Audit (EY). In addition, the Head of IA was an active member or the chair of a number of corporate project groups including the Corporate Risk Management Group, Business Continuity Management Group, Corporate Governance Working Group, Corporate Health & Safety Forum, and the Hillingdon Information Assurance Group. As part of this participation, IA aims to provide insightful, independent and informed advice in order to reduce the risk of the Council failing to achieve its objectives.
- 4.2.4 As detailed at **Appendix A**, IA also conducted **16** consultancy pieces of work in 2017/18, including reviews. This included assurance mapping, as well as support and data analytical work in relation to Parking Service Administration, Council Stores and Asylum.

4.3 Quality Assurance and Improvement Programme 2017/18

- 4.3.1 In accordance with the UK PSIAS Attribute Standard 1300 and the IA Charter, a Quality Assurance and Improvement Programme (QAIP) has been developed by IA. This covers all aspects of IA Activity (IAA) and is designed to enable an evaluation of the IAA's conformance with the UK PSIAS and an evaluation of whether internal auditors apply the *Code of Ethics*. The QAIP also helps enable the ongoing performance monitoring of IAA and sets out how IA is maintaining the required quality standards and achieving continuous improvement.
- 4.3.2 A significant amount of time was spent refining the IA QAIP during 2015/16 and early 2016/17, enabling the QAIP to be refocused and reflective of the challenges incurred, providing an opportunity to help generate ideas on how IA can further improve to help services continue to succeed. Progress and results of QAIP reviews have subsequently been reported within quarterly updates to CMT and the Audit Committee. This approach helped achieve the IA service achieve a 'fully conforms' rating in the 2017/18 independent EQA that was carried out.
- 4.3.3 Further, the EQA provided additional assurance over the quality of IA processes within the year. We are now seeking to form a revised QAIP to further push the IA service forward to ensure the function continues to align to emerging best practice with continued value and assurance gained by the authority through these methods.

5. Internal Audit Follow Up 2017/18

- 5.1 IA monitors all **HIGH** and **MEDIUM** risk recommendations raised (excluding those at schools), through to the point where the recommendation has either been fully implemented, or a satisfactory alternative risk response has been proposed.

- 5.2 IA does not follow-up **LOW** risk IA recommendations as they are minor risks including compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations. The full definitions of the IA recommendation risk ratings are included at **Appendix C**.
- 5.3 The implementation of recommendations raised by IA continues to be monitored through TeamCentral (a module of the IA software TeamMate) which has become more embedded across the Council within the year. Whilst TeamCentral automates the follow-up process, we facilitate this area of work allowing the rest of the IA team to focus on delivery of the IA plan, streamlining the process of following up IA recommendations. TeamCentral provides CMT and other senior managers with greater oversight and ownership of IA recommendations and the underlying risks.
- 5.4 IA will support and advise managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways; Treat, Terminate, Tolerate, Transfer - **the 4 T's**. The full definitions of the response to risk are included at **Appendix C**.
- 5.5 In addition to this, we have taken a renewed approach to follow-up work within the year, actively following up on prior **LIMITED** or **NO** assurance reports within a set time period after their issue and management confirmation that recommended action has been implemented. This approach provides additional assurance to CMT and the Audit Committee over the implementation of IA recommendations and whether the control environment is now operating as intended.
- 5.6 Within 2017/18 we have undertaken a dedicated verification work on high and medium risk recommendations in addition to 9 specific follow-up reviews. Our follow-up work found that **95 (67%)** of the **141** recommendations followed-up were deemed **Implemented**. Of the remaining recommendations we deemed **31 (22%) Partly Implemented** and **15 (11%) Not Implemented** at the time of follow-up with revised implementation dates agreed with management for each of these recommendations. The detailed results from our follow-up work are summarised within **Appendix A**.
- 5.7 The **25** IA assurance reviews have resulted in **220** IA recommendations being raised in **2017/18** as well as **6 NOTABLE PRACTICES** (refer to **Appendix A** for further details). Given that we apply a risk based IA approach to our coverage, it is a positive outcome that there were approximately **nine times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2017/18.
- 5.8 The table below summarises the **status of IA 2017/18 recommendations** raised as at 16th July 2018:

2017/18 IA Recommendation Status as at 11 th July 2018	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (per Appendix A)	12	110	98	220	6
Total No. of Recommendations Risks Tolerated by Management	-	-	-	0	-
No. Not Yet Due for Implementation	6	54	-	60	-
No. Implemented	6	50	-	56	-
No. of Recommendations Outstanding	0	6	-	6	-

- 5.9 Positive management action was proposed to address all **122** of the 2017/18 **HIGH** and **MEDIUM** risk recommendations raised, **60** of which have not yet reached their target date for implementation. IA is pleased to report that **90%** (56) **HIGH** and **MEDIUM** risk recommendations which were due for implementation have been confirmed by management as being implemented. **This is a very good outcome and comes directly as a result of the strong collaborative approach between IA and senior management across the organisation.**
- 5.10 In 2018/19 Quarter 2 IA will be undertaking verification testing on all **HIGH** and **MEDIUM** risk recommendations to confirm and support management's assertion that recommended action has been successfully implemented and is now embedded within the control environment. Further, in 2018/19 we will continue to undertake dedicated follow-up reviews of limited and no assurance reports issued within prior years, to provide greater assurance to senior management and the Audit Committee over the improvements within the control environment.

6. Review of Internal Audit Performance 2017/18

6.1 Key Performance Indicators

- 6.1.1 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.
- 6.1.2 Actual cumulative IA performance for 2017/18 against its KPIs is highlighted in the table below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	HIGH risk IA recommendations where positive management action is proposed.	98%	100%	GREEN
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed.	95%	100%	GREEN
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale.	90%	100%	GREEN
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale.	75%	49%	RED
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 March.	90%	93%	GREEN
KPI 6	Percentage of IA Plan delivered to final report stage by 31 March.	80%	84%	GREEN
KPI 7	Percentage of draft reports issued as a final report within 15 working days.	75%	57%	RED
KPI 8	Client Satisfaction Rating.	85%	90%	GREEN
KPI 9	IA work fully compliant with the PSIAS and IIA Code of Ethics .	100%		

- 6.1.3 Whilst performance of **KPI 3** relating to the timely implementation of **HIGH** risk IA recommendations remains strong, we have seen a significant decline in performance of **KPI 4**, 2017/18 **MEDIUM** risk IA recommendations where management action is taken within agreed timescale. This is despite automated emails from TeamCentral to the action owner at four, two and one week prior to the implementation date. Nevertheless, it should be noted that 88% of 2017/18 **MEDIUM** risk IA recommendations due have been implemented. Potentially the removal of the monthly Group (Directorate) recommendation listings, due to IA resource limitations, could have contributed towards this performance decline. Consequently, we will seek to reinstate this process during 2018/19.
- 6.1.4 Also highlighted above, performance against **KPI 7** is reported as **RED** with **57%** for 2017/18 (53% in 2016/17, 55% in 2015/16 and 56% in 2014/15). This is due to 15 instances where **management responses to the draft reports were not received within the target timescales** of 15 working days. Whilst IA facilitates this process, we are reliant on timely management responses to achieve this indicator.
- 6.1.5 It is noted that 9 of the 15 instances relate to limited or no assurance reports which have required multiple discussions of issued raised in order to move forward with the completion of the associated Management Action Plans. However, in the other cases there were significant delays (over 9 weeks in one case) before management responses were provided. We are happy to report that the time taken to finalise reports from draft stage in other reports is **on average 17 working days**. Nevertheless, these delays result in CMT and the Audit Committee not always receiving assurance from IA in a timely manner.
- 6.1.6 Management feedback continues to be positive on our assurance coverage and particularly on our consultancy work. This year's actual performance against **KPI 8** of 90% shows continued increase when compared to prior years, analysis provided at 6.2 below.

6.2 Client Feedback Questionnaires

- 6.2.1 As part of continuous improvement, IA introduced a new Client Feedback Questionnaire (CFQ) in 2013 which is sent out at the completion of all audit reviews to obtain formal management feedback. The **IA CFQ target** previously agreed with CMT and the Audit Committee was for IA to achieve **an overall average score of 3.4 (85%) or above** across the eight CFQ areas. As a recap on the CFQ scores, **4** means the client strongly agrees; **3** is agree; **2** is disagree; and **1** is strongly disagree.
- 6.2.2 There is not an option on the CFQ for the client to indicate that they 'neither agree or disagree'. This is a deliberate decision by the HBA to enable management to form an overall opinion on the work that IA does i.e. did the audit review add value or not? Inherently with any feedback mechanism such as this, there is a risk that the CFQ results can become skewed where a client is dissatisfied i.e. if there are large number of recommendations or a poorer assurance level than expected/ anticipated, the client may be inclined to dismiss the value of the IA work with a low CFQ score.
- 6.2.3 The table below shows the average score from the **39** CFQs completed in relation to the 2017/18 IA Plan (as per **Appendix A**):

IA CFQ Areas	Average Score 2014/15	Average Score 2015/16	Average Score 2016/17	Average Score 2017/18	% Change (16/17-17/18)
Q1. Planning: The planning arrangements for the IA review were good	3.52	3.41	3.49	3.63	+3.7%
Q2. Scope: The scope of the IA review was relevant	3.48	3.50	3.44	3.59	+4.0%

IA CFQ Areas	Average Score 2014/15	Average Score 2015/16	Average Score 2016/17	Average Score 2017/18	% Change (16/17-17/18)
Q3. Conduct: The IA review was conducted in a highly professional manner	3.73	3.65	3.76	3.67	-2.3%
Q4. Timing: The IA review was carried out in a timely manner	3.59	3.35	3.61	3.59	-0.9%
Q5. Report: The IA report was presented in a clear, logical and organised way	3.50	3.47	3.61	3.67	+1.5%
Q6. Recommendations: The IA recommendations were constructive and practical	3.50	3.18	3.51	3.46	-1.8%
Q7. Value: The IA review added value to your service area	3.28	3.18	3.44	3.48	+0.8%
Q8. Overall: I look forward to working with IA in future	3.40	3.47	3.66	3.72	+1.2%
Average Total Score	3.5 (87.5%)	3.43 (85.3%)	3.56 (89.1%)	3.60 (90.0%)	

6.2.4 Analysis of the above results provides a positive picture. Further, when compared to prior years this **shows a continual improvement**, particularly when taking into account the continuing complexity and higher risk areas reviewed and number of limited assurance opinions issued. We have seen a minor reduction in CFQ scores for conduct, timing and recommendations which can be attributed to the changing staff mix during the year. Despite this, increases in CFQ scores for planning, scope, report, value and working with IA in future are positive. Overall the IA CFQ results demonstrate the positive recognition of IA work across the Council, the quarterly planning process undertaken and the continued collaborative approach undertaken with Management.

6.2.5 From the **39** CFQs returned in 2017/18, IA has received a range of formal client comments on IA performance, **a snapshot of additional comments is provided below:**

Parking Services Administration

- *"The work done around the current processes was extremely thorough and carried out professionally. It helped me to learn a lot more about the service as well."*

Facilities Management

- *"Some key points were raised. Some points raised lacked accuracy despite documents being shared with IA on a number of occasions from FM and procurement."*

CYPS thematic - mock interviews

- *"Exceptional piece of work. It enabled us to focus our intervention and readiness for the peer review. This work will help TMs with the overall Ofsted readiness Thank you to the auditor, their manner and approach was seen as enablers by the new managers interviewed - Thank you!!!"*

Review of Assets, Stock and Cash Management in Green Spaces, Sport and Culture

- *"A very comprehensive and useful report."*

Child Protection Conferences

- *"Helpful review which enabled prompt reparative action. This work helped inform the overall self evaluation and Ofsted preparation."*

HMO - IA Follow Up review

- *"Grateful and appreciative of the support the auditor has provided!"*

Missing Children

- *"Really good information highlighting areas which require immediate attention. Consideration should be given to highlighting with the operational area concerns re aspects of practice which are identified during the audit for these to be swiftly actioned."*

Corporate Payments

- *"Exceptional lengthy gap between first planning meeting and the data being gathered. Meant that gathering data and reviewing stages were done at a very fast pace after waiting 2/3 months to get started. Saying that, despite it taking a long time to kick-off, and seemingly rushing through the later stages of the audit, findings and recommendations were useful, so potentially this way of working has not been detrimental in this audit review. A clear plan of set timescales would have been beneficial so that resource can be set aside in the calendar."*

6.2.6 Whilst the HBA proactively seeks informal feedback from management on IA, we are extremely grateful to management for formal feedback received in CFQs. A high completion rate of CFQs helps IA identify areas where we are able to continue to improve as a service.

7. Forward Look to 2018/19

- 7.1 Looking ahead to 2018/19, the **skill set within IA is set to further develop and evolve** following the loss of some key IA staff during the year. In line with the IA Strategy of 'growing our own', vacancies have provided remaining members of the IA team with an opportunity to take on more responsibility, facilitating their ongoing professional and personal development. Nevertheless, **recruitment will shortly be underway** to supplement the current team and improve the robustness to the IA function. This approach will gain, grow and develop talent in addition to enhancing the skill set of current team members to add value to the service and the Council.
- 7.2 Once resources allow, we plan to continue the successful '**Assurance Mapping**' exercise across the Council. Assurance mapping is a technique that uses a visual representation of assurance activities to demonstrate how they apply to a specific risk or set of compliance requirements. The assurance activities documented typically involve functions across each of the three lines of defence.
- 7.3 While good risk management practices will help the Council to identify and focus well on its major risks, good governance also requires effective management and mitigation of those risks. An effective and efficient framework is needed to provide sufficient, continuous and reliable evidence of assurance on organisational stewardship and the management of the major risks. An '**Assurance Map**' has been conducted on 4 of the 11 risks detailed within the current Corporate Risk Register. This is a significant undertaking and relatively resource intensive exercise for IA, but has provided a structured means of identifying and mapping the main sources and types of assurance at LBH and coordinating them to the best effect. This approach has informed the 2018/19 planning process and will continue on the remaining seven corporate risks in 2018/19.
- 7.4 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during the year. There has been an increased collaborative approach in IA's working relationship with staff and management who have generally responded very positively to IA findings. 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)

6th July 2018

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18**

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

2017/18 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 16 th July 2018	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
17-A1	Houses in Multiple Occupation 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 September 2017	Limited	0	3	1	0	✓
17-A2	Children missing from home, placement and education	Final report issued on 12 th October 2017	Limited	0	10	6	0	✓
17-A5	Extra Care	Final report Issued on 14 th November 2017	Limited	2	5	4	0	✓
17-A13	Child Protection Conferences	Final report issued on 3 rd January 2018	Limited	0	8	7	0	✓
17-A3	Facilities Management	Final report issued on 6 th February 2018	Limited	0	3	3	0	✓
17-A26	Trading Standards	Final report issued on 19 th February 2018	Limited	3	4	3	0	✓
17-A16	CYPS Thematic review - Key Working Service, Family Support	Final report issued on 27 th February 2018	Limited	0	6	6	0	✓
17-A23	Disabled Facilities Grant	Final report issued on 23 rd March 2018	Limited	1	6	7	0	✓
17-A24	Equality Act	Final report issued on 25 th April 2018	Limited	1	1	5	0	✓
17-A40	Food and Safety Regulation	Final report issued on 31 st May 2018	Limited	1	4	3	1	✓
17-A9	Public Health - Substance Misuse contract, including ARCH Service	Final report issued on 5 th September 2017	Reasonable	0	2	4	2	✓
17-A6	Planning applications - Quality Control	Final report issued on 6 th September 2017	Reasonable	0	2	2	0	✓

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18 (cont'd)****2017/18 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 16 th July 2018	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
17-A8	Thematic review of assets, stock and cash management within Green Spaces, Sport and Culture	Final report issued on 18 th September 2017	Reasonable	0	11	6	1	✓
17-A14	Education for Children Looked After	Final report issued on 12 th December 2017	Reasonable	0	3	3	1	✓
17-A12	IR35	Final report issued on 8 th March 2018	Reasonable	0	4	0	0	✓
17-A29	Contact Centre	Final report issued on 21 st March 2018	Reasonable	0	3	5	0	✓
17-A17	Social Media	Final report issued on 12 th April 2018	Reasonable	0	4	2	0	✓
17-A22	Management and Control of Void Dwellings	Final report issued on 9 th May 2018	Reasonable	0	4	3	0	✓
17-A28	Corporate Payments	Final report issued on 24 th May 2018	Reasonable	0	5	3	0	✓
17-A25	Staff overtime, allowances and expenses, including mileage	Final report issued on 31 st May 2018	Reasonable	0	5	4	0	✓
17-A35	Leisure Centres	Final report issued on 1 st June 2018	Reasonable	0	4	5	0	✓
17-A34	Community Safety including Domestic Abuse	Final report issued on 9 th June 2018	Reasonable	0	6	4	0	Not yet due
17-A36	Access to Resources	Final report issued on 6 th July 2018	Reasonable	0	4	5	0	Not yet due
17-A27	School Placement Planning	Final report issued on 20 th Feb 2018	Substantial	0	0	4	1	✓
Total <u>number</u> of IA Assurance Recommendations raised in 2017/18				12	110	98	6	
Total <u>percentage</u> of IA Assurance Recommendations raised in 2017/18				5%	50%	45%	-	

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18 (cont'd)****2017/18 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 16 th July 2018	Recommendations			
			Implemented	Partly Implemented	Not Implemented	Total
17-A11	Follow-Up of implemented recommendations	Verification testing concluded	73	5	5	83
17-A18	Capital Programme	Memo issued 6 th October 2017	4	0	0	4
17-A19	Scheme of Delegations	Memo issued 9 th November 2017	0	2	0	2
17-A32	Housing Repairs	Memo issued 27 th November 2017	7	2	1	10
17-A30	Houses in Multiple Occupation (HMO) registration, including fit and proper person	Memo issued 4 th December 2017	0	2	5	7
17-A31	Housing - Planned Maintenance	Memo issued 4 th December 2017	2	4	0	6
17-A39	Data Quality within Regulatory Services	Memo issued 22 nd March 2018	1	4	2	7
17-A38	Anti-Social Behaviour Investigations Team	Memo issued 21 st March 2018	0	3	2	5
17-A37	Housing Needs - Allocations and Assessments	Memo issued 22 nd March 2018	7	3	0	10
17-A41	Houses in Multiple Occupation (HMO) registration, including fit and proper person	Memo issued 29 th March 2018	1	6	0	7
Total Number			95 (67%)	31 (22%)	15 (11%)	141 (100%)

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18 (cont'd)****2017/18 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 16 th July 2018	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	✓
17-C7	CYPS Thematic review - Benchmarking	Memo issued on 17 th October 2017	✓
17-C11	Troubled Families Process Mapping	Memo issued on 15 th November 2017	✓
17-C10	Assurance Mapping (pilot)	Assurance Map issued on 4 th December 2017	N/A
17-C8	Thematic Review of Debt Recovery Agents (Bailiffs)	Memo issued on 22 nd December 2018	✓
17-C13	CYPS Thematic review - Ofsted	Memo issued on 22 nd January 2018	✓
17-C15	Missing Children	Memo issued on 28 th February 2018	✓
17-C19	Mayors Charity Accounts 2017/18	Independent Examiners Report issued on 28 th February 2018	N/A
17-C18	Landlord Engagement	Memo issued on 27 th March 2018	✓
17-C20	Stores Stock Check	Memo issued on 29 th March 2018	✓
17-C12	Service Contracts	Memo issued on 4 th May 2018	✓
17-C17	Asylum	Memo issued on 3 rd May 2018	✓

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2017/18 (cont'd)****2017/18 IA Grant Claims certified:**

IA Ref.	IA Review Area	Status as at 16 th July 2018
17-GC1	Troubled Families Grant - Quarters 1 and 2	Certified and memo issued on 3 rd August 2017
17-GC3	Housing Benefits Subsidy Grant	IA testing completed on 18 th August 2017
17-GC2	Disabled Facilities Capital Grant (DFG)	Certified and memo issued on 29 th September 2017
17-GC4	Bus Subsidy Grant	Certified and memo issued on 29 th September 2017
17-GC5	Troubled Families Grant - Quarter 3	Certified and memo issued on 24 th October 2017
17-GC6	Troubled Families Grant - Quarter 4 (Part 1)	Certified and memo issued on 23 rd January 2018
	Troubled Families Grant - Quarter 4 (Part 2)	Certified and memo issued on 26 th February 2018
	Troubled Families Grant - Quarter 4 (Part 3)	Certified and memo issued on 21 st March 2018
17-GC7	Hillingdon Teaching Schools Alliance (HTSA)	Certified and memo issued on 24 th January 2018

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.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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

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.

This page is intentionally left blank

AUDIT COMMITTEE - Internal Audit Progress Report for 2018/19 Quarter 1 (including the Quarter 2 IA Plan)

Committee name	Audit Committee
Officer reporting	Muir Laurie, Head of Business Assurance
Papers with report	Internal Audit Progress Report for 2018/19 Quarter 1 (including the Quarter 2 IA Plan)
Ward	All

HEADLINES

The attached report presents the Committee with summary information on all Internal Audit (IA) work covered in relation to 2018/19 Quarter 1 and assurance in this respect. It also provides an opportunity for the Head of Business Assurance (HBA) to highlight to the Committee any significant issues that have arisen which they need to be aware of. Further, the report enables the Committee to hold the HBA to account on delivery of the Quarter 1 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 Committee with the Quarter 2 IA Plan which has been produced in consultation with senior managers. This sets out the programme of IA coverage due to commence in the 1st July to 30th September 2018 period.

RECOMMENDATIONS:

That the Audit Committee:

1. **Notes the IA Progress Report for 2018/19 Quarter 1 and considers the Quarter 2 IA Plan and, subject to any further minor amendments, approve it; and**
2. **Ensures that the coverage and results of IA activity in this quarter are considered and any additional assurance requirements are communicated to the HBA.**

SUPPORTING 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 proper practices.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Quarter 2 IA Plan.

This page is intentionally left blank

BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2018/19 Quarter 1 (including the Quarter 2 Internal Audit Plan)

30th June 2018



Contents

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

Muir Laurie

Head of Business Assurance
t: 01895 556132
e: mlaurie@hillingdon.gov.uk

Sarah Hydrle

Internal Audit Service Manager
t: 01895 277907
e: shydrle@hillingdon.gov.uk

1. Introduction	3
2. Executive Summary	3
3. Analysis of IA Activity Q1	4
4. Analysis of IA Performance Q1	6
5. Forward Look	6
<u>Appendices:</u>	
<u>Appendix A</u> – Detailed IA Work Undertaken	7
<u>Appendix B</u> – Revisions to 2018/19 Quarter 1 IA Plan	9
<u>Appendix C</u> – 2018/19 Quarter 2 IA Plan	11
<u>Appendix D</u> – IA Assurance Level Definitions and IA Recommendation Risk Ratings	15

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 work covered during the period 29th March to 30th June 2018. 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 in Quarter 1. It also highlights to CMT, the Audit Committee and other IA stakeholders the revisions to the Quarter 1 IA plan since its approval in April 2018 (refer to **Appendix B**).
- 1.2.2 A key feature of the Quarter 1 IA progress report is the inclusion of the 2018/19 Quarter 2 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 July to 30th September 2018 period.

2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 29th March 2018, **1 assurance review** has concluded, **1 consultancy review** has been finalised, **1 grant claim** has been certified and **9 pieces of 2017/18 work** have been finalised. As detailed at **Appendix A** the vast majority of the work finalised in Quarter 1 has been in relation to the finalisation of the 2017/18 IA plan. This is broadly in line with our expectations, although a lack of IA resource has significantly impacted our 2018/19 Quarter 1 delivery.
- 2.2 Nevertheless, IA work on the 2018/19 Quarter 1 IA plan commenced on 3rd April 2018 and the planning stage has now been completed on all Quarter 1 pieces of IA work. As stated above, progress against the 2018/19 Quarter 1 IA Plan has been very slow, with only **1 IA assurance review** finalised (Corporate Payments), **2 IA assurance reviews** at draft report stage, **2 assurance reviews** at testing/fieldwork stage and **1 assurance review** at the planning stage (which is an additional piece of work requested by the Corporate Director of Social Care in relation to the Youth Offending Service). We have also continued to provide a range of advisory and consultancy work across the Council within the quarter, although due to a lack of capacity this work has been considerably reduced.
- 2.3 We are pleased to report there have been no amendments to the Quarter 1 IA operational plan (refer to **Appendix B**). Following IA undertaking its initial planning stage, **3 assurance reviews** and **1 consultancy review** have been deferred by management to Quarter 2. During this quarter there have also been **2 additional requests for work** (refer to **Appendix B**). In addition, we will very shortly be commencing our follow-up verification work aimed at providing enhanced assurance to CMT and the Audit Committee that IA recommendations have been fully embedded within the control environment to mitigate the risks highlighted.

- 2.4 Further details of the 2018/19 IA work carried out in the Quarter 1 period are included below at section 3 of this report.

3. Analysis of Internal Audit Activity

3.1 Assurance Work in Quarter 1

- 3.1.1 All 2018/19 IA assurance reviews carried out in Quarter 1 are individually listed at **Appendix A**. This list details the assurance levels achieved and provides an analysis of recommendations made (in accordance with the assurance levels and recommendation risk categories outlined at **Appendix D**).
- 3.1.2 On 3rd April 2018, IA formally commenced work on the 2018/19 Quarter 1 IA plan. However, due to 3 positions in the IA team being vacant during the quarter, IA resource was significantly reduced and was therefore primarily focussed on finalising completion of the 2017/18 IA plan. A detailed summary of all 2017/18 IA work finalised within Quarter 1 of 2018/19 is available in **the 2017/18 Annual IA Report and Opinion Statement** presented to the Audit Committee on 26th July 2018, alongside this progress report.
- 3.1.3 Each of the **6** Quarter 1 assurance audits have commenced planning, with **1** final report issued, **2** at draft report stage, **2** at an advanced stage of fieldwork/testing and **1** at the planning stage (Youth Offending Service [YOS]). The YOS assurance review was commissioned by the Corporate Director of Social Care who requested that the planned audit of the 'Positive Behaviour Support Team' be deferred to Quarter 2 as IA did not have the capacity to conduct both reviews in Quarter 1. YOS is due for an inspection by HM Inspectorate of Probation and as a result the Corporate Director of Social Care requires assurance from IA in relation to the service's compliance with the inspection criteria. The summary results of these audits will be included in the Quarter 2 progress report due to be presented to Audit Committee on 25th October 2018.
- 3.1.4 The **1** final report issued this quarter was in relation to **Corporate Payments** where we issued a **Reasonable** assurance opinion and raised **2 MEDIUM** and **4 LOW** (refer to **Appendix A** for further details).

3.2 Consultancy Work in Quarter 1

- 3.2.1 Despite the reduced IA resources this quarter, the IA team has continued 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 1. The planned IA consultancy review of **CYPS Thematic Review - Ofsted Preparations** was concluded within the quarter. We performed a mapping exercise, using the Ofsted inspection framework, to ensure that the documents prepared for Ofsted would demonstrate the effectiveness of Hillingdon's social work practice. Our initial findings led to additional consultancy advice being requested from IA, which we prioritised in light of the Ofsted time constraints. Swift management action was taken to implement our suggested improvements which bolstered the documents' impact on the Ofsted Inspectors.

3.2.4 In addition, **4** other IA consultancy reviews are in progress, **2** of which are at draft memo stage and **1** is at the testing stage. One further consultancy review was added to the Quarter 1 IA plan (Adult and Community Learning) at the request of management (refer to **Appendix B**).

3.3 Grant Claim Verification Work in Quarter 1

3.3.1 As detailed at **Appendix A** the planned quarterly verification work on the **Troubled Families (TFs) Grant** progressed this quarter. IA tested a sample of TFs that had been identified as being 'turned around' by the Council's TFs Team. At the conclusion of our work we issued three IA memos in April, May and June 2018.

3.3.2 We have recently been informed by the TFs Co-ordinator that the Council has been tasked with identifying at least **450 'turned around' families for the August 2018 submission**. IA is closely liaising with the TF Co-ordinator and the TF Leadership Group in relation to this work given the ambitious target, the very tight timescales and against the backdrop of the current significant reduction in IA resource. This scheduled work has been captured in the Quarter 2 IA Plan (refer to **Appendix C**).

3.3.3 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 1

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. This work is aimed at providing enhanced assurance to CMT and the Audit Committee that IA recommendations have been implemented and fully embedded within the control environment to mitigate the risks identified.

3.4.2 Due to IA resource constraints, follow-up work within this quarter has been focussed on 2017/18 IA recommendations. The results of this work are reported in detail within the **2017/18 Annual IA Report and Opinion Statement**, presented to CMT and the Audit Committee alongside this progress report.

3.4.3 A further review is due to commence soon to verify management's assertion that management action has been taken to address the risks identified by IA. As part of the Quarter 2 IA progress report we will provide a detailed snapshot to CMT and the Audit Committee of progress against implementation of IA recommendations.

3.5 Other Internal Audit Work in Quarter 1

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 2 of 2018/19 (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 Two 2018/19 Quarter 1 follow-up reviews are in progress (Physical Access Controls and Extra Care), but due to a lack of IA resource, focus this quarter has predominantly remained on completion of the 2017/18 IA Plan. As a result, no **Quality Assurance and Improvement Programme (QAIP)** exercise has been undertaken by IA this quarter. The QAIP is designed to provide assurance that IA work continues to be fully compliant with the UK PSIAS and also helps enable the ongoing performance monitoring and improvement of IA activity. The next QAIP exercise is planned for September to October 2018 and will focus on IA management review points and closure of IA files.

4. Analysis of Internal Audit Performance

- 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. In line with best practice, for the 2018/19 year IA will report quarterly to CMT and the Audit Committee on the 9 KPIs agreed with the Audit Committee at the meeting held on 11th April 2018.
- 4.2 We believe that the 2018/19 IA KPIs are meaningful and will provide sufficient challenge to the IA service. They measure the quality, efficiency and effectiveness of the IA service and thus assist us in providing an added value assurance and consulting service to our range of stakeholders. These KPIs effectively capture and measure IA delivery as well as seek continuous improvement within the service.
- 4.3 As at 30th June 2018, there is **1** 2018/19 IA assurance report at final report issued stage and **2** at draft report issued stage, therefore it would not be of sufficient value at this stage to report on 2018/19 performance against the IA KPIs. The analysis of overall IA performance for the 2017/18 period is reported in full within the **2017/18 Annual IA Report and Opinion Statement** presented to the Audit Committee alongside this progress report.

5. Forward Look

- 5.1 As has already been highlighted earlier in this report, the IA service has been operating with a reduced capacity for a considerable time. This follows the resignation of five members of IA staff over the last seven months. However, whilst it is always difficult to see good staff leave LBH to pursue their careers elsewhere, it is a strong indicator that we are successfully delivering the IA strategy agreed by CMT and the Audit Committee of 'growing our own'. Specifically, all five members of the team have left for significant pay increases and the majority of them have demonstrated at LBH that they have the potential to be future Heads of Internal Audit. Therefore, whilst our success has created a challenging situation for the IA service and the Council, it is in line with our planned approach of developing our IA staff and having an excellent IA service.
- 5.2 Where we need to improve as an IA service and as a Council is regarding the remuneration we offer our IA staff, particularly for IA staff studying to become qualified. As a result, this is an opportune time to review the structure and skills mix across the IA service to ensure a resilient and strong structure is in place, which continues to provide a value added service to all IA key stakeholders. As part of the planned restructure we will look to be more competitive with recruitment and retention, including considering the introduction of retention allowances where appropriate.
- 5.3 In the meantime, the reduced IA workforce will continue to impact on the number of reviews the IA team will be able to conduct. As a consequence, in advance of a recruitment campaign due to commence in Quarter 2, we are in discussion with our external IA partner (Mazars) regarding a potential secondment to help achieve delivery of the Quarter 2 IA Plan.
- 5.4 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during the year. There has been a continued collaborative approach in IA's working relationship with staff and management who have generally responded very positively to IA findings. 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)

30th June 2018

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19**

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

2018/19 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 30 th June 2018	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
18-A3 (17-A33)	Corporate Payments	Final report issued on 29 th June 2018	Reasonable	0	2	4	0	Not yet due
18-A8	Early Years Centres	Draft report issued on 12 th June 2018						
18-A2	Declaration of Interests	Draft report in progress						
18-A4	Symology Data Quality	Testing in progress						
18-A5	Complaints	Testing in progress						
18-A12	Youth Offending Service	Planning in progress						
18-A1	Cyber Security	Audit deferred by management - See Appendix B						
18-A6	Positive Behaviour Support Team	Audit deferred by management - See Appendix B						
18-A7	CYPS - Quality Assurance	Audit deferred by management - See Appendix B						
Total Number of IA Recommendations Raised				-	2	4	-	
Total % of IA Recommendations Raised				-	33%	67%	-	

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19****2018/19 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 30 th June 2018	Recommendations				CFQ Received?
			Implemented	Partly Implemented	Not Implemented	Total	
18-A9	Physical Access Controls	Draft report in progress					
18-A10	Extra Care	ToR issued on 21 st June 2018					
Total Number							

2018/19 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 30 th June 2018	CFQ Received?
18-C3	CYPS Thematic Review - Ofsted Preparations	Memo issued on 9 th May 2018	✓
18-C2	Client Financial Affairs	Draft memo in progress	
18-C4	Recruitment and Retention of Foster Carers	Draft memo in progress	
18-C5	Financial Assessments	Testing in progress	
18-C6	Adult and Community Learning	ToR issued on 27 th June 2018	
18-C1	Introduction of Universal Credit	Audit deferred by management - See Appendix B	

2018/19 IA Grant Claim Verification Reviews:

IA Ref.	IA Review Area	Status as at 30 th June 2018
17-GC1	Troubled Families Grant - Quarter 1	Certified and memos issued on 25 th April 2018, 17 th May 2018 and 12 th June 2018

APPENDIX B**REVISIONS TO THE 2018/19 INTERNAL AUDIT PLAN ~ QUARTER 1****Amendments to the 2018/19 Operational IA Plan for Quarter 1:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
N/A	No amendments to the Q1 IA Plan		-	-	-

IA work DEFERRED from the 2018/19 Operational IA Plan for Quarter 1:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
18-A1	Cyber Security	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Cyber security can be defined as the defence of any physical or information asset, which could be compromised using information technology. The increasing reliance on internet based activities makes organisations more vulnerable to 'cyber attacks'. This IA review follows on from the assurance mapping exercise undertaken in 2017/18, providing independent assurance over the adequacy and effectiveness of the system of control to safeguard intellectual assets and data.
18-A6	Positive Behaviour Support Team	Assurance	MEDIUM	Tony Zaman Corporate Director of Social Care	The Positive Behaviour Support (PBS) Team are critical in the identification, formulation and delivery of intensive behavioural support services for some of the borough's most vulnerable residents. The development and delivery of person-centred strategies in Education, Health and Social Care minimise challenging behaviour whilst enhancing the quality of life of residents who have challenging needs. This IA review will provide assurance over service delivery, including compliance with the National Institute of Clinical Excellence (NICE) guidance and the PBS Competence Framework.
18-A7	CYPS - Quality Assurance	Assurance	MEDIUM	Tony Zaman Corporate Director of Social Care	This review will seek to provide assurance over the methodology, application and impact of the quality assurance initiative put in place by the Deputy Director of Children's Services. This includes review of the reporting activity, identifying areas of non compliance, the positively changing behaviours aspects and the ways of working.

APPENDIX B (cont'd)**REVISIONS TO THE 2018/19 INTERNAL AUDIT PLAN ~ QUARTER 1 (cont'd)****IA work DEFERRED from the 2018/19 Operational IA Plan for Quarter 1:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
18-C1	Introduction of Universal Credit	Consultancy	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	In May 2016, the full universal credit service for all claimant types began to rollout nationally (beyond London) and in July 2016 it was announced that this rollout will complete by September 2018, with all remaining existing benefit claimants moved to the full universal credit service in 2019. Review of the risks relating to the set up, administration and management of the different welfare reforms and the impact upon the Council including resources required as universal credit is phased in. Indirect impacts, when coupled with recessionary impacts, can be wide ranging and in some cases significant including homelessness and education.

IA work ADDED to the 2018/19 Operational IA Plan for Quarter 1:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
18-A12	Youth Offending Service	Assurance	HIGH	Tony Zaman Corporate Director of Social Care	IA was requested by the Corporate Director of Social Care to defer the Positive Behaviour Support Team audit and support the Youth Offending Service with their preparation for the statutory inspection by HM Inspectorate of Probation. A new inspection framework has been published, the Youth Offending Service was last inspected five years ago and therefore an inspection in 2018 is likely to occur.
18-C6	Adult and Community Learning	Consultancy	HIGH	Dan Kennedy Deputy Director Housing, Environment, Education and Health & Wellbeing	This review has been requested as a result of concerns identified with the collection of marked exam papers. This was following a recent incident where 10 marked exam papers went missing in one of the Council's Adult and Community Learning Centres. The Deputy Director has requested that IA check what controls have been put in place to reduce this risk from occurring in the future.

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 2****IA work scheduled to commence in the 1st July to 30th September 2018 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
18-A1	Cyber Security	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Cyber security can be defined as the defence of any physical or information asset, which could be compromised using information technology. The increasing reliance on internet based activities makes organisations more vulnerable to 'cyber attacks'. This IA review follows on from the assurance mapping exercise undertaken in 2017/18, providing independent assurance over the adequacy and effectiveness of the system of control to safeguard intellectual assets and data.
18-A6	Positive Behaviour Support Team	Assurance	MEDIUM	Tony Zaman Corporate Director of Social Care	The Positive Behaviour Support (PBS) Team are critical in the identification, formulation and delivery of intensive behavioural support services for some of the borough's most vulnerable residents. The development and delivery of person-centred strategies in Education, Health and Social Care minimise challenging behaviour whilst enhancing the quality of life of residents who have challenging needs. This IA review will provide assurance over service delivery, including compliance with the National Institute of Clinical Excellence (NICE) guidance and the PBS Competence Framework.
18-A13	Emergency Duty Team	Assurance	MEDIUM	Tony Zaman Corporate Director of Social Care	The Deputy Director, Children's Services highlighted to IA an area where they seek independent assurance and assistance with the formulation of their vision. The Emergency Duty Team (EDT) is contacted after hours by TeleCareLine and residents who need assistance from Social Care (in both Children's and Adults). EDT is a critical service whose interventions can prevent serious harm as well as safeguard service users. The Deputy Director has requested a methodical review of staff rota's, management of shifts, volume of referrals, process for handling referrals and how the service links with 'Anchor' (IT system).

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 2 (cont'd)****IA work scheduled to commence in the 1st July to 30th September 2018 period:**

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
18-A14	Follow-Up of implemented recommendations	Assurance (Follow-Up)	MEDIUM	Paul Whaymand Corporate Director of Finance	In preparation for the Annual Head of Internal Audit Opinion we will seek to undertake follow-up verification on the 2015/16, 2016/17 and 2017/18 IA recommendations where management have self certified that the recommendation has been implemented via the Team Central System.
18-C1	Introduction of Universal Credit	Consultancy	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	In May 2016, the full universal credit service for all claimant types began to rollout nationally (beyond London) and in July 2016 it was announced that this rollout will complete by September 2018, with all remaining existing benefit claimants moved to the full universal credit service in 2019. Review of the risks relating to the set up, administration and management of the different welfare reforms and the impact upon the Council including resources required as universal credit is phased in. Indirect impacts, when coupled with recessionary impacts, can be wide ranging and in some cases significant including homelessness and education.
18-GC2	Housing Benefits Subsidy Grant	Grant Claim	N/A	Paul Whaymand Corporate Director of Finance	Local authorities responsible for administering housing benefit claim subsidy from the Department for Work and Pensions in accordance with section 140 of the Social Security Administration Act 1992 and the Income-related Benefits (Subsidy to Authorities) Order 1998, SI 562 as amended. Ernst & Young LLP (EY), as the Council's appointed External Auditor for 2016/17, is required to certify the Council's claim. It has been agreed that IA will carry out the initial verification testing to reduce EY's testing and associated external audit fees.
18-GC3	Troubled Families (TF) Grant - Quarter 2	Grant Claim	N/A	Tony Zaman Corporate Director of Social Care	The TF programme is a govt 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 TF have been 'turned around'.

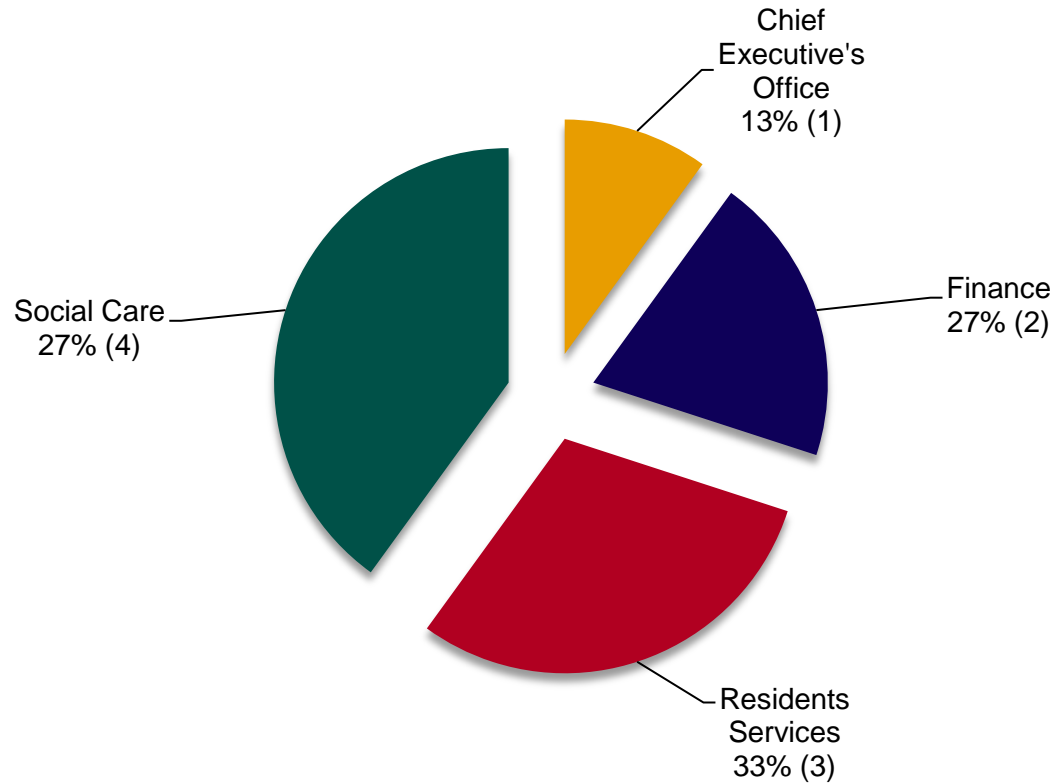
APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 2 (cont'd)****IA work scheduled to commence in the 1st July to 30th September 2018 period:**

IA Ref.	Planned Audit Area	Audit Type	IA Risk Assessment	Review Sponsor	Rationale
18-GC4	Disabled Facilities Capital Grant (DFG)	Grant Claim	N/A	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Disabled facilities grants (DFGs) are provided by the Council to help meet the cost of adapting a property for the needs of a disabled person. IA are required to undertake verification work for the DFG claim due for submission by 30 th September 2017.
18-GC5	Bus Subsidy Grant	Grant Claim	N/A	Tony Zaman Corporate Director of Social Care	The Local Authority Bus Subsidy Grant covers both commercial and non-commercial bus routes and is administered centrally by the Department for Transport. The Grant is the partial refund on fuel duty received from the government by operators of local bus services in England. IA will be required to review and confirm the Council has complied with the conditions attached to Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination 2016/17.
18-GC6	Pothole Action Fund	Grant Claim	N/A	Fran Beasley Chief Executive & Corporate Director of Chief Executive's Office	In the 2014 Budget statement, the Government announced the creation of a Pothole Fund ("the Fund") worth £200m, with £168m being made available to highway authorities in England of which £10m was allocated London Authorities of which LBH was awarded £415,158 to help repair damage to the local road network. In 2017/18 the Authority was awarded £96,871 and as part of the conditions of the grant the Authority is required to audit the Fund by 30 th September 2018.

APPENDIX C (cont'd)

DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2018/19 ~ QUARTER 2 (cont'd)

IA work scheduled to commence in the 1st July to 30th September 2018 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 ASSURANCE LEVELS AND DEFINITIONS**

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

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the authority and the reporting of financial management; and
 - the performance management of the authority and the reporting of performance management.
2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.
3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX D (cont'd)**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

RISK	DEFINITION
<p style="text-align: center;">HIGH</p> <p style="text-align: center;">●</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 style="text-align: center;">MEDIUM</p> <p style="text-align: center;">●</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 style="text-align: center;">LOW</p> <p style="text-align: center;">●</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 style="text-align: center;">NOTABLE PRACTICE</p> <p style="text-align: center;">●</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>

AUDIT COMMITTEE - 2018/19 Quarter 1 Counter Fraud Progress Report

Committee name	Audit Committee
Officer reporting	Muir Laurie, Head of Business Assurance
Papers with report	2018/19 Quarter 1 Counter Fraud Progress Report
Ward	All

HEADLINES

The attached report presents the Audit Committee with summary information on all Counter Fraud work covered in relation to 2018/19 Quarter 1 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 Counter Fraud Strategic Plan and facilitates in holding management to account for managing issues identified during the course of the Business Assurance Counter Fraud Team (BACFT) activity.

RECOMMENDATIONS:

That the Audit Committee:

- 1. Notes the Counter Fraud Progress Report for 2018/19 Quarter 1; and**
- 2. Suggests any comments/amendments.**

SUPPORTING INFORMATION

The Counter Fraud 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 team underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Counter Fraud Strategic Plan.

This page is intentionally left blank

BUSINESS ASSURANCE

Counter Fraud Progress Report to Audit Committee: 2018/19 Quarter 1

30th June 2018



Contents

The Counter Fraud key contacts in connection with this report are:

Muir Laurie

Head of Business Assurance

t: 01895 556132

e: mlaurie@hillingdon.gov.uk

Zac O'Neil

Counter Fraud Manager

t: 01895 250369

e: zoneil@hillingdon.gov.uk

	Page
1. Introduction	3
2. Executive Summary	3
3. Analysis of Counter Fraud Activity in Q1	4
4. Analysis of Counter Fraud Performance in Q1	8
5. Forward Look	10

1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT) 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 The BACFT conducts a range of types of investigative work, some of which have a criminal element to them and some which do not 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

- 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 1 period (29th March to 30th June 2018). 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 1.
- 1.2.2 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 (as set out in the Counter Fraud Strategic Plan), which provides an opportunity for the HBA to be held to account in this respect.

2. Executive Summary

- 2.1 **The major restructure of the BACFT has now been completed** with all permanent posts recruited to and all new members of staff in place. The new structure will help ensure that moving forward the team has the right mix of skills, qualifications and experience to meet the changing needs of the Council.
- 2.2 In line with the approved Counter Fraud Strategic Plan, progress has continued to be made on **developing the Council's fraud risk profile and 'Fraud Universe'** through research and ongoing engagement with managers across the Council. This critical piece of work is increasing the awareness and understanding of the fraud risks faced by a range of key Council services. In addition, fraud awareness training sessions have been delivered to a number of key stakeholders, with further training planned throughout the year. This will include document verification training for over a 100 frontline Council staff, run in conjunction with our in-house Home Office Immigration Enforcement Officer. In addition, a fraud awareness training package for managers and fraud risk workshops are under development to further build on the progress already made in this important area.
- 2.3 During this quarter and whilst building the BACFT to full capacity, **good progress has been made by the team** with the CF operational work plan. As at 30th June, there were **49** ongoing investigations and **69%** of these (**34**) related to different aspects of housing fraud. We have successfully focussed on reducing the overall number of cases that reach investigation, with the objective of improving the quality of referrals and therefore improving investigation outcomes. This has been achieved in part as a result of the introduction of a new streamlined fraud referral process. Guidance has been developed and rolled out to Council officers giving better advice on how and when to refer cases of suspected fraud. This is starting to improve the quality and tracking of fraud referrals which is in line with our new working model and has helped the team move towards a counter fraud service provision to a wider range of the Council's service areas.

- 2.4 The team's work continues to include preventative (mainly verification) work, which is due to be further expanded in Quarter 2 to include new areas of verification. This will increase the level of assurance provided to the Council by the BACFT over expenditure on key services. Our investigative work continues to actively pursue the leads provided by the Intelligence Officers and Verification Officers within the team, along with our other sources. In line with the approved Counter Fraud Strategic Plan, **we are seeking to prevent and deter fraud by increasing our enforcement actions**, such as criminal prosecution and financial penalties, where it is appropriate and proportional to do so.
- 2.5 The team has carried out two successful proactive counter fraud projects this quarter relating to 'Section 17' emergency accommodation expenditure and Blue Badge misuse. This has resulted in identification of **£16k** in loss prevention to date, **3** criminal sanctions for misuse of a Blue Badge, as well as the positive **increase in fraud awareness** that these exercises continue to produce. Further proactive projects are underway and several more are planned for Quarter 2. We also have several internal investigations that are ongoing, all of which are risk assessed by the CFT and commissioned by the relevant Council senior manager in a transparent manner.
- 2.6 A key aspect of the Counter Fraud Strategic Plan was **the introduction of a Home Office Immigration Enforcement Officer (IEO)**. Our IEO joined the BACFT on 16th April and his appointment was followed up with an awareness campaign to introduce him to key stakeholders and establish positive engagement with relevant Council teams. Although it is relatively early days, we have already seen very positive results in relation to loss prevention. Having our own IEO provides a vital resource to a range of Council services to protect the public purse and inform decision making that is based on immigration status.
- 2.7 Although the main focus of the team's work this quarter has remained on housing fraud, this is gradually shifting towards a balanced caseload of work across the Council. Further analysis of the BACFT's work in Quarter 1 is included in section 3 of this report below.

3. Analysis of Counter Fraud Activity in Quarter 1

3.1 Housing Fraud - Work in Quarter 1

- 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 and as a result the Council takes tenancy fraud extremely seriously.

- 3.1.3 The BACFT will take robust but proportionate 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'.
- 3.1.4 Per **Table 1** below, in the 2018/19 year to date the BACFT has successfully recovered **7** Council properties and are actively pursuing **3** cases for eviction. A further **31** investigations for suspected tenancy fraud are ongoing.

Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud Cases	2018/19 (to date)*		2017/18		2016/17	
	Cases	£k/value**	Cases	£k/value	Cases	£k/value
Total number of recovered properties	7	£126k	43	£774k	64	£1,152k
Total number of ongoing cases	34	£612k	-	-	-	-

* = as at 30th June 2018

** = In 2014, the Audit Commission reported the national average temporary accommodation costs to Local Authorities for one family as **£18k per property**. We continue to use this prudent estimate for reporting purposes, although across London a number of authorities are reporting that the true cost of each tenancy fraud case is more accurately estimated as **£94k per property** and some as high as **£150k per property** as a representation of property replacement costs.

- 3.1.5 In addition to work on tenancy fraud, the BACFT carries out investigations into suspected fraudulent **Right to Buy (RTB) applications**. This is where a person is applying to buy their Council house under the statutory scheme, and at a significant discount to market values. The scheme operates under strict conditions that must be met by the applicant if they are to qualify for the discount. In 2018/19 to date the team has identified **3 cases of fraudulent RTB applications** which have been stopped meaning the loss prevention of £103,600 per property (**£310,800** in total RTB discount saved). The BACFT has also secured **1 criminal conviction for fraud** this quarter relating to a RTB application.
- 3.1.6 As part of the team'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, the team carry out a range of verification checks which often include visits to 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 2018/19 year to date, the BACFT has successfully identified 113 housing application cases for rejection (for various reasons).

Table 2 ~ Housing Tenancy Verification Cases

Housing Tenancy Verification Cases	2018/19 (to date)*	2017/18
Total number of cases reviewed	351	2,485
Total number verified as accurate	238	1,398
Total number rejected	113	1,087
% identified by BACFT for rejection	32%	44%

* = as at 30th June 2018

- 3.1.8 Of the **113** that have been rejected, **7** have had their applications completely closed down. This was as a result of a variety of reasons i.e. they do not have 10 years residency, they have no immigration status, they own a property elsewhere, or they have over £30k in savings or assets.

3.1.9 Without the BACFT enhanced verification checks these applications could have been successfully housed. Overall, our tenancy fraud and verification work this quarter has resulted in **7 housing applications being completely closed down**.

3.1.10 Following a review of the BACFT services provided across the Council, a number of new areas for verification work have been agreed with Housing management. This additional work will facilitate the prevention and detection of fraud and error, as well as helping to ensure that Council services are available to those in genuine need. The ability to include these additional areas within the team's future work plan is as a result of adopting more efficient working practices. This has included a 'patch based' visiting system for the Verification Officers and the implementation of electronic rather than paper based investigation processes. The new areas of housing verification include:

- **First time buyer scheme** - eligibility based grants scheme helping residents who aspire to property ownership to buy their first home;
- **Mutual exchange** - residents moving into LBH properties who must satisfy eligibility criteria before being approved for the exchange;
- **Right to Buy (RtB)** - expanding our existing work in this area to now include formal verification of every single RTB application to identify potential fraud/ ineligibility; and
- **Bed & Breakfast (B&B) accommodation** - expanding our existing work in this area to now include formal residency checks of all B&B accommodation on a rolling 8 week basis to provide assurance over expenditure.

3.2 National Fraud Initiative - Work in Quarter 1

3.2.1 The National Fraud Initiative (NFI) is a data matching exercise now 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 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 relatively 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. In line with the approved Counter Fraud Strategic Plan, we will continue to place greater emphasis on the use of data analytics to help prevent and detect fraud against the Council.

3.2.3 The next NFI exercise is scheduled for 2018/19, although we are still continuing to work through the data matches identified in the 2016/17 exercise and the Housing pilot matches. Following the recent BACFT restructure, the Council's Revenues & Benefits team now review all Single Person Discount (SPD) and Council Tax Relief (CTR) data matches. As part of the new risk based approach to the deployment of BACFT resources, SPD and CTR cases will only be referred to the CFT where fraud, rather than error, is suspected.

3.3 Blue Badge Fraud - Work in Quarter 1

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.

3.3.2 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 operational work plan with a planned approach of one Blue Badge proactive operation per quarter.

3.3.3 In Quarter 1 a proactive Blue Badge misuse drive operation was carried out in Uxbridge town centre. This operation follows on from successes in previous years taking this approach and resulting in criminal prosecutions and sanctions for misuses. The results of the drive are as follows:

- 66 badges checked by BACFT officers;
- 8 parking contravention notices issued by attending parking Enforcement Officers;
- 3 Blue Badges seized for misuse; and
- 3 criminal investigations opened following badge seizures.

3.3.4 In total there are 4 current ongoing Blue Badge investigations. 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 every quarter in 2018/19.

3.4 Social Care Fraud - Work in Quarter 1

3.4.1 In line with the move to a risk based approach, a greater focus on social care fraud has continued this quarter. The risks to the Council in this area are very high as it is an area of significant expenditure, and one where counter fraud work can have a major impact. Our social care work has included an Unaccompanied Asylum Seeking Child (**UASC**) investigation, which resulted in the discontinuation of funding and a financial saving of c£13k. Fraud awareness work in this area has been carried out with relevant stakeholders.

3.4.2 **Table 3** below provides the summary results of a proactive counter fraud project undertaken in Quarter 1 to review all Section 17 emergency accommodation. This is the first time this project has been undertaken and was carried out with the assistance of the team's new Home Office Immigration Enforcement Officer.

Table 3 ~ Section 17 Emergency Accommodation

Section 17 Emergency Accommodation Summary Results	Q1 2018/19
Total number of properties reviewed	53
Number assessed to continue funding	50
Number of cases identified to discontinue funding ¹	3
Financial loss prevention ²	£25k

¹ = funding has been discontinued in 2 cases and 1 is awaiting a decision

² = **based on the average weekly cost** of funding Section 17 emergency accommodation

3.5 Immigration Enforcement Officer - Work in Quarter 1

3.5.1 Since 16th April, the BACFT has had an Immigration Enforcement Officer (IEO) working within the team. This initiative provides enhanced access to Home Office data for the purpose of assessing cases involving immigration status. The IEO also provides front line assistance to a range of Council services when dealing with a matter involving immigration status.

3.5.2 To date, the IEO has provided assistance in **185 cases** where requests have been made by Council officers outside of the BACFT. Of these cases the following has been identified:

- **13** instances where all rights have been exhausted or the person is an illegal overstayed in the UK and have no recourse to public funds;
- **4** cases which have been referred to the Immigration Compliance Enforcement team for removal; and
- **2** cases of prevention of First Time Buyer scheme grants application fraud resulting in a **financial loss prevention of approximately £35,646** (average grant is £17,823).

3.5.3 The IEO work is still in the relatively early stages, but further information on case outcomes is continuing to be gathered to provide an assessment of the financial impact of the IEO's role within the BACFT. This data will include circumstances where the Council no longer is required due to status to fund an individual. We will also ensuring that individuals are funded by the National Asylum Seeker Support rather than the Council where appropriate. The IEO has also provided invaluable assistance in the Section 17 proactive counter fraud project, by carrying out background checks on all cases where there is potentially an immigration issue. The IEO is currently working on similar background checks in relation to an upcoming **UASC** proactive project which will be completed in Quarter 2.

3.4 Other Counter Fraud Work in Quarter 1

3.4.1 There is a range of other work that has been carried out by the BACFT in Quarter 1 including Council Tax Relief and Council Tax Reduction Scheme fraud investigations. We also have several internal investigations that are ongoing, all of which are risk assessed by the BACFT and commissioned by the relevant Council senior manager. The financial impacts of these other investigations in Quarter 1 amount to the following:

- **£5.5k** of Council Tax Reduction overpayments identified;
- **£4k** of Council Tax arrears recovered resulting from verifications work; and
- **£6.5k** of Housing Benefits overpayments identified as a consequence of counter fraud work.

3.4.2 As part of the move to a risk based approach, several lower risk work streams have been reduced, or in some cases have ceased to be undertaken by the BACFT. This includes Single Person Discount data matches which are now dealt with by the Council's Revenues & Benefits team. This strategic change in emphasis will help ensure that in future the Council's exposure to its key fraud risks is being appropriately considered by the BACFT.

4. Analysis of the Counter Fraud Team Performance in Quarter 1

4.1 Work has been undertaken this quarter to produce **a formal set of KPIs** relevant to counter fraud work which will allow measurement of team performance and enable the BACFT and the HBA to be better held to account by CMT and the Audit Committee. The proposed KPIs (as set out at **Table 4** below) have been formulated against the context of benchmarking information obtained for other similar size and structure counter fraud services.

4.2 **Table 4** below contains the proposed BACFT formal KPIs and the Quarter 1 actual performance against these KPI targets.

Table 4 ~ BACFT Proposed KPIs and Q1 Performance

Counter Fraud KPIs (Proposed)	Target	Q1
1. Percentage of fraud referrals risk assessed within 3 working days	95%	36%
2. Verification work timescales for completion:		
a. Housing Allocations completion within 3 working days	95%	88%
b. First Time Buyers completion within 5 working days	95%	N/A ³
c. Right to Buys completion within 28 working days	95%	N/A ³
3. Housing Bed and Breakfast clients verified every 40 working days	95%	N/A ³
4. Investigation plan completed within 5 wrk'g days of case allocation	95%	N/A ³
5. Tenancy fraud referrals received resulting in property recovery	20%	33%
6. Investigations resulting in sanction (<i>prosecution/penalty/caution</i>)	10%	1%
7. Investigations resulting in loss prevention/financial saving outcome	25%	16%

N/A³ = data is not yet available as this work has not yet begun or the process is not yet in place.

- 4.3 It is still relatively early days to be measuring actual performance against these KPIs and as can be seen at **Table 4** actual performance to date varies significantly across the range of KPIs. For **KPI 5 (Tenancy fraud referrals received resulting in property recovery)** a **20%** KPI target has been proposed. This is based on the **24%** achieved in 2017/18 and an expectation that our work on tackling tenancy fraud will continue to drive down instances of fraud by providing an ongoing deterrent. However, in Quarter 1 the team has achieved **33%** which is an improvement on 2017/18 represents a positive achievement for the team.
- 4.4 We have also carried out an extensive exercise this quarter to gather benchmarking data for London counter fraud teams. This information proved to be very challenging to obtain, as we found reluctance from most London authorities to share their counter fraud results with us. Nevertheless, we managed to obtain a comprehensive set of benchmarking data that was publicly available in relation to 'tenancy fraud number of properties recovered in 2016/17'. The results of this benchmarking exercise are set out in **Table 5** below:

Table 5 ~ Benchmarking Data: No. of Tenancy Fraud Properties Recovered in 2016/17

No.	Council	No. of Recovered Properties
1	Camden	110
2	Hackney	103
3	Southwark	89
4	Lambeth	73
5	Hillingdon	64
6	Enfield	59
7	Waltham Forest	49
8	Wandsworth	48
9	Haringey	48
10	Croydon	45
11	Tower Hamlets	44
12	Greenwich	39
13	Hammersmith & Fulham	21
14	Lewisham	19
15	Richmond upon Thames	16
16	Westminster	13
17	Harrow	13
18	City of London	11
19	Merton	10
20	Sutton	9
21	Bexley	6
22	Hounslow	6
23	Newham	5
24	Ealing	5
25	Barking & Dagenham	*
26	Barnet	*
27	Brent	*
28	Bromley	*
29	Havering	*
30	Islington	*
31	Kensington & Chelsea	*
32	Kingston upon Thames	*
33	Redbridge	*

* = 2016/17 data for these 9 London authorities was not publicly available and to date we have been unable to obtain the data from them directly.

- 4.5 From this benchmarking data we can see that in 2016/17 the BACFT's performance was well above the **average of 39 properties** recovered and in fact LBH was the **5th highest performing council** in London for this data set. However, further analysis work is ongoing to see the detail that sits behind this data i.e. we are trying to accurately establish how many dedicated housing fraud investigators authorities such as Camden have so we can calculate how many properties are recovered per counter fraud f.t.e. member of staff. We also noted that most authorities reported an average notional financial saving per property of £94k, although this figure varied significantly from as low as £3k per property recovered to £150k per property. At LBH we continue to use the Audit Commission's figure of £18k which for 2016/17 (64 properties) equates to **£1,152k** of notional savings.
- 4.6 In advance of the Quarter 2 progress report, we are in the process of obtaining further benchmarking data analysis to help us establish and transparently demonstrate exactly how well the BACFT is performing. It is clear that the time taken on the restructure of the service has negatively impacted the outcomes for Quarter 1. A significant proportion of CF staff have been undergoing training and requiring induction support in their new roles. This was against a backdrop of major change initiatives such as the move to a risk-based approach and implementing paperless investigations. All this has had a detrimental impact on some of the results and outcomes achieved this quarter.
- 4.7 Nevertheless, the team is now at full strength and what can be seen by the results achieved this quarter, (as highlighted in section 3 of this report) is that the team has continued to be successful in achieving positive outcomes by preventing and detecting fraud against Hillingdon taxpayers.

5. Forward Look

- 5.1 Looking ahead to Quarter 2 there are a number of key priorities for the BACFT. These include:
- Train and embed the **nine new members of staff** to ensure they are fully operational as soon as possible;
 - Complete the update of all Council **Counter Fraud related policies**;
 - Further embed the new **Counter Fraud processes and methodology** currently being implemented within the team, including the risk-based approach to all referrals;
 - Fully implement the use of **internal data matching processes** to assist in the prevention and detection of fraud; and
 - Broaden the scope of **engagement with key stakeholders through fraud awareness and risk workshops** to deliver counter fraud services and promote a counter fraud culture within the Council.
- 5.2 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 1. 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

30th June 2018

AUDIT COMMITTEE MEMBER SKILLS MATRIX

Committee name	Audit Committee
Officer reporting	Anisha Teji, Democratic Services
Papers with report	Draft Audit Committee Member Skills Matrix
Ward	All

HEADLINES

This report is to enable the Audit Committee to review the proposed draft skills matrix for Members.

RECOMMENDATIONS:

That the Committee:

1. Notes the draft Member skills matrix; and
2. Suggests any comments/amendments.

SUPPORTING INFORMATION

It is important to provide training to all Members to ensure that they have the relevant skills and knowledge to carry out their role.

Attached to this report is the proposed draft skills matrix. Members are asked to provide their feedback and comments. Once the Committee is satisfied with the proposed skills matrix, this will be sent to Members for self-evaluation on a confidential basis.

Democratic Services will then work with Business Assurance to ensure the necessary training sessions are arranged based on Members' skills requirements.

BACKGROUND PAPERS

None.

This page is intentionally left blank

London Borough of Hillingdon - Skills Matrix for Audit Committee Members (please ✓ as appropriate)

Audit Committee Member Name:		MEMBER NAME	
Skill/Knowledge/Experience:		Level of Experience	Comments
Area:	Indicator:		
Audit Committees	An understanding of the purpose of an Audit Committee (AC) and the specific remit and responsibility of the AC at LBH.		
Internal Audit	An understanding of the role and responsibilities of Internal Audit in a local authority, including reporting requirements for assurance and consultancy work, as well as statutory powers.		
External Audit	An understanding of the role and responsibilities of External Audit in a local authority, including appointment, reporting requirements, grant claims, value for money and statutory powers.		
Risk Management	An understanding of the purpose of Risk Management (RM), the RM cycle and the LBH RM policy/framework.		
Corporate Governance	An understanding of what Corporate Governance (CG) is and the AC's role in ensuring good CG. Also, an understanding of LBH's CG framework and the purpose of the Annual Governance Statement?		
Anti-Fraud & Anti-Corruption	An understanding of anti-fraud and anti-corruption frameworks and the role and responsibilities of the Business Assurance Counter Fraud Team at LBH.		
Financial Reporting	An understanding of financial strategy and the financial reporting requirements of LBH.		
Treasury Management	An understanding of treasury management and investment strategies, particularly in relation to local government.		
Please enter details of any other additional relevant areas of expertise not listed above:			

This page is intentionally left blank

Skills Descriptors

Skill Level	Description
No Experience	No knowledge or previous experience/ training.
Basic Understanding	A basic awareness of the skill gained from working experience (usually over 1 year) or appropriate training and development. Or where knowledge possessed is not current (more than 3 years out of date).
Well Informed	Practical training and experience (a minimum of 2 years, gained during the last 10 years) in the specified skill or application of knowledge
Specialist Knowledge	Formal training, appropriate qualification (degree or professional qualification) and/or considerable practical experience (3 years or more, gained in the last 10 years) in the specified skill.

This page is intentionally left blank

AUDIT COMMITTEE FORWARD PROGRAMME 2018/19

Committee name	Audit Committee
Officer reporting	Anisha Teji, Chief Executive's Office
Papers with report	None
Ward	All

HEADLINES

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

RECOMMENDATIONS:

That the Committee:

1. Confirms the dates for Audit Committee meetings; and
2. Makes suggestions for future agenda items, working practices and / or reviews.

SUPPORTING INFORMATION

All meetings to start at 5.10pm. There will be a pre meeting with officers and the Committee at 5.00pm.

Meetings	Room
11 April 2018	CR 5
26 July 2018	CR 5
17 October 2018	CR 5
6 February 2019	CR 6
25 April 2019	CR 5

Meeting Date	Item	Lead Officer
17 October 2018	*Private meeting with the Corporate Director of Finance to take place before the meeting	
	Internal Audit Progress Report 2018/19 Quarter 2 & Internal Audit Plan Quarter 3	Head of Business Assurance
	Risk Management Annual Report – Part II	Head of Business Assurance
	Counter Fraud Progress Report 2018/19 Quarter 2	Head of Business Assurance
	Q1 Corporate Risk Register – Part II	Head of Business Assurance
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
6 February 2019	*Private meeting with Head of Business Assurance to take place before the meeting	
	Internal Audit Progress Report 2018/19 Quarter 3 & Internal Audit Plan Quarter 4	Head of Business Assurance
	Counter Fraud Progress Report Quarter 3 2018/19	Head of Business Assurance
	Q2 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
25 April 2019 TBC	*Private meeting with External Audit (Ernst & Young) to take place before the meeting	
	EY 2017/18 Annual Audit Plan; 2018/19 Pension Fund Audit plan	Corporate Director of Finance / Ernst & Young
	Audit Committee Annual Report	Head of Business Assurance
	EY - Annual Grant Audit Letter	Corporate Director of Finance /Ernst & Young

	Annual Review of the Effectiveness of Internal Audit 2018/19	Head of Business Assurance
	Annual Review of the Effectiveness of the Audit Committee 2018/19	Head of Business Assurance
	Internal Audit Charter 2018/2019	Head of Business Assurance
	Annual Governance Statement 2018/19 – Interim Report	Head of Business Assurance
	Draft Internal Audit Plan 2019/20	Head of Business Assurance
	Internal Audit Progress Report 2018/19 Quarter 4 (including the 2019/20 Quarter 1 IA Plan)	Head of Business Assurance
	Counter Fraud Progress Report Quarter 4 2018/19	Head of Business Assurance
	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

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank