



HILLINGDON
LONDON



Audit Committee

Members of the Committee

John Chesshire (Chairman)
Councillor Martin Goddard (Vice-Chairman)
Councillor Tony Eginton
Councillor Susan O'Brien
Councillor Edward Lavery

Date: MONDAY 22 JULY 2019

Time: 5.40 PM

Venue: COMMITTEE ROOM 4 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE

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

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Published: Friday 12 July 2019

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Putting our residents first

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

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Terms of Reference

The Constitution defines the terms of reference for the Audit Committee as:

Introduction

The Audit Committee's role will be to:

- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
- Review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment;
- Oversee the financial reporting process of the Statement of Accounts.

Decisions in respect of strategy, policy and service delivery or improvement are reserved to the Cabinet or delegated to Officers.

Internal Audit

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

External Audit

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

Governance Framework

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

Accounts

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

Review and reporting

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

Agenda

PART I

- 1** Apologies for absence
- 2** Election of Vice Chairman
- 3** Declarations of interest
- 4** 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
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PART II

- 14** 2018/19 Quarter 4 Corporate Risk Register 311 - 330

Minutes



AUDIT COMMITTEE

25 April 2019

Meeting held at Committee Room 6
Civic Centre, High Street, Uxbridge

	<p>Committee Members Present: John Chesshire (Chairman) Councillors Scott Seaman-Digby (Vice-Chairman), Tony Eginton, Martin Goddard and Susan O'Brien</p> <p>LBH Officers Present: Sian Kunert (Head of Pensions, Treasury and Statutory Accounts), James Lake (Lead Corporate Accountant), Paul Whaymand (Corporate Director of Finance), Muir Laurie (Deputy Director of Exchequer & Business Assurance Services (Acting)), Sarah Hydrie (Internal Audit Service Manager), Zac O'Neil (Counter Fraud Manager), Stephanie Rao (Risk and Insurance Manager) and Anisha Teji (Democratic Services Officer)</p> <p>Others Present: Adrian Balmer (External Audit - Ernst & Young)</p>
34.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p>
35.	<p>DECLARATIONS OF INTEREST (<i>Agenda Item 2</i>)</p> <p>Councillor Tony Eginton declared a non-pecuniary interest in agenda item 5 arising from the fact that he was a retired member of the Local Government Pension Scheme. He remained for the discussion of all items.</p>
36.	<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 (<i>Agenda Item 3</i>)</p> <p>It was agreed that all the items on the agenda be considered in public with the exception of Agenda Item 11 – Business Assurance - Draft Counter Fraud Strategic Plan 2019/20 Draft and Agenda Item 12 – Corporate Risk Register 2018/19 Quarter 3.</p>
37.	<p>MINUTES OF THE MEETING HELD ON 6 FEBRUARY 2019 (<i>Agenda Item 4</i>)</p> <p>Matters arising from the minutes from the meeting on 6 February 2019</p> <p>The Deputy Director of Exchequer & Business Assurance Services (Acting) informed the Committee that feedback had been provided to the relevant Housing team in relation to the leaflet entitled “<i>Your Guide to Universal Credit</i>” and amendments would be made by them. It was also confirmed that an update on the Early Years Centre</p>

would be provided later at the Committee meeting. The Counter Fraud related policies had not come into full effect yet due to still being in the process of being finalised.

Committee approval of the minutes from 6 February 2019

The Committee agreed the insertion of Cllr Ray Graham's name to be listed in the Committee Members present and to insert the word "some" in minute 28 final paragraph to now read *"It was confirmed that some IA resourcing would still be outsourced to Mazars until the end of the financial year."*

RESOLVED – That the updates be noted and the minutes be approved subject to the amendments stated above.

38. EY- ANNUAL GRANT AUDIT LETTER (Agenda Item 5)

The Committee considered the External Audit Annual Grant Audit Letter, which provided a summary of the key findings on the grant certification work undertaken by Ernst & Young (EY) for the year ended 31 March 2018.

The report highlighted three areas of grant certification work as Housing Benefits Subsidy Claim, Teacher's Pension and Housing Capital Receipts. It was noted that EY were responsible for certifying the Housing Benefit Subsidy claim under the contract with the Public Sector Audit Appointments (PSAA). From this work, as a result of a number of errors being revealed both in under and over payment of benefits identified during the audit of the Housing Benefit Subsidy claim, a qualification letter was issued.

It was confirmed that given the nature of benefits and the high volume of transactions there would always be a certain element of error. However, it was explained that the benefits subsidy system was such that all errors no matter how small resulted in qualification.

In addition, it was noted that EY were responsible for certifying two returns relating to the Teachers' Pension Contributions and Pooling of Capital receipts, outside of the PSAA certification regime. These returns were certified without qualification.

The total fees charged for grant certification work for the financial year 2017/18 was £40,945 (2016/17 £44,725)

RESOLVED – That the findings contained in the Annual Grant Audit Letter be noted.

39. ANNUAL GOVERNANCE STATEMENT 2018/19 - ORAL UPDATE (Agenda Item 6)

The Committee was provided with an update on the preparation of the Annual Governance Statement (AGS) for 2018/19. It was reported that work was progressing well, the Management Assurance Statements had been completed and the first draft of the AGS had been reviewed by the Corporate Governance Working Group.

It was reported that dates had been scheduled for the entire process which factored in time for the Leader and EY to review. The AGS was on track to be submitted to the Audit Committee's July reporting deadline.

It was also noted that the format of the draft AGS had been updated in line with best practice. Current guidance had also been considered when drafting the AGS such as the new CIPFA Statement on the Head of Internal Audit which was published in April

2019.

RESOLVED – That the update on the AGS 2018/19 be noted.

40. **INTERNAL AUDIT PROGRESS REPORT FOR 2018/19 QUARTER 4 (INCLUDING THE 2019/20 QUARTER 1 IA PLAN)** (*Agenda Item 7*)

The Internal Audit (IA) Service Manager presented the report which provided summary information on all IA work covered in relation to the 2018/19 Quarter 4 IA Plan, together with assurance levels in this respect.

It was highlighted that since the last IA progress report to CMT and the Audit Committee on 14 January 2019, five assurance reviews (including three follow ups) had concluded, one consultancy reviews had finalised and one grant claim (consisting of three memos) had been certified.

Key assurance reviews finalised included Mortuary which received a reasonable assurance opinion and Gifts and Hospitality which received a reasonable assurance opinion over the management of key risks. One consultancy review of Private Sector Housing had completed during this quarter.

It was reported that the Early Years Centre follow up was due to commence and in preparation for this, IA had met with the Head of Service to receive an update on the progress of the three high and five medium risk recommendations. It was confirmed that two medium risks recommendations had been implemented but the remaining six had been extended to 30 June 2019. The reason for the extension was to allow a Business Improvement Delivery review to conclude before recommendations could be implemented.

It was confirmed that three KPIs 5, 6, and 7 were reported as Red as reports were still in progress. This target was a challenge and a number of factors had impacted this including a restructure, recruitment campaign and staff members leaving the team. Officers explained the progress was being regularly monitored and discussed at team meetings.

During Member discussions, it was noted that the four high risks in the Emergency Duty Team were issued in December 2018 and they would be followed up once they reached their implementation deadline. In relation to Olympic House, IA and senior management in Social Care agreed to cease testing as review of the provision, staffing and site was being commissioned by the Director of Provider and Commissioned Care and to progress the audit would not add sufficient value or provide assurance to management or the Audit Committee.

It was also noted during Member discussions that the Review of the Effectiveness of the Audit Committee was based on CIPFA guidance, IA had met with the Chairman and testing had concluded. Agenda dispatch, minutes, skills matrix and training was also reviewed as part of the audit. The results would be published in June 2019. When planning for audit reviews, intelligence such as corporate and directorate risk registers are used to inform IA planning meetings.

Members were pleased with the progress of the successful appointments to a number of IA vacancies and that the team was fully recruited. It was confirmed that IA would continue to have a partnership with Mazars.

RESOLVED –

	<p>1) That the Audit Committee noted the IA Progress Report for 2018/19 Quarter 4 and approval be given to the Quarter 1 Internal Audit Plan for 2019/20.</p> <p>2) That the Committee noted that the coverage, performance and results of Business Assurance Internal Audit activity within this quarter</p>
41.	<p>DRAFT ANNUAL INTERNAL AUDIT PLAN FOR 2019/20 (<i>Agenda Item 8</i>)</p> <p>The Committee was provided with the Draft Annual Internal Audit Plan 2019/20 that set out the Internal Audit's (IA) 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>It was noted that after deducting an appropriate amount of allocated time for IA planning, reporting staff training etc, the calculated total available IA chargeable time for 2019/20 was 765 IA days. This represented a 135 day reduction on the 2018/19 IA Plan. It was reported this was mainly due to change in the composition and skills mix of the IA team.</p> <p>It was noted that the IA had consulted with the Leader of the Council to seek his views on the key risks facing the Council and comments had been invited from all Cabinet Members. Members enquired what other steps were taken to identify potential risks and it was confirmed that key committee papers were reviewed.</p> <p>Members expressed some concern in the decrease in the number of audits days however recognised that, despite this, better quality reviews were being undertaken and a higher level of resource was being allocated to IA assurance work which positively increased the effectiveness of the IA service.</p> <p>RESOLVED – That the Audit Committee noted the Draft Internal Audit plan for 2019/20.</p>
42.	<p>COUNTER FRAUD PROGRESS REPORT 2018/19 QUARTER 4 (<i>Agenda Item 9</i>)</p> <p>The Head of Counter Fraud presented a report giving details on the work being undertaken by the Business Assurance Counter Fraud Team (BACFT) in relation to 2018/19 Quarter 4 and assurances in this respect.</p> <p>An updated appendix B and figure in relation to Table 1 – Housing Tenancy Fraud Cases was provided to the Committee.</p> <p>In summary, it was reported that during this quarter the team had achieved successful loss prevention outcomes relating to Housing Fraud, Disabled Facilities Grants and Social Care. The Committee was informed that five Council properties had been recovered and two council tenants had downsized.</p> <p>During this quarter, there had been a focus on completion of a successful tenancy fraud project which had generated a number of criminal investigations into suspected subletting and achieved the direct saving of £40k in home adaptation costs. The Home Office Immigration Enforcement Officer had helped the Council with loss prevention</p>

work of £233k to date for 2018/19 and, as a result, the contract had been extended for another year.

In relation to, Appendix A: Table 3 – BACFT Quarter 4 KPIs and Actual Performance, it was confirmed that KPIs had improved since the beginning of the year but that there was still work to be done to make improvements. An ongoing issue for the meeting of KPIs had been the Intelligence sub-team not yet being fully resourced.

It was confirmed that in 2018/19, the BACFT had successfully recovered 19 Council properties and were actively pursuing a further two cases for eviction. A further 29 investigations for suspected tenancy fraud were ongoing.

It was noted that the next NFI exercise data match for Hillingdon was received in the first week of February 2019. The BACFT was continuing to work through the data matches identified for 2017 as well as working on matches for 2019, and this had resulted in cashable savings of £6,685.82. Further to Member questions, officers confirmed that this was a lower savings figure than expected. However, this data was still being reviewed and the Committee would be updated next quarter on progress.

It was highlighted that in Quarter 4, one proactive Blue Badge misuse operation was carried out in Uxbridge High Street. 59 badges were checked by BACFT officers, 1 criminal investigation had opened following badge seizure and 5 expired badges were seized. It was noted that as more awareness was being raised, results for operations would likely reduce meaning that blue badge operations were having a deterrent effect. Further to Member concerns about Blue Badges being sold, it was confirmed that residents who lost their blue badges regularly were monitored by the Contact Centre.

The Committee commended officers on their positive work.

RESOLVED – That the Counter Fraud Progress Report for 2018/19 Quarter 4 be noted.

43. **WORK PROGRAMME** (*Agenda Item 10*)

It was confirmed that the meeting on Thursday 17 October 2019 had been moved to Monday 21 October 2019.

The next training session would take place on 22 July 2019 and would cover the work of the Business Assurance Counter Fraud Team.

RESOLVED – That the forward work programme be noted.

44. **BUSINESS ASSURANCE - DRAFT COUNTER FRAUD STRATEGIC PLAN 2019/20**
(*Agenda Item 11*)

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).

The report presented to Members the draft Counter Fraud Strategic Plan for 2019/20, 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

	<p>Team (BACFT) would take to manage the various risks of fraud against the Council, set out the BACFT's Operational Work Plan for 2019-20, 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 2019/20 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 2019/20, in line with its role to provide independent oversight of the Council's governance and risk management arrangements.
45.	<p>CORPORATE RISK REGISTER 2018/19 QUARTER 3 (<i>Agenda Item 12</i>)</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 Corporate Risk Register for Quarter 3 (October to December 2018), report was presented to Members. The report provided evidence about how identified corporate risks were being managed and the actions which were being taken to mitigate those risks.</p> <p>RESOLVED – That the Committee reviewed the Corporate Risk Register for Quarter 3 (October to December 2018), as part of the Committee's role to independently assure the strategic risk management arrangements in the Council.</p>
	<p>The meeting, which commenced at 5.43 pm, closed at 6.56 pm.</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.

APPROVAL OF THE 2018/19 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT FOR THE YEAR ENDED 31 MARCH 2019

Committee name	Audit Committee
Officer reporting	Sian Kunert, Finance
Papers with report	EY Audit Results Report – to follow EY Pension Fund Audit Results Report Statement of Accounts as at 31 March 2019
Ward	All

HEADLINES

The draft Statement of Accounts are attached to this report for approval. A final version of the statement of accounts will be provided at the committee meeting and will be subject to any changes through the remainder of the audit period. The statement of accounts are inclusive of the Pension Fund accounts. The Pension Fund accounts are audited separately due to their specialist nature.

EY, the external auditor, have prepared two reports to summarise their findings on the audit of the 2018/19 Statement of Accounts and the Pension Fund Accounts. The report on the main financial statements will follow, the report on the Pension Fund accounts audit is attached.

EY have indicated they will issue an unqualified opinion on the Pension Fund Accounts, subject to some outstanding areas of work.

RECOMMENDATIONS:

That the Committee approve the audited Statement of Accounts for 2018/19.

SUPPORTING INFORMATION

The arrangements for keeping and publishing the Council's accounts are set out in the Accounts and Audit 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 Regulations the Corporate Director of Finance approved the Statement of Accounts on 30 May 2019, 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 2019 and for these accounts to be signed and dated by the Audit Committee and Responsible finance officer.

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 audit results 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

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 £276m, this was mainly due to a revaluation rise in property value, which also increased the revaluation reserve within unusable reserves.

Usable reserves fell £9m in year with a reduction in schools balances and the HRA reserves, with a small increase on General Fund balances.

The Comprehensive Income and Expenditure Statement shows a surplus of £25.8m on the provision of services. Much of this surplus resulted from the reversal of previous revelation losses and profit on asset disposals. However most of the surplus is reversed out due to accounting requirements, to represent the statutory cost of the general fund and HRA for Council Tax and rent setting purposes. The ultimate impact to the General Fund was an in-year surplus of £1.3m, whilst the HRA had an in-year deficit of £18.8m.

Post Balance Sheet Events

The accounts have been updated with a post balance sheet event since 31 March 2019.

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members mean they cannot be lower than what they would have received under the previous benefit structure.

In December 2018 the Court of Appeal upheld a ruling (“McCloud/Sargeant”) that similar transitional protections in the Judges’ and Firefighters’ Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. LGPS benefits accrued from 2014 may therefore need to be enhanced so that all members, regardless of age, will benefit from transitional protections. Alternatively, restitution may be achieved in a different way, for example by paying compensation. It is anticipated that many more members would see an enhanced benefit and there will therefore be a retrospective increase to members’ benefits, giving rise to a past service cost for the Fund employers.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on a wide range of factors that can impact. The Government Actuary’s Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Fund’s actuary has adjusted GAD’s estimate to better reflect the London Borough of Hillingdon Pension Fund’s local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to London Borough of Hillingdon Pool is that total liabilities (i.e. the increase in active members’ liabilities expressed in terms of the employer’s total membership) could be 0.23% higher as at 31 March 2019, an increase of approximately £3.4m.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions. As a result of this has been accounted for as a non adjusting post balance sheet event in the Councils financial statements. The primary financial statements have not been corrected to take account this estimate.

Public Inspection of the Accounts

In line with the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015, from 1st June 2019 to 12th July 2019, any person interested was able to inspect the accounts of the council for the year ended 31st March 2019. Inspection includes all related documents (comprising books, deeds, contracts, bills, vouchers and receipts). Documents are often redacted, as there is no right to inspect documentation or records with personal information. During this same period a Hillingdon local government elector, or his/her representative, may question the Auditor about the accounting records, and raise an objection to the council’s accounts.

At the time of reporting the Council had received public inspection requests from two individual’s, one local elector and one Councillor, on 5 specific topics. Officer time in responding to these enquires is estimated to have taken approximately 40 hours.

In addition to the inspection requests EY have received an objection to the accounts. Further

information and an update will be provided at the committee meeting.

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.

**London Borough of
Hillingdon Pension Fund
Audit results report**
Year ended 31 March 2019

8th July 2019

8th July 2019



Dear Audit Committee and Pension 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 Hillingdon Pension Fund for 2018/19.

We have substantially completed our audit of Hillingdon Pension Fund for the year ended 31st March 2019. 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 in section 3, before the 31st July 2019.

This report is intended solely for the use of the Audit Committee, Pensions 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 Audit Committee meeting on 22nd July 2019.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'S. Patel'.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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02 Areas of Audit Focus



03 Audit Report

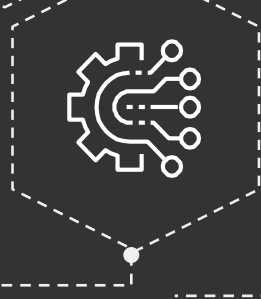


04 Audit Differences

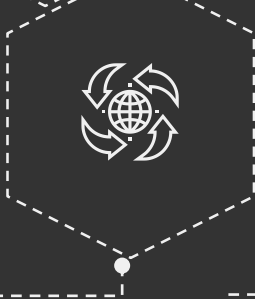


05 Other reporting issues

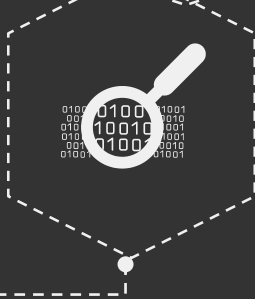
06 Assessment of Control Environment



07 Data Analytics



08 Independence



09 Appendices



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary



Executive Summary

Scope update

In our Audit Plan tabled at the 6th February 2019 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 - 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 £10.596m (previously £10.123 m). This results in updated performance materiality, at 75% of overall materiality, of £7.947 m, and an updated threshold for reporting misstatements of £0.530m.

Status of the audit

We have substantially completed our audit of Hillingdon Pension Fund's financial statements for the year ended 31st March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise. For outstanding items see Appendix B.

In addition to the above, there is an ongoing national issue which may require a late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts have recognised this matter as a contingent liability. However, since the year-end there have been increasing indications that this may not be the correct treatment, and may need to be incorporated into the assessment of the scheme liabilities depending on the materiality of the issue. We will continue to liaise with officers on the outcome of this matter.

The Fund does not expect to complete its Annual Report by the end of July. As a result, we will not be in a position to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are currently no unadjusted or adjusted audit differences arising from our audit which we need to bring to your attention. We have identified a small number of audit differences in disclosures which have been adjusted by management. These all fall below the level at which we need to report them to you.

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 22nd July.



Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Hillingdon Pension Fund'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
- ▶ 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 adopted a fully substantive approach, so have not tested the operation of controls. As we have gone through the audit, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement.

Independence

We have no new independence matters to report but provide an update on Independence at Section 9.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of Management Override: Misstatements due to fraud or error

What is the risk?

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 focussed our testing on key areas of the accounts that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

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

Our journal entry testing did not identify any issues.

We have not identified any instances of management bias being applied to accounting estimates.

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



Areas of Audit Focus

Significant risk

Misstatement due to Fraud & Error - Posting of investment journals

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. There is a risk that due to fraud or error, journals posted into the general ledger for the investment values are incorrect.

What judgements are we focused on?

We focused on aspects of the financial statements related to investment journal entries as this area in particular is a manual process from receiving the investment report from the Custodian to inputting the results of the report into the accounting system.

What did we do?

Our approach focused on testing the appropriateness of manual journal entries recorded in the general ledger posting investment values ensuring:

- ▶ The amount is supported by the fund manager/custodian report;
- ▶ Correct authorisations have been obtained.

What are our conclusions?

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

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

We did not identify any evidence of inappropriate accounting for investment values.



Areas of Audit Focus

Significant risk

Risk of Incorrect Valuation of Investments

What is the risk?

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 publicly 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.

What judgements are we focused on?

The proportion of the fund comprising these investment types in 2018/19 is at circa 10.8%, 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.

We have assessed that the risk of incorrectly valuing investments is high for level 3 investments held by the pension fund.

Total of level 3 investments held by the Fund at 31 March 2019 is £113 million.

What did we do?

We:

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

What are our conclusions?

We have not identified any material weaknesses in controls of the investment managers or evidence of misstatement in the valuation of level 3 investments.

We have not identified any instances of inappropriate judgements being applied in the valuation of level 3 investments.

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



Areas of Audit Focus

Other areas of audit focus

London Collective Investment Vehicle

Why is this an areas of audit focus?

The London Collective Investment Vehicle (CIV) invests the fund's money in a pool with other London Borough Pension Funds. As a result, the exact proportion of each investment in the vehicle that is held by Hillingdon Pension Fund is more complex to calculate. This raises an uncertainty on the valuation of these investments to recognise.

What did we do and what management judgements did we focus on?

We focused on:

- ▶ Assessing the competence of management experts;
- ▶ Reviewing the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of the valuation methods used;
- ▶ Reviewing the basis for the separation of Fund assets and Vehicle assets and recalculated it to confirm accuracy; and
- ▶ Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

What are our conclusions?

We did not identify any evidence of incorrect accounting treatment for investments managed by the London CIV.



Areas of Audit Focus

Other areas of audit focus

Application of new IFRS standards

Why was this an area of audit focus?

The 2018/19 edition of the Code introduces two substantial new financial reporting standards; IFRS 9 and IFRS 15.

There is a risk that these new standards have not been appropriately implemented by the Pension Fund.

What did we do and what management judgements did we focus on?

We reviewed:

- ▶ management's assessment of the classification and measurement of financial assets under IFRS 9, including review of the new expected credit loss impairment model and new disclosure requirements
- ▶ Management's assessment of the impact on revenue recognition as a result of the adoption of IFRS 15 - Revenue from Contracts with Service Recipient

What are our conclusions?

We concluded that management's assessment of the impact of the new standards was reasonable.



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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 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 2018/19.

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 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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.



Audit Report

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the London Borough of Hillingdon Statement of Accounts 2018/19 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.

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.



Audit Report

Draft audit report

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 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 2018/19, 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, 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.



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 any misstatements greater than £10.596 million which have been corrected by management during the course of our audit. There are no corrected misstatements to bring to your attention as at the date of this report.

We report to you any uncorrected misstatements greater than our nominal value of £0.530 million. There are no uncorrected misstatements to bring to your attention 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.

There are currently no uncorrected misstatements. We will provide an update at the Audit Committee meeting on 22nd July.



05 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 Statement of Accounts 2018/19 with the audited financial statements. Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

Other powers and duties

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

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the 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 put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

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

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



07

Data Analytics



Use of Data Analytics in the Audit

► Data analytics – Journals Testing

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 2018/19, our use of these analysers in the authority's audit included testing journal entries, 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 LG 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.

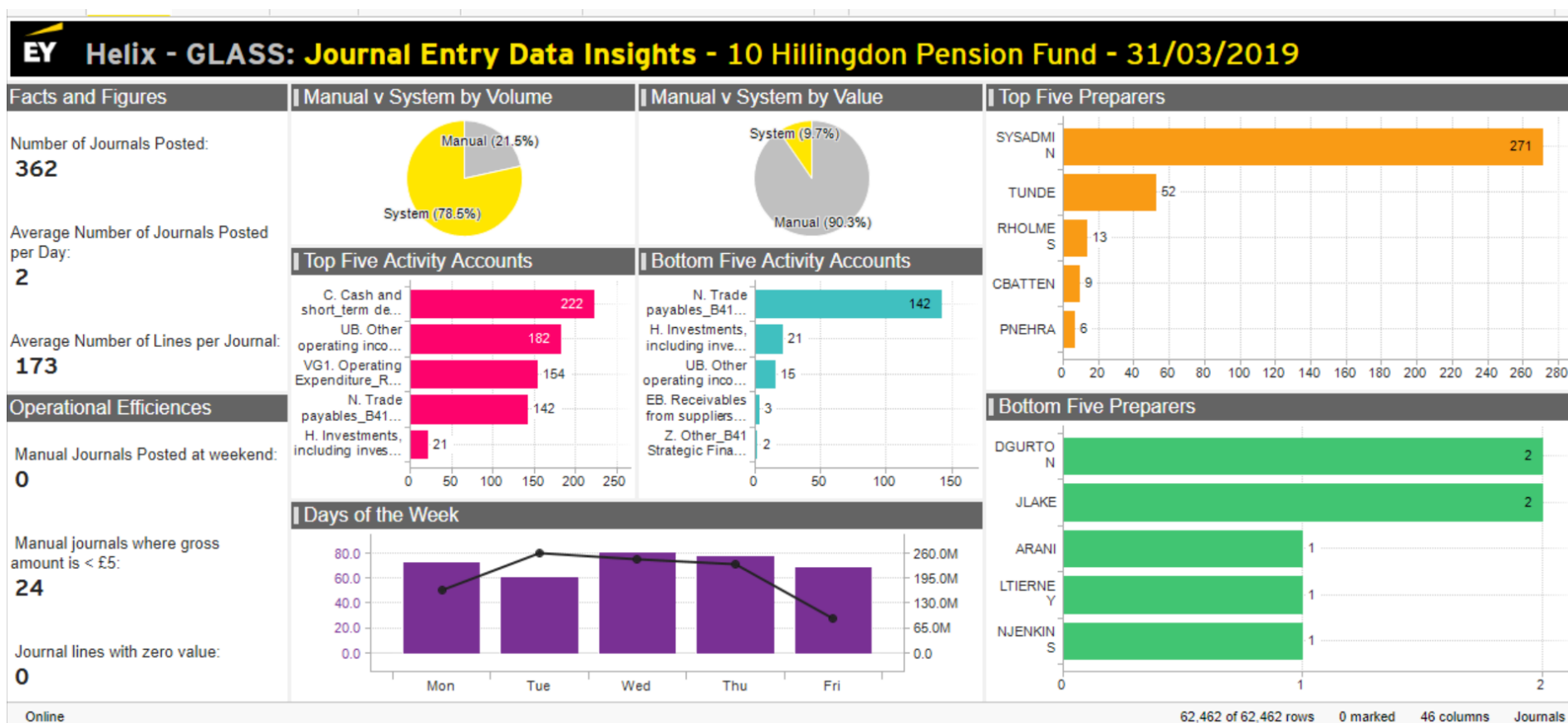


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the Pension Fund's journal population for 2018/19. 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.





Journal Entry Testing

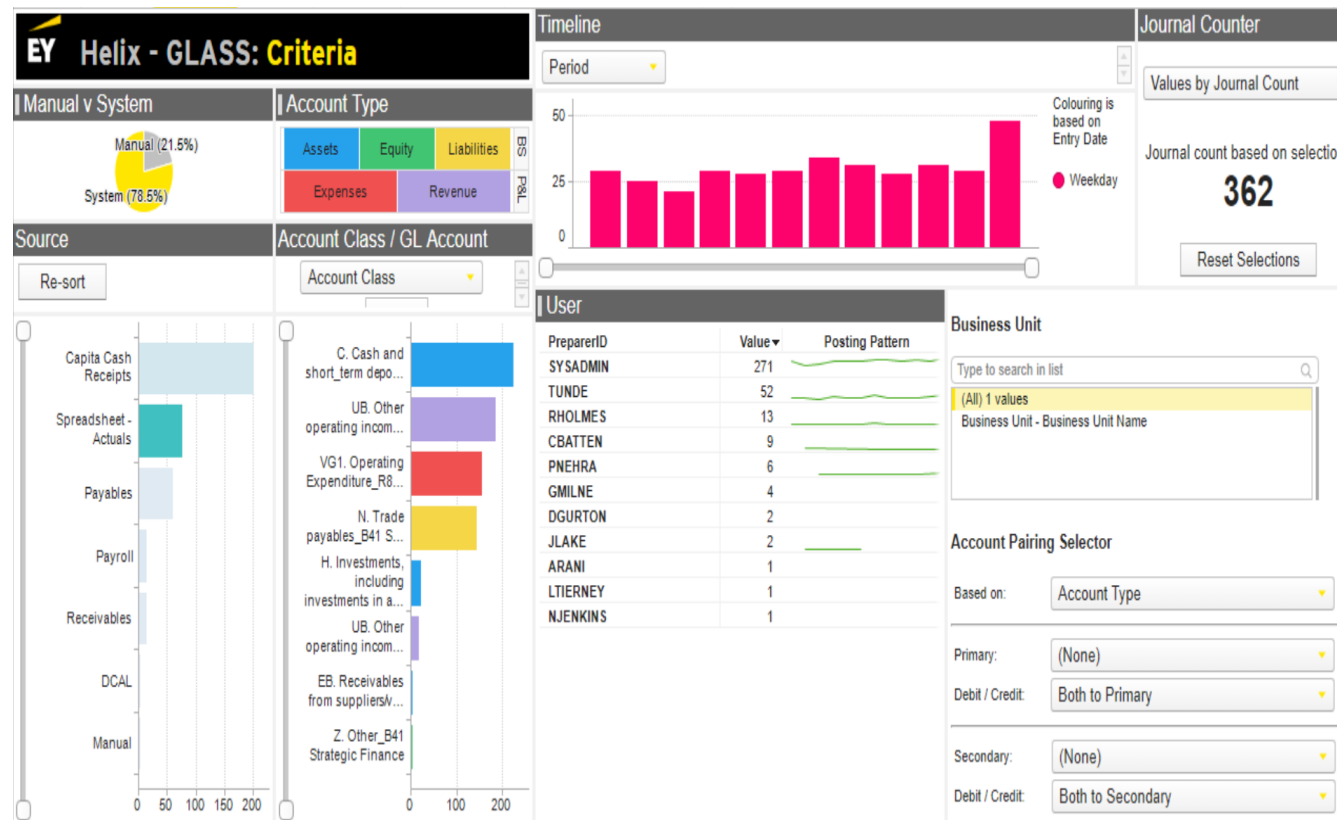
What is the risk?

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 – Hillingdon Pension Fund– 31 March 2019



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.



08

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 6 February 2019.

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 the Audit Committee considers 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 22 July 2019.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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 2019.

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

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee - Code work	TBC	16,170	16,170	21,000

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.

We will confirm the final fee at the end of the audit.







09 Appendices

Appendix A

Required communications with the Audit Committee




There are certain communications that we must provide to the Audit Committees of UK clients. We have 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 on 6 th February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report on 6 th February 2019
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 on 22 nd July 2019

Appendix A

		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 London Borough of Hillingdon Pension Fund'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 on 22 nd July 2019
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 22 nd July 2019
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: <ul 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 on 22 nd July 2019

Appendix A

		 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 on 22 nd July 2019
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>	<p>Audit planning report on 6th February 2019 and</p> <p>Audit results report on 22nd July 2019</p>

Appendix A

		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. 	We have not received the confirmation from Lloyds Bank. Alternative procedures performed instead.
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 results report on 22 nd July 2019




Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report on 6 th February 2019 and Audit results report on 22 nd July 2019
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 on 22 nd July 2019
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 on 22 nd July 2019
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 on 22 nd July 2019
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 on 6 th February 2019 and Audit results report on 22 nd July 2019

Appendix B

Outstanding matters

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

Item 	Actions to resolve 	Responsibility 
Annual Report and accounts	Review of the Annual Report and associated support for disclosures Incorporation of EY review comments on disclosure notes	EY and management
Bank Confirmations	Confirmation of bank confirmations	EY and management
Investments Valuation	Confirmation of post year adjustment figures Final confirmation from fund manager	EY and management
Level 3 Investments	Confirmation of final Level 3 Investment balances	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

Management representation letter

Management Rep Letter

To be prepared on the entity's letterhead

Date

Suresh Patel
Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Suresh,

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 2019. 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 2018 to 31st March 2019 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, 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 2018/19.

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 2018/19.
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 2018/19, 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 2018/19 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 9th May 2019 and the Audit Committee on 9th May 2019.

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 2018/19.

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 2019 and dated April 2019 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 2018/19.

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 2018/19.

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

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ED None

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London Borough of Hillingdon

Statement of Accounts for the year to 31 March 2019

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London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2019

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Leader's Statement

1. Leader's Statement

Introduction by Councillor Ray Puddifoot, Leader of the Council

Welcome to Hillingdon's Statement of Accounts for 2018/19, 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 2019.

The Council continued to provide services that our residents value without making any cuts or reductions to frontline services, bucking the trend of many other Councils across the country. At the same time, Hillingdon has delivered an underspend against budget and added to our general reserves, making Hillingdon more resilient to the effects of austerity. This is all thanks to the Sound Financial Management at the heart of the Council's approach to putting its residents first.

Hillingdon has been able to continue to deliver an ambitious improvement agenda through the Council's flagship Hillingdon Improvement Programme, whilst freezing Council Tax in 2018/19 for a tenth successive year for all residents and a twelfth year for those over 65. This is despite ongoing cuts in our funding from government and continuing to meet the demand of our growing population.

Our people, our environment and our heritage continue to be at the heart of what we do, the last year has seen a range of activities delivering this vision including:

- The opening of our flagship Extra Care site, Grassy Meadow Court in Hayes offering 88 flats to help older residents to carry on living independent lives as part of our community, all based within existing woodland surrounded by mature trees.
- Hillingdon also celebrated a sixth successive year of being awarded more Green Flags than any other local authority in the UK, gaining an additional two Green Flags.
- 2018/19 saw the Council continue to deliver events in the community for all ages to enjoy, including Hayes Carnival, Family Fishing Fun Days, free art sessions in parks and the Summer Reading Challenge across all 17 of our libraries. Whilst other authorities have been closing libraries, Hillingdon have been investing in libraries and using this much loved community resource to bring our residents together.
- The Council is proud of its heritage, after opening the new Battle of Britain Bunker Visitor Centre at the end of 2017/18, we were honoured in 2018/19 when the centre won the Tourism & Leisure category in the South East Region finals for this year's Royal Institution of Chartered Surveyors (RICS) awards and have seen some great events at the centre throughout 2018/19 including hosting a series of special commemorate events in June to mark the 75th anniversary of the D-Day Landings and hosing a Father's Day aeroplane event.
- Hillingdon continues to put the health and wellbeing of our residents at the forefront of service delivery with continued investment in 2018/19 in leisure facilities and parks, opening outdoor gyms and skate parks, with further investment planned in the coming year.
- Hillingdon remains committed to the wellbeing of our residents, which includes protecting the environment in which we all live, to this end, Hillingdon remains committed to fighting Heathrow expansion, for which funds have been put aside without impacting on frontline services.
- The Council also continues to deliver weekly collections of both waste and recycling and has recently invested in four new refuse and recycling trucks with Euro 6 standard engines that reduce pollutants.

These Statement of Accounts clearly demonstrate Hillingdon's commitment to putting its residents first, which has led to improved services, no cuts or reductions to frontline services and general balances being increased to over £41m, this increased resilience means Hillingdon is in a strong position to meet the ongoing challenges of government funding constraints and growing demand.

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 2019. 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 146 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 bordered by the counties of Buckinghamshire, Hertfordshire and Surrey, as well as 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, Hillingdon, has some of the best sports and fitness facilities in London including: Hillingdon Sports and Leisure Complex with 50 metre indoor competition pool; leisure pool; outdoor lido; 100 station gym; athletics stadium and 400 metre running track; 3G floodlit pitches, sports hall and more. There are also 17 libraries; 2 theatres, and over 200 green spaces covering approximately 1,800 acres, 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 through ownership and maintenance of over 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 because 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 around 312,600 (according to the 2019 Office of National Statistics). There is a growing proportion of young people, particularly of school-age children. Hillingdon is an ethnically diverse borough with 48% of residents from black and minority ethnic groups.

Hillingdon is rich in wildlife and wildlife habitat, including waterways; lakes; meadows, and nature reserves. Ruislip Woods has been designated London's first National Nature Reserve; whilst 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 three exceptional 18-hole and one 12-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 years of the Government's austerity programme, increased demand for services and the wider economic environment continued through 2018/19. Councils are continuing to see central government funding decline, however Hillingdon was still able to successfully freeze Hillingdon's share of Council Tax for another year in 2018/19, without impacting on front-line services to the public. In addition, the Council was able to manage significant increases in demand for services and keep fees and charges 10% cheaper than neighbouring boroughs.

Despite the challenges faced by the Council, of the savings target of £10,655k, £9,955k was banked and the remainder in early stages of delivery. The planned drawdown on general balances in 18/19 was also not 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 2018/19 totalled £219m, excluding those services such as schools and housing benefit, which are funded by specific funding streams. This net budget was supported by a combination of central government grant and locally raised Council Tax and business rates. Significant changes in funding from 2017/18, include locally generated income from Council Tax and business rates, which were budgeted to grow by £4,824k as a result of tax base growth, with a further £5,400k expected additional income from the 100% Retention Pilot, however this was offset by a reduction in Revenue Support Grant from central government of £6,482k.

Throughout the year, monthly budget monitoring reports were reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures, whilst 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 overall underspend of £2.2m against planned expenditure budgets, with underspends against both Directorate and Corporate Budgets. As a result, the planned drawdown of £950k from general balances was not needed and balances grew by £1,297k. The General Fund balance totalled £41.6m at year-end. Underspends across the Council include savings from staffing vacancies and investment savings from deferred borrowing on the capital programme utilising internal balances, offsetting a number of pressures.

Since April 2013, local authorities have been able to retain a proportion of business rate growth income from their area, until 2017/18 this proportion was 50% retention, split 20% to the GLA and 30% retained by the Council. In November 2017, Leaders of London local authorities collectively approved the principle of a 100% Business Rates Retention Pilot Pool for the capital. Government supported the Pilot pool in the Autumn budget resulting increased Business Rates income to Hillingdon in 2018/19. Of the 100% retention, the Council retains 64%. Government confirmed the London pilot would continue for a second year covering 2019/20; however, this would be at a lower retention rate of 75%.

As 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 Business Improvement Development team, being funded from this resource. £2.6m of costs were funded from capital receipts during 2018/19 (£4.3m in 2017/18), this expenditure is not included in service lines.

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

General Fund Services	Revised Budget £'000	Outturn £'000	Outturn Variance £'000
Chief Executive's Office	7,053	6,839	(214)
Finance Directorate	12,412	12,031	(381)
Residents Service	72,948	73,321	373
Social Care	113,972	114,030	58
Directorate Operating Budgets	206,385	206,221	(164)
Development & Risk Contingency	7,942	6,799	(1,143)
Corporate Budgets	6,312	5,878	(434)
HIP Initiatives	200	200	0
Unallocated Budget Items	(503)	(1,279)	(776)
Exceptional Items	0	295	295
Total Net Expenditure	220,336	218,114	(2,222)
Corporate Funding	(219,386)	(219,413)	(27)
Net Total	950	(1,299)	(2,249)

Narrative Report

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 37.

The table below provides a reconciliation between the General Fund overview shown in the Council's budget revenue outturn on the previous page 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 movements.

	Outturn 2018/19	Service Allocation and Rounding	EFA - Total Net Expenditure Charged to GF Balances
General Fund Services	£'000	£'000	£'000
Chief Executive's Office	6,839	1	6,840
Finance Directorate	12,031	(3)	12,028
Residents Services	73,321	1,222	74,543
Social Care	114,030	7,016	121,046
Directorate Operating Budgets	206,221		
Development & Risk Contingency	6,799	(6,799)	0
Corporate Budgets	5,878	(395)	5,483
HIP Initiatives	200	0	200
Unallocated Budget Items	(1,279)	1,279	0
Exceptional Items	295	(295)	0
Corporate Funding	(219,413)	(2,024)	(221,437)
Total	(1,299)	2	(1,297)

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

Housing Revenue Account

The Housing Revenue Account (HRA) delivered an in-year overall call on its HRA general balances of £18.8m against the budgeted drawdown of £21.4m. As a result, HRA general balances total £18.2m at 31 March 2019 (£37.1m 31 March 2018). In addition the HRA holds £31.8m in the major repairs reserve (MRR) (£18.4m 2017/18) to fund future capital works.

There have been 52 Right-to-Buy sales of Council dwellings as at the end of March 2019 (64 in 2017/18) which resulted in a gain on sale of assets when comparing the sale price to the Social Housing value in the Council's accounts.

Capital Investment

The Council's programme of capital investment for 2018/19 totalled £82.6m (£92.7m in 2017/18) 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 36 to the accounts).

An underspend of £47m is reported against the 2018/19 General Fund capital programme of £90m, predominantly as a result of the re-phasing of project expenditure.

Investment during 2018/19 on the general fund totalled £45.2m and HRA £37.4m. Investment 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 street lighting; Highways and infrastructure; replacement of CCTV across the borough, and refurbishment of Bessingby Football and Boxing Clubhouse within the General Fund 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. Although the Bank of England increased base rates from 0.5% to 0.75% in August 2018, the economic environment has continued to be tight with limited returns available on investments. The Council adheres strictly to counterparties that have been agreed through the Treasury Management Strategy, consisting of other local authorities, instant access funds, and institutions with a credit rating A- or above. Investment income returns for the year on internally managed cash yielded 0.62% (0.42% 2017/18). The Council also

Narrative Report

invests £15m in more strategic pooled funds that return dividends. The total investment income received this year was £899k.

For most of the year, the Council utilised internal balances to fund capital expenditure, which delayed the need to borrow until the last quarter of 18/19 when a £10m PWLB EIP loan and two temporary local authority loans totalling £30m were taken. Overall, the loan portfolio increased due to the £40m of new borrowing taken out, less the £17.3m of naturally matured debt. The interest paid over the year totalled £8.5m. Outstanding nominal borrowing at year-end was £272.8m. The Council's loan portfolio has an average rate of 3.38%.

Change in Accounting Practice

With the introduction of changes in relation to International Financial Reporting Standard (IFRS) 9 for Financial Instruments, the Statement of Accounts have seen a number of changes in reporting requirements, as a result some disclosure notes will look different to prior year accounts. Note 14 for Financial Instrument balances has been revised to comply with new accounting requirements and the short term debtors and creditors notes have also been presented differently.

There has also been a change in accounting practice for modified loans. The amendments to IFRS 9 clarifies that an entity recognises any adjustment to the amortised cost of a financial liability in the case of historic loan modifications. The new amortised cost should be measured for the loans using the original interest rate and not the new effective interest rate. As a result, the Council have restated the measurement of a modified loan in the balance sheet in line with the new standards, resulting in a restatement to opening balances of £6.5m as an adjusting line on the face of the Movement in Reserves Statement on page 41. There is a corresponding reduction in the carrying value of the loan. This increase in balances is established in the accounts but there is also an increase in future liabilities over the remaining life of the loan.

Property, Plant and Equipment

There were no material asset disposals in 2018/19. £9.4m has been recognised in the Comprehensive Income and Expenditure statement; of which £7.1m related to profits on Right-to-Buy sales. However, this profit is an accounting profit only, as social housing is accounted for in the balance sheet at 25% of its market value to comply with social housing valuation methodology in London, as a result replacement of these housing units would be more expensive. In the general fund, there were no academy transfers in 2018/19 and profits on sales came from the sale of various garage sites across the borough.

Within the HRA one of the housing blocks, which contained 41 units, was decanted due to the concerns over the structural condition of the building. As a result, remedial action has begun and the asset value has been impaired to nil in the Balance Sheet until the structure is sound. This has reduced the value of Property, Plant and Equipment by £2.3m in the Council's balance sheet.

The Property, Plant and Equipment valuation process identified that the developed and undeveloped land values for school sites was materially higher than in prior years due to new data coming out of the Valuation Office in 2018. As a result, the Council instructed the external valuers to carry out a desktop valuation of all schools sites to ensure the accounts are materially correct for schools assets. The accounts show an increase to the balance sheet on these school sites of £200m because of the information published by the valuation office in year.

2.3 Non-Financial Performance

Environment

In 2018, for the sixth time the Council was once again awarded more Green Flags than any other local authority in the UK. The borough now has a grand total of 50 Green Flags - 49 of which are maintained by the Council and the other is Stockley Park. The Council gained two additional flags this year for Connaught Recreation Ground and Eastcote War Memorial. This achievement reflects the Council's standard for publicly accessible and well-managed green spaces. In addition, the Rural Activities Garden Centre (RAGC) was commended for their community garden at the Royal Horticultural Society (RHS) Hampton Court Palace Flower show winning a coveted gold medal.

In June 2018 after 6 months work, the Yeading Brook at Stafford Road was officially opened. Work was undertaken on this project to revive the brook, working alongside the Wildlife Trust and Environment Agency, and included the reconnection of former meanders to the brook; the creation of two backwaters; the planting of wetland plants along the

Narrative Report

banks, and the removal of Himalayan balsam, a major weed. The habitat has been improved for many species, increasing wildlife diversity as well as reducing flood risk.

Leisure and Culture

Two new skate parks were opened in the borough in August as a result of the Council investing in the creation of new leisure spaces for young people. The concrete skate parks offer talented skate enthusiasts various circuits, ramps and jumps to meet different abilities.

The Council opened six new outdoor gyms across the borough in 2018 increasing the number of open-air sports facilities from the existing 21 outdoor gyms. Equipment includes items such as cross trainers; chest press, and bicycles for use by teenagers and adults of all fitness levels as a great way for Hillingdon residents to exercise for free. The aim of the project is to enhance communities and improve local areas whilst supporting public health objectives.

In addition to the skate parks and outdoor gyms, the Council reopened three newly refurbished playgrounds in the borough to ensure improved play spaces for Hillingdon's younger residents. The Warrender Park refurbishment includes a large multi-play unit; a wheelchair accessible roundabout; a tango seat swing for children with mobility difficulties, as well as the installation of a zip wire. Soft, safer surfacing was also installed at each of the three sites, which means that they are now accessible all year round. The Council has also committed to refurbishing an additional 14 playgrounds across Hillingdon in the next three years.

The Council has invested to help the Ruislip Lido Railway Society deliver a new engineering workshop to continue running the popular tourist attraction at the Lido narrow gauge railway. Ruislip Lido railway is the UK's longest narrow gauge railway, carrying more than 70,000 passengers a year. The new workshop will be used to carry out maintenance work to the 18 passenger carriages, six locomotives, as well as wagons and carriages.

Schools & Children's Services

The Council received a 'Good' rating with excellent leadership from Ofsted on children's social care provision, with commendation for the Council's 'child centred approach'. Council employees were praised for their good quality service. Children's services across the borough have made significant improvements from 2013.

The Council's Young People's Service was honoured for their outstanding achievements and described as 'ambassadors for the profession' after they took home the silver award at the National Social Worker of the Year Awards. One member of the team was also shortlisted for Adult Social Worker of the Year.

Social Care

As part of the capital programme, the Adult Social Care team opened Grassy Meadows Court, a new housing scheme in Grange Road, Hayes in November 2018 providing 88 affordable extra care flats and communal facilities for elderly residents in Hillingdon. Grassy Meadows is one of two new developments the Council has invested in to help elderly residents carry on living independently. The development is set within woodland near the Beck Theatre, and has been built to the University of Stirling's standard for dementia care. Each modern self-contained flat offers comfort and privacy, with its own balcony garden or landscaped terraced garden. The building boasts numerous communal facilities including two central courtyard garden areas; a state-of-the-art dementia resource centre; a restaurant; consulting rooms, and hairdressing salon. The building is already on track to achieve a 'Gold' Dementia Design Accreditation Award following an inspection by the University of Stirling. The development was also shortlisted as a finalist in the Pinders Healthcare Design Awards, which promote and recognise the best developments in all types of care-related property. A second development, Park View Court in Yiewsley, will provide a further 60 extra care flats and is expected to open in 2019.

Protecting Residents

As part of a safety project, more than 850 state of the art cameras were rolled out across the borough in 2018 which harness the latest in CCTV technology to keep the Hillingdon streets safe. The quality of CCTV images has been vastly improved; with better coverage and also include technological enhancements such as number plate recognition, two-way intercom and are vandal resistant. CCTV is one of the most important tools at the Council's disposal for keeping residents safe. It acts as an effective monitoring tool, a deterrent, and a reliable means of gathering evidence to bring lawbreakers to justice.

Narrative Report

The Council has been cracking down on private landlords who allow tenants to live in substandard homes, with financial penalties served to those who have failed to comply with improvement notices. In addition, the Council has set tougher punishments for anyone found fly tipping in the borough.

The Council has taken part in an initiative to improve work between the government and councils, allowing better flow and quicker access to information on immigration status, with the arrival of a Home Office employee into the Hillingdon Team in April 2018. As a result, the Council has been able to improve enforcement on immigration issues, increasing the results of the Counter Fraud Team.

People Resources

The Council is continuing to recruit apprentices to a range of services and has exceeded the 2017/18 target set by government following the introduction of the Apprenticeship Levy, with 65 apprentices across the Council. Hillingdon made the most significant progress out of all London Boroughs and was only one of three to exceed the target. The Apprenticeship Levy has enabled the Council to invest both in new starters but also in existing employees across a wide range of fields.

As part of the Council's commitment to develop its talent base, 2018 saw the graduation of eight future leaders from the Hillingdon Academy leadership programme. The Council has now welcomed its twelfth intake into the programme.

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. The Hillingdon Improvement Programme (HIP) is aimed at delivering a range of key improvements to the way the Council works and improving services to our residents. Since its introduction, it has delivered impressive savings across the Council and championed a variety of initiatives.

Strong financial management and a 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 to identify and improve the way the Council works. Projects are targeted through 6 strategic work streams covering: digitalisation; asset rationalisation; commercialisation; environment; transport and mobility, and organisational redesign.

The Council incorporates development and risk contingency into its budget to provide for areas of expenditure where there is a greater degree of uncertainty or are subject to demographic pressures. In 2018/19 the Council utilised this budget resource for Impact of Welfare Reform on Homelessness; Waste disposal Levy, and Heathrow Expansion Challenge, in addition this budget was offset by compensation successfully secured in relation to Council owned land to provide access to the Southall Gas works site. The Council has provided for a headline provision of £12.9m development and risk contingency in 2019/20 (£8.9m in 2018/19).

2.5 Looking Ahead – Strategy and Resource allocation

Looking into the medium financial outlook, the underlying savings requirement is driven primarily by: inflation; demand-led pressures managed through contingency, and capital financing costs. An uplift in funding is projected over this period as a result of steady growth in the Council Tax base and an assumption that the upcoming Spending and Fair Funding Reviews will direct £10,000k additional funding towards Hillingdon phased over three years, including baselining the temporary benefits of the London Rating Pilot Pool. This sort of injection of funding however, is not guaranteed, hence there is a risk that the savings requirement will be higher than that stated in the current MTFF strategy.

The combined effect of the medium term forecast position is a headline savings requirement of £48,654k over the next four years, which represents a challenge on a similar scale to the £47,024k of pressures managed over the period from 2015/16 to 2018/19. In contrast to the previous four years, when reductions in funding were the single largest contributor to the budget gap, the projected gap is very much driven by growth in expenditure, partially mitigated through a more optimistic view of government support from 2020/21 onwards.

The budget for 2019/20 includes releasing £15,776k from general balances to enable the majority of the savings requirement to be profiled into 2020/21 and 2022/23. This would still leave sufficient general balances, above the recommended minimum level available, to manage emerging risks.

Narrative Report

A cumulative deficit of £8,492k is shown in the accounts on the retained element of the Schools Budget at 31 March 2019, there is the potential for this to rise to £10,880k by 31 March 2020. This deficit primarily relates to funding as determined under the Department for Education's national funding formula, failing to keep pace with growing demand for high needs placements for pupils with Education, Health and Care Plans, following introduction of the 2014 Children and Families Act. In light of the systemic nature of this risk, the Council's Medium Term Financial Strategy has been developed on the assumption that Government will ultimately provide adequate funding to support implementation of the 2014 Act and therefore bring the Schools Budget back into balance – both locally and nationally.

On the basis of the current medium term outlook, after Council Tax increases and use of General Balances, there is a residual savings requirement of £34,838k over the period to 2022/23. Some of this savings requirement has been established whilst some is still to be identified. Given the size of the budget gap going forward and the fact that savings are on a reducing trend line the approach to savings identification and delivery will need to be stepped up. This will include the need for an expanded and accelerated BID Programme. Alongside the more strategic BID workstreams under development, the routine MTFF workstreams such as zero based budgeting and annual reviews of charging policies will continue.

Looking forward the Council's Capital Programme 2019/20 to 2023/24 has an approved budget of £368m, with £195m to be funded from Prudential borrowing, after prioritising use of grants and third party funding, maximising application of developer contributions and where possible using capital receipts. Specific projects on the Capital Programme include a continuation of the Secondary Schools Expansion project, Investment in the Rural activities Garden centre with enhanced facilities including a new café and extended car parking; Street lighting replacements; expanding and improving CCTV coverage, as well as investments into technology and highways.

In April 2018 a new wholly owned commercial housing development company called Hillingdon First Limited was 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 at 31 March 2019 it was not in operation however works have started in 2019/20. As sole shareholder of the company, the Council retains control 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 surplus of £25.8m (£33.4m deficit 2017/18) on the provision of services for 2018/19. Of this, a surplus of £39.8m relates to the General Fund Balance and a deficit of £10.9m relates to the Housing Revenue Account. Additional reserve movements include a drawdown of £2.8m on Schools Balances.

To comply with statutory accounting requirements there are various items that are accounted for through the Comprehensive Income and Expenditure Statement such as depreciation; revaluation and impairment losses, and losses on disposal. These items are removed for the purposes of Council Tax setting as they are accounting items and do not affect the funding of services, as a result these items of expenditure are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Movement in Reserves Statement

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

Narrative Report

Usable reserves decreased by £9m from £168.2m in 2017/18 to £165.7m in 2018/19. Within this movement there was a small increase in general balances of £1.3m, however the biggest movements were seen with an £18.8m decrease in House Revenue Account balances and a £13.4m increase in the Major Repairs Reserve as a result of the Capital programme in the HRA.

Unusable reserves increased from £570.9m in 2017/18 to £849.2m in 2018/19, mainly due to the upwards movement in property values to the Revaluation Reserve of £299m. In addition, there was an increase in the Pension Fund liability of £85m reflected in the pensions reserve reducing by the same amount.

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 2018/19 were £38.5m within the General Fund, adjusting the General Fund position for Council Tax purposes to a surplus of £1.3m.

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 Pension Fund assets that are reported in the separate Pension Fund accounts.

The total net worth of the Council in 2018/19 was £1,014.9m (£739.1m in 2017/18). The largest items within the Balance Sheet consist of long-term assets valued at £1,881.6m, net pension liabilities of £609.5m and long-term borrowing of £214.9m.

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 2019 the Council has £41.6m General Fund balances and £40.3m Earmarked Reserves held for specific purposes. Further details on Earmarked Reserves can be seen in note 5 to the accounts.

Cash Flow Statement

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

There was a decrease in cash and cash equivalents in 2018/19 of £2.1m.

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 deficit in 2018/19 on HRA services of £10.9m (£9.2 surplus in 2017/18).

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 £18.8m in 2018/19, after adjustments made in the Statement of Movement on the HRA Balance and transfers to the Major Repairs Reserve (deficit of £8.7m in 2017/18).

Narrative Report

Collection Fund Revenue Account

The Collection Fund is a separate account into which amounts raised from local taxation are paid through Council Tax and Business Rates, and from which payments are made to precepting authorities including the Council itself. An in-year deficit of £3227k is reported on Council Tax, with a carried-forward surplus of £0.8m available for release to preceptors from 2019/20.

An in-year surplus of £3.3m is reported on Business Rates, reducing the deficit on the bought forward balance on NNDR to £2.0m.

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 64% 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's 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 37 of 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 2018/19 ('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 2019 and its income and expenditure for the year then ended.

Paul Whaymand
Corporate Director of Finance
30 May 2019

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 22 July 2019.

Signed on behalf of London Borough of Hillingdon
AUDIT COMMITTEE
22 July 2019

Independent Auditor's Report

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

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Statement of Accounting Policies

The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2018/19 financial year and its position as at the year-end of 31 March 2019. 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 2018/19 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 regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum, assets are valued every five years.

Statement of Accounting Policies

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 and Intangible Assets	5 to 7 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.

The flexibility over the 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 Property, Plant 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. 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

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lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred. Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease 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.

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Operating Leases

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

REVENUE

8. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- 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 receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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. Disclosures will be omitted if the information is not material.
- The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.
- Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the applicable exchange rate.

9. Acquisitions and Discontinued Operations

There were no operations acquired or discontinued in the years to 31 March 2019 or 31 March 2018.

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.

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11. Changes in Accounting Policies and Estimates and Errors

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

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

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

12. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Where 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. The pension cost charged to the accounts is the contribution rate set by the DfE on the basis

Statement of Accounting Policies

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 relevant service line in 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.

Statement of Accounting Policies

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

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

Discretionary Benefits

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

13. Long Term Contracts

The Council has entered into a number of long term contracts that have commitments beyond the period of account. These are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year. Material future fixed 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

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the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

Community Infrastructure Levy

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

16. Inventories and Work in Progress

Inventories at the year-end are included at the lower of cost or net realisable value. Work in Progress on uncompleted jobs is valued at cost including an allocation of overheads.

17. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the 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.

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19. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

20. Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21. Provisions and Reserves

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

Provisions

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

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

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

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

Provision for bad and doubtful debts

No provision is made for debts that are secured except in exceptional circumstances. Of all remaining debts, and excluding financial instruments where an expected credit loss model is applied, 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.

Statement of Accounting Policies

22. Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

Amortised Cost

Where the Council's business model is to hold investments to collect contractual cash flows these are classified as amortised cost. Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the agreement.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Lifetime losses using the simplified approach are recognised for trade receivables held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels shown described in item 18 Fair Values.

Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Gains or losses arising from a change in the fair value will be reflected in the carrying amount of the instrument and updated in the Financial Instrument Revaluation Reserve.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with any accrued fair value change being released from the Financial Instrument Revaluation Reserve.

The Council has applied the statutory override to designate holdings in strategic pooled funds as FVOCI.

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.

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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

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

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

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 effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. 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 for most borrowings 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.

(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 calculated by discounting the revised contractual cash flows with the original effective interest rate. This 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

Statement of Accounting Policies

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 as do the risks. 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.

The Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NNDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

27. VAT

Income and Expenditure excludes any amounts relating to VAT, as all VAT collected is payable to HM Revenue & Customs. VAT is included in the Income and Expenditure statement whether of a capital or revenue nature only to the extent that it is irrecoverable.

28. Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

29. Exceptional Items and Prior Year Adjustments

Exceptional items are included in the cost of the service to which they relate or on the face of the Income and Expenditure Statement if required to give a fair presentation of the accounts.

Account is taken of material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors by restating the comparative figures for the preceding period. The cumulative effect of prior period adjustments is included within the Comprehensive Income and Expenditure Statement for the current period.

Statement of Accounting Policies

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 2019 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 £2.7m 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 £18.5m.
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 and impairments making the current levels appropriate. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient.	Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts. Sensitivity analysis is represented in note 46 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.

Statement of Accounting Policies

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 2019 for 2018/19). Disclosure requirements are expected to be included in a subsequent edition of the Code.

Changes in the 2019/20 Code of practice that will be introduced in future versions of the accounts include –

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

The Council does not expect these changes to have a material impact upon the financial statements.

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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 2017/18 Published Accounts (page 36)

This note provides an overview of changes to the Financial Statements from the published Statement of Account in 2017/18 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 37)

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 39)

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 40)

This sets out the assets and liabilities of the Council as at 31 March 2019, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 41)

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 43)

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 44)

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

Restatement of 2017/18 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 2017/18 Statement of Accounts the Council structure has altered with certain service departments now reporting to different directorates. As such the statement below shows the movement of funding used to provide services relating to the General Fund, from the originally published 2017/18 Statement of Accounts to the new Council structure.

The reported outturn position to Cabinet in June 2018 is reflected in the table below alongside the restatement required to align the comparator cost of service to the management structure as at 31 March 2019, for the opening EFA position on page 37. The EFA then shows how these figures feed through to the Comprehensive Income and Expenditure Statement.

Council Structure	Published EFA - Total Net Expenditure Charged to GF & HRA Balances £'000	Restated EFA - Total Net Expenditure Charged to GF & HRA Balances £'000	Movement £'000
Chief Executive's Office	7,033	7,033	0
Finance	13,945	12,011	(1,934)
Residents Services	75,431	75,431	0
Social Care	117,527	117,527	0
Corporate Operating Budgets	4,085	5,719	1,634
HIP Initiatives**	240	240	0
Corporate Funding*	(219,846)	(219,546)	300
Total General Fund	(1,585)	(1,585)	0
Schools Budget	4,424	4,424	0
Housing Revenue Account	8,718	8,718	0
Total Other Funds	13,142	13,142	0
Net Cost of Services	11,557	11,557	0

* Corporate Funding previously disclosed as Budget Requirement. Corporate Funding reflects the Council's funding streams required to support the net expenditure budget from Council Tax, business rates and corporate grant income

** HIP Initiatives shown as Priority Growth in 17/18

Expenditure and Funding Analysis

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

	Total Net Expenditure Charged to GF & HRA Balances	Adjustments between the Funding & Accounting Basis (Note 1A)	Earmarked Reserve Adjustments (Note 5)	Adjustments between Funding & Other Income and Expenditure on the Provision of Services (Note 1B)	Net Expenditure in Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
2018/19					
General Fund					
Chief Executive's Office	6,840	834	386	0	8,060
Finance	12,028	1,307	353	0	13,688
Residents Services	74,543	(31,264)	150	(18,388)	25,041
Social Care	121,046	5,443	1,007	(13,142)	114,354
Corporate Operating Budgets	5,483	(4,489)	390	(580)	804
HIP Initiatives	200	0	55	0	255
Corporate Funding*	(221,437)	1,297	(2,023)	222,163	0
Total General Fund	(1,297)	(26,872)	318	190,053	162,202
Other Funds					
Schools Budget	2,774	839	0	(30)	3,583
Housing Revenue Account	18,848	2,644	0	(7,055)	14,437
Total Other Funds	21,622	3,483	0	(7,085)	18,020
Net Cost of Services	20,325	(23,389)	318	182,968	180,222
Other Income and Expenditure on the Provision of Services	0	(23,015)	0	(182,968)	(205,983)
(Surplus)/Deficit on Provision of Services	20,325	(46,404)	318	0	(25,761)

Movement in Balances 2018/19

	£'000
Opening General Fund and HRA Balance (Adjusted)**	123,523
General Fund Declared Surplus	1,297
General Fund Surplus	1,297
HRA Deficit	(18,848)
Schools Reserve Movements	(2,774)
Other Earmarked Reserve Movements	(318)
Closing General Fund and HRA Balance at 31 March	102,880

* Corporate Funding previously disclosed as Budget Requirement. Corporate Funding reflects the Council's funding streams required to support the net expenditure budget from Council Tax, business rates and corporate grant income

** The opening balance for 18/19 has been adjusted following the introduction of IFRS 9 – see Movement in Reserves Statement

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)	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	£'000	£'000	£'000	£'000
2017/18					
General Fund					
Chief Executive's Office	7,033	747	(146)	0	7,634
Finance	12,011	1,916	389	0	14,316
Residents Services	75,431	36,276	(953)	(18,640)	92,114
Social Care	117,527	7,053	(1)	(11,185)	113,394
Corporate Operating Budgets	5,719	(3,509)	(2,063)	(506)	(359)
HIP Initiatives	240	0	127	0	367
Corporate Funding*	(219,546)	1,436	(975)	219,085	0
Total General Fund	(1,585)	43,919	(3,622)	188,754	227,466
Other Funds					
Schools Budget	4,424	(241)	0	(32)	4,151
Housing Revenue Account	8,718	(9,297)	0	(7,150)	(7,729)
Total Other Funds	13,142	(9,538)	0	(7,182)	(3,578)
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
Opening General Fund and HRA Balance	124,938
General Fund Declared Surplus	1,585
General Fund Surplus	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

*Corporate Funding previously disclosed as Budget Requirement. Corporate Funding 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 2019			31 March 2018		
		Expenditure	Income	Net Expenditure	Expenditure (Restated)	Income	Net Expenditure (Restated)
	Note	£'000	£'000	£'000	£'000	£'000	£'000
EXPENDITURE ON SERVICES							
Chief Executive's Office		9,418	(1,358)	8,060	8,781	(1,147)	7,634
Finance		16,498	(2,810)	13,688	18,294	(3,978)	14,316
Residents Services		85,117	(60,076)	25,041	150,666	(58,552)	92,114
Social Care		186,136	(71,782)	114,354	169,262	(55,868)	113,394
Corporate Operating Budgets		140,359	(139,555)	804	144,343	(144,702)	(359)
HIP Initiatives		255	0	255	367	0	367
Schools Budget		174,362	(170,779)	3,583	168,318	(164,167)	4,151
Housing Revenue Account		75,245	(60,808)	14,437	53,134	(60,863)	(7,729)
NET COST OF SERVICES		687,390	(507,168)	180,222	713,165	(489,277)	223,888
Other Operating Expenditure	6	3,094	0	3,094	1,779	0	1,779
Net loss/(gain) on disposal of non-current assets		0	(14,425)	(14,425)	1,683	0	1,683
Net Financing and Investment Income and Expenditure	7	23,084	(1,096)	21,988	22,594	(444)	22,150
Taxation and Non-Specific Grant Income	8	0	(216,640)	(216,640)	0	(216,124)	(216,124)
Other Income and Expenditure on the Provision of Services		26,178	(232,161)	(205,983)	26,056	(216,568)	(190,512)
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES		713,568	(739,329)	(25,761)	739,221	(705,845)	33,376
(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets				(302,185)			(19,440)
Actuarial (gain)/loss on pension assets and liabilities	44			58,465			(22,727)
(Surplus)/Deficit on revaluation of available for sale financial assets				230			(30)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				(269,251)			(8,821)

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 2019 £'000	31 March 2018 £'000
Property, Plant & Equipment	9	1,852,680	1,486,731
Heritage Assets	9	5,341	5,341
Intangible Assets	9	637	737
Investment Properties	9	5,711	5,527
Long Term Investments	14	14,899	57
Long Term Debtors	18	2,290	3,757
LONG TERM ASSETS		1,881,558	1,502,150
Inventories	15	254	198
Short Term Debtors	16	52,657	52,735
Short Term Investments	14	1,202	30,569
Cash and Cash Equivalents	21	47,502	49,578
Assets Held for Sale	9	0	44
Current Intangible Assets		91	229
CURRENT ASSETS		101,706	133,353
Short Term Provisions	22	(6,581)	(4,759)
Short Term Borrowing	14	(49,369)	(18,360)
Short Term Creditors	19	(69,491)	(102,559)
CURRENT LIABILITIES		(125,441)	(125,678)
Long Term Provisions	22	(862)	(1,166)
Deferred Credits		(4)	(11)
Long Term Borrowing	14	(214,890)	(229,647)
Long Term Creditors	20	(3,780)	(3,721)
Capital Grant Receipts in Advance	35	(12,969)	(10,499)
Deferred Liabilities	37	(886)	(1,165)
Net Liabilities Related to Defined Benefit Pension Schemes	45	(609,513)	(524,468)
LONG TERM LIABILITIES		(842,904)	(770,677)
NET ASSETS		1,014,919	739,148
Usable Reserves		165,756	168,245
Unusable Reserves		849,163	570,903
TOTAL RESERVES		1,014,919	739,148

Paul Whaymand
Corporate Director of Finance
30 May 2019

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
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2018	40,323	5,433	34,139	37,108	18,463	2,532	30,247	168,245
Transition to IFRS 9	0	0	6,520	0	0	0	0	6,520
Balance at 1 April 2018	40,323	5,433	40,659	37,108	18,463	2,532	30,247	174,765
Total Comprehensive Income & Expenditure	39,796	(2,774)	(318)	(10,943)	0	0	0	25,761
Adjustments between accounting basis & funding basis under regulations	(38,499)	0	0	(7,905)	13,415	632	(2,413)	(34,770)
Increase/(Decrease) in Year	1,297	(2,774)	(318)	(18,848)	13,415	632	(2,413)	(9,009)
Balance at 31 March 2019	41,620	2,659	40,341	18,260	31,878	3,164	27,834	165,756

Schools balances in 18/19 consist of the negative Dedicated Schools Grant reserve of £8,492k (negative £4,126k in 17/18) and other Schools reserves of £11,151k (£9,559k in 17/18). The 18/19 opening balance has been amended through transition arrangements to incorporate the adoption of IFRS9.

Note	General Fund Balance	Schools Balances	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Total Usable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2017	38,738	9,857	30,517	45,826	23,148	2,747	32,392	183,225
Total Comprehensive Income & Expenditure	(41,732)	(4,424)	3,622	9,158	0	0	0	(33,376)
Adjustments between accounting basis & funding basis under regulations	43,317	0	0	(17,876)	(4,685)	(215)	(2,145)	18,396
Increase/(Decrease) in Year	1,585	(4,424)	3,622	(8,718)	(4,685)	(215)	(2,145)	(14,980)
Balance at 31 March 2018	40,323	5,433	34,139	37,108	18,463	2,532	30,247	168,245

Movement in Unusable Reserves

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

Note	Revaluation Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	Available for Sale Financial Instruments	Financial Instrument Revaluation Reserve	Total Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2018	174,422	924,268	(305)	(524,468)	1,590	(4,678)	74	0	570,903	739,148
Transition to IFRS 9	0	0	0	0	0	0	(74)	74	0	6,520
Balance at 1 April 2018	174,422	924,268	(305)	(524,468)	1,590	(4,678)	0	74	570,903	745,668
Total Comprehensive Income & Expenditure	302,185	0	0	(58,465)	0	0	0	(230)	243,490	269,251
Adjustments between accounting basis & funding basis under regulations	(3,122)	65,653	(13)	(26,580)	(1,297)	129	0	0	34,770	0
Increase/(Decrease) in Year	299,063	65,653	(13)	(85,045)	(1,297)	129	0	(230)	278,260	269,251
Balance at 31 March 2019	473,485	989,921	(318)	(609,513)	293	(4,549)	0	(156)	849,163	1,014,919

Transition to IFRS 9 removes the Available for Sale reserve and introduces the Financial Instrument Revaluation Reserve. The 18/19 opening balance has been adjusted to reflect this change.

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

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	2018/19 £'000	2017/18 £'000
Net deficit on the provision of services	24	(25,761)	33,376
Adjust net (surplus) on the provision of services for non cash movements	24	(15,383)	(124,768)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	24	16,228	63,995
Net cash flows from operating activities	24	(24,916)	(27,397)
Net cash flows from investing activities	25	21,848	10,377
Net cash flows from financing activities	26	5,144	4,218
(Increase)/Decrease in cash and cash equivalents		2,076	(12,802)
Cash and cash equivalents at the beginning of the reporting period		(49,578)	(36,776)
Cash and cash equivalents at the end of the reporting period		(47,502)	(49,578)

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	£'000	£'000	£'000	£'000	£'000
2018/19						
Residents Services	0	(558)	0	0	(17,830)	(18,388)
Social Care	0	0	9	0	(13,151)	(13,142)
Corporate Operating Budgets	(586)	(2,287)	572	465	1,256	(580)
Corporate Funding*	0	0	0	191,478	30,685	222,163
Schools Budget	0	0	0	0	(30)	(30)
Housing Revenue Account	0	(6,456)	331	0	(930)	(7,055)
Net Cost of Services	(586)	(9,301)	912	191,943	0	182,968

	Precepts and Levies	Interest Payable (Restated)	Interest Receivable	Taxation & Non Specific Grant Income (excl Capital)	Transfers (Restated)	Total Adjustments (Restated)
	£'000	£'000	£'000	£'000	£'000	£'000
2017/18						
Residents Services	0	(643)	0	0	(17,997)	(18,640)
Social Care	0	0	0	0	(11,185)	(11,185)
Corporate Operating Budgets	(604)	(2,341)	298	1,179	962	(506)
Corporate Funding*	0	0	0	189,903	29,182	219,085
Schools Budget	0	0	0	0	(32)	(32)
Housing Revenue Account	0	(6,366)	146	0	(930)	(7,150)
Net Cost of Services	(604)	(9,350)	444	191,082	0	181,572

*Corporate Funding previously disclosed as Budget Requirement.

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 2018/19

	Fees charges and other service income	Interest Receivable	Depreciation	Interest Payable
	£'000	£'000	£'000	£'000
Chief Executive's Office	(933)	0	0	0
Finance	(1,787)	0	0	0
Residents Services	(32,495)	0	0	558
Social Care	(11,998)	(9)	0	0
Corporate Operating Budgets	(235)	(572)	0	2,287
Schools Budget	(8,843)	0	0	0
Housing Revenue Account	(60,808)	(331)	10,473	6,456
Net Cost of Services	(117,099)	(912)	10,473	9,301

Segmental Income & Expenditure 2017/18

	Fees charges and other service income	Interest Receivable	Depreciation	Interest Payable (Restated)
	£'000	£'000	£'000	£'000
Chief Executive's Office	(910)	0	0	0
Finance	(3,074)	0	0	0
Residents Services	(32,353)	0	0	643
Social Care	(10,979)	0	0	0
Corporate Operating Budgets	(732)	(298)	0	2,341
Schools Budget	(8,264)	0	0	0
Housing Revenue Account	(60,863)	(146)	10,220	6,366
Net Cost of Services	(117,175)	(444)	10,220	9,350

Notes to the Main Financial Statements

3. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2018/19	2017/18
	£'000	£'000
Expenditure		
Employee benefits expenses	197,923	195,774
Employee benefits of Voluntary Aided & Foundation Schools*	36,504	35,112
Other services expenses	442,800	426,468
Support service recharges	5,599	4,512
Depreciation, amortisation, impairment	4,564	51,299
Interest payments	23,084	22,496
Precepts and levies	586	604
Payments to Housing Capital Receipts Pool	2,508	1,175
Loss on the disposal of assets	0	1,683
Change in the Fair Value of Investment Properties	0	98
Total Expenditure	713,568	739,221
Income		
Fees, charges and other service income	(117,099)	(117,175)
Interest and investment income	(912)	(444)
Income from Council Tax and Non Domestic Rates	(179,704)	(157,904)
Government grants and contributions	(427,005)	(430,322)
Change in the Fair Value of Investment Properties	(184)	0
Gain on the disposal of assets	(14,425)	0
Total Income	(739,329)	(705,845)
(Surplus)/Deficit on the Provision of Services	(25,761)	33,376

*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 fund 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 2018/19

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	Unusable Reserves
2018/19	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortisation of intangible assets	(138)		(2)			(140)		140					140
Depreciation of non current assets	(24,199)		(10,471)			(34,670)	2,620	32,050					34,670
Revaluation and impairment of non current assets	68,184	(37,938)				30,246		(30,246)					(30,246)
Statutory provision for the financing of capital investment (MRP) and HRA debt provision	4,896	9,129				14,025		(14,025)					(14,025)
Revenue expenditure funded from capital under statute (REFCUS)	(9,641)	(9)				(9,650)		9,650					9,650
Capital grants and contributions applied	22,879	1,819		(632)		24,066		(24,066)					(24,066)
Capital expenditure charged in year to balances		27	23,866			23,893		(23,893)					(23,893)
Use of Capital Receipts Reserve to finance new capital expenditure					19,054	19,054		(19,054)					(19,054)
Amounts written off on disposal of non current assets	4,969	9,456			(19,149)	(4,724)	502	4,222					4,724
Finance Lease Principal	247					247		(247)					(247)
Gain/Loss Investment Property	184					184		(184)					(184)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(2,508)				2,508	0							0
Premiums and discounts	(28)	15				(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	(48,939)	(2,717)				(51,656)				51,656			51,656
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	23,757	1,319				25,076				(25,076)			(25,076)
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	(1,297)					(1,297)					1,297		1,297
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	133	(4)				129						(129)	(129)
Transfer to Reserve for Capital projects		26,808	(26,808)			0							0
Total Adjustments	38,499	7,905	(13,415)	(632)	2,413	34,770	3,122	(65,653)	13	26,580	1,297	(129)	(34,770)

Notes to the Main Financial Statements

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

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	Unusable Reserves
2017/18	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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 (MRP) and HRA debt provision	924	9,035				9,959		(9,959)					(9,959)
Revenue expenditure funded from capital under statute (REFCUS)	(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 balances	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
Other Income						0							0
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

5. EARMARKED RESERVE TRANSFERS

	31 March 2019 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	1 April 2018 Restated £'000	31 March 2018 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	31 March 2017 £'000
Earmarked Reserves:								
Grants Unapplied	1,372	(2,734)	1,494	2,612	2,612	(1,325)	1,221	2,716
Member Initiatives	12,922	(2,056)	1,533	13,445	13,445	(442)	661	13,226
Other Reserves	8,889	(4,155)	3,684	9,360	9,360	(5,136)	5,682	8,814
*Business Rates Reserve	4,815	(244)	3,118	1,941	1,941	(1,075)	1,941	1,075
Treasury Management Reserve	7,472	(976)	0	8,448	1,928	0	1,928	0
Barnhill PFI	769	(213)	362	620	620	(250)	358	512
Public Health Reserve	2,663	(26)	60	2,629	2,629	(76)	0	2,705
Parking Revenue Account / New Roads & Street Works Reserve	1,439	(165)	0	1,604	1,604	0	135	1,469
Total Earmarked Reserves	40,341	(10,569)	10,251	40,659	34,139	(8,304)	11,926	30,517

*This note has been presented differently from 2017/18 to show the opening balance adjustment resulting from IFRS9 transition.

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 2019 include monies in respect of the Homelessness and Brexit funding alongside a range of other smaller sums.

Member Initiatives

Funds set aside to support delivery of specific local initiatives, including 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 Housing Needs Initiatives, 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. The opening balance has been adjusted through the application of IFRS 9 against a loan modification.

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 NHS 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 28.

6. OTHER OPERATING EXPENDITURE

	2018/19 £'000	2017/18 £'000
Payments to Government Housing Capital Receipts Pool	2,508	1,175
Precepts and Levies	586	604
Total	3,094	1,779

7. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018/19 £'000	2017/18 £'000
Interest payable and similar charges	9,301	9,350
Interest receivable and similar income	(912)	(444)
Net interest on the net defined benefit liability	13,783	13,146
Changes in the fair value of investment properties	(184)	98
Total	21,988	22,150

8. TAXATION AND NON-SPECIFIC GRANT INCOME

	2018/19 £'000	2017/18 £'000
Council Tax Income	(110,355)	(109,368)
Non-Domestic Rates Income	(234,323)	(104,909)
Non-Domestic Rates Tariff payable to Central Government	148,484	50,117
Contribution to the London Business Rates Pool	24,301	0
Non-Domestic Rates Levy (receivable)/Payable to Central	(6)	6,256
Net Benefit from the London Business Rates Pool	(7,805)	0
Non-Ringfenced Government Grants	(12,238)	(33,178)
Capital Grants & Contributions	(24,698)	(25,042)
Total	(216,640)	(216,124)

As a result of the move into the 100% Business Rates retention pilot for 2018/19, there have been a number of changes in local taxation income. The Council benefits from the removal of the levy and retains additional income due to the increase in the local share and increase in national tariff.

Notes to the Main Financial Statements

9. MOVEMENT OF NON-CURRENT ASSETS 2018/19

Cost or Valuation as at 1 April 2018

Additions	17,186	254	4,427	13,566	0	222	0	35,655	0	40	0	0	35,695
Enhancements	9,084	11,908	1,357	17	0	14,786	98	37,250	0	0	0	0	37,250
Revaluation increases/(decreases) recognised in Revaluation Reserve	(1,503)	265,197	14,355	0	0	0	961	279,010	0	0	0	0	279,010
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	(40,180)	60,217	(859)	0	0	0	(321)	18,857	0	0	184	0	19,041
Derecognition - Disposals	(3,820)	(680)	(52)	0	0	0	(120)	(4,672)	0	0	0	(44)	(4,716)
Derecognition - Other	0	(3,581)	(631)	0	0	(131)	0	(4,343)	0	0	0	0	(4,343)
Assets reclassified within Property Plant and Equipment	27,188	540	0	0	0	(27,320)	(408)	0	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0	0	0	0	0	0

Cost or Valuation as at 31 March 2019

Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Sub Total Plant, Property & Equipment	Heritage Assets	Intangibles	Investment Properties	Assets Held for Sale	Total Non Current Assets
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
721,943	509,754	59,992	283,136	13,567	41,319	7,766	1,637,477	5,341	977	5,527	44	1,649,366
729,898	843,609	78,589	296,719	13,567	28,876	7,976	1,999,234	5,341	1,017	5,711	0	2,011,303

Accumulated Depreciation & Impairment as at 1 April 2018

Depreciation charge in 2018/19	(9,899)	(12,165)	(5,529)	(7,061)	0	0	(16)	(34,670)	0	(140)	0	0	(34,810)
Depreciation written out to Revaluation Reserve	7,608	13,111	2,455	0	0	0	0	23,174	0	0	0	0	23,174
Depreciation written out to Surplus/Deficit on Services	2,242	8,827	247	0	0	0	73	11,389	0	0	0	0	11,389
Derecognition - Disposals	49	51	17	0	0	0	14	131	0	0	0	0	131
Derecognition - Other	0	3,529	631	0	0	8	0	4,168	0	0	0	0	4,168
Assets reclassified within Property Plant and Equipment	0	88	0	0	0	0	(88)	0	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0	0	0	0	0	0

Accumulated Depreciation & Impairment as at 31 March 2019

(1)	(21,308)	(16,857)	(112,055)	(460)	(28)	(37)	(150,746)	0	(240)	0	0	(150,986)
(1)	(7,867)	(19,036)	(119,116)	(460)	(20)	(54)	(146,554)	0	(380)	0	0	(146,934)

Balance Sheet amount 1 April 2018

Balance Sheet amount 31 March 2019

Nature of asset holding

Owned	729,897	835,742	59,410	177,603	13,107	28,856	7,922	1,852,537	5,341	637	5,711	0	1,864,226
Finance Lease	0	0	143	0	0	0	0	143	0	0	0	0	143
Balance Sheet amount 31 March 2019	729,897	835,742	59,553	177,603	13,107	28,856	7,922	1,852,680	5,341	637	5,711	0	1,864,369

721,942	488,446	43,135	171,081	13,107	41,291	7,729	1,486,731	5,341	737	5,527	44	1,498,380
729,897	835,742	59,553	177,603	13,107	28,856	7,922	1,852,680	5,341	637	5,711	0	1,864,369
729,897	835,742	59,410	177,603	13,107	28,856	7,922	1,852,537	5,341	637	5,711	0	1,864,226
0	0	143	0	0	0	0	143	0	0	0	0	143
729,897	835,742	59,553	177,603	13,107	28,856	7,922	1,852,680	5,341	637	5,711	0	1,864,369

Notes to the Main Financial Statements

MOVEMENT OF NON-CURRENT ASSETS 2017/18

Cost or Valuation as at 1 April 2017

Additions	6,627	871	1,768	19,019	0	9,315	0	37,600	150	132	0	0	37,882
Enhancements	12,428	12,203	1,881	0	43	18,708	95	45,358	6	0	0	8	45,372
Revaluation increases/(decreases) recognised in Revaluation Reserve	(3,464)	7,383	(92)	0	0	0	0	3,827	4,654	0	0	0	8,481
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	(19,190)	(2,913)	0	0	0	0	0	(22,103)	0	0	(97)	0	(22,200)
Derecognition - Disposals	(6,156)	(16,037)	(2,254)	0	0	0	(3,714)	(28,161)	0	0	0	(49)	(28,210)
Derecognition - Other	0	0	(1,929)	0	0	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	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	(44)	0	0	0	0	0	0	(44)	0	0	0	44	0

Cost or Valuation as at 31 March 2018

Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Sub Total Plant, Property & Equipment	Heritage Assets	Intangibles	Investment Properties	Assets Held for Sale	Total Non Current Assets
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
720,993	497,380	59,874	264,117	13,524	29,392	17,649	1,602,929	531	845	5,624	41	1,609,970
721,943	509,754	59,992	283,136	13,567	41,319	7,766	1,637,477	5,341	977	5,527	44	1,649,366

Accumulated Depreciation & Impairment as at 1 April 2017

Depreciation charge in 2017/18	(9,686)	(10,446)	(5,479)	(6,586)	0	0	(13)	(32,210)	0	(121)	0	0	(32,331)
Depreciation written out to Revaluation Reserve	7,380	3,463	115	0	0	0	0	10,958	0	0	0	0	10,958
Depreciation written out to Surplus/Deficit on Services	2,245	890	0	0	0	0	0	3,135	0	0	0	0	3,135
Derecognition - Disposals	61	483	416	0	0	0	11	971	0	0	0	0	971
Derecognition - Other	0	0	1,929	0	0	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	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0	0	0	0	0	0

Accumulated Depreciation & Impairment as at 31 March 2018

(1)	(15,713)	(13,838)	(105,469)	(460)	(23)	(25)	(135,529)	0	(119)	0	0	(135,648)
(1)	(21,308)	(16,857)	(112,055)	(460)	(28)	(37)	(150,746)	0	(240)	0	0	(150,986)

Balance Sheet amount 1 April 2017

Balance Sheet amount 31 March 2018

Nature of asset holding

Owned	721,942	488,446	42,938	171,081	13,107	41,291	7,729	1,486,534	5,341	737	5,527	44	1,498,183
Finance Lease	0	0	197	0	0	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	5,341	737	5,527	44	1,498,380

720,992	481,667	46,036	158,648	13,064	29,369	17,624	1,467,400	531	726	5,624	41	1,474,322
721,942	488,446	43,135	171,081	13,107	41,291	7,729	1,486,731	5,341	737	5,527	44	1,498,380

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 2018/19 20% of the Council's General Fund assets were valued by external independent valuers Wilks Head & Eve LLP as part of the rolling programme. In addition, high value assets were also revalued and a desktop revaluation was carried out on all the schools 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 2019 through a desktop valuation. Valuations are carried out in accordance with professional standards of the Royal Institution of Chartered Surveyors.

During 2018/19, the Council has recognised total revaluation losses of £63,220k (£21,393k in 2017/18) 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 £93,466k (£2,425k in 2017/18) representing the reversal of previously recognised losses, largely within the other land and buildings asset class. 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 2019, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2019/20 and future years budgeted to cost £25,661k. Similar commitments at 31 March 2018 were £32,550k. The major commitments are:

Scheme	31 March 2019 £'000	31 March 2018 £'000
Schools Expansions Programme	6,348	8,537
New Vehicles	2,411	0
Housing	12,225	17,107
Other Capital Projects	4,677	6,906
Total	25,661	32,550

Notes to the Main Financial Statements

12. HERITAGE ASSETS

At 31 March 2019 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.

At 31 March 2019 the Council owned the Battle of Britain Bunker that has been insured for £4,690k. 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 held at the battle of Britain bunker site are held as heritage assets, which belonged to Battle of Britain flying ace Wing Commander Ronald Gustave Kellett who was stationed at RAF Northolt in 1940. These items have been valued at £150k based on 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 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.

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.

13. INVESTMENT PROPERTIES

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

	2018/19 £'000	2017/18 £'000
Rental income from investment property	(354)	(417)
Direct operating expenses arising from investment property	57	20
Net gain	(297)	(397)

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

Notes to the Main Financial Statements

14. FINANCIAL INSTRUMENT BALANCES

FINANCIAL ASSETS

	Current		Long-Term		Total	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
Investments at Amortised Cost	702	15,051	0	0	702	15,051
Fair Value through Other Comprehensive Income						
- Principal	0	0	15,000	0	15,000	0
- Fair Value Adjustment	0	0	(156)	0	(156)	0
Fair Value through Profit & Loss	500	15,518	55	57	555	15,575
Total Investments	1,202	30,569	14,899	57	16,101	30,626
Cash & Cash Equivalents at Amortised Cost						
- Cash held by the Council	25	21	0	0	25	21
- Bank Current Accounts	16,576	16,648	0	0	16,576	16,648
- Liquid Deposits	30,901	0	0	0	30,901	0
Fair Value through Profit & Loss	0	32,909	0	0	0	32,909
Total Cash & Cash Equivalents	47,502	49,578	0	0	47,502	49,578
Other Assets at Amortised Cost						
- Trade Receivables	24,773	18,139	0	0	24,773	18,139
- Lease Receivables	1,404	1,300	10,133	10,850	11,537	12,150
- Loss allowance	(6,145)	(6,472)	0	0	(6,145)	(6,472)
Total Other Assets	20,032	12,967	10,133	10,850	30,165	23,817
Total Financial Assets	68,736	93,114	25,032	10,907	93,768	104,021

FINANCIAL LIABILITIES

	Current		Long-Term		Total	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
Loans at Amortised Cost						
- Principal sum borrowed	(48,277)	(17,277)	(224,560)	(232,838)	(272,837)	(250,115)
- Accrued Interest	(1,092)	(1,083)	0	0	(1,092)	(1,083)
- EIR Adjustment	0	0	9,670	3,191	9,670	3,191
Total Loans	(49,369)	(18,360)	(214,890)	(229,647)	(264,259)	(248,007)
Other Liabilities at Amortised Cost						
- Trade Payables	(36,873)	(39,736)	0	0	(36,873)	(39,736)
- PFI arrangements	(226)	(230)	(760)	(986)	(986)	(1,216)
- Finance Leases	(18)	(17)	(126)	(179)	(144)	(196)
Total Other Liabilities	(37,117)	(39,983)	(886)	(1,165)	(38,003)	(41,148)
Total Financial Liabilities	(86,486)	(58,343)	(215,776)	(230,812)	(302,262)	(289,155)

Trade receivables and payables for 17/18 have been updated to reflect current IFRS9 allocation.

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:

	2018/19		2017/18	
	Surplus or Deficit on the provision of Services £'000	Other Comprehensive Income £'000	Surplus or Deficit on the provision of Services £'000	Other Comprehensive Income £'000
Interest Revenue				
- Assets measured at amortised cost	(142)	0	(298)	0
- Other	(13)	0	(2)	0
Dividend Revenue				
- Assets measured at fair value through profit and loss	(257)	0	(144)	0
- Assets measured at other comprehensive income	(389)	0	0	0
Net Gains				
- Revaluation gains on assets measured at fair value through profit and loss	(55)	0	0	0
- De-recognition gains on assets measured at fair value through profit & loss	(56)	0	0	0
- Revaluation gain on assets measured at other comprehensive income	0	0	0	(30)
Interest & Investment income	(912)	0	(444)	(30)
Interest Expenses				
- Liabilities measured at amortised cost	8,502	0	8,702	0
- PFI & Lease Contracts	509	0	591	0
- Lease Contracts	50	0	53	0
- Other	213	0	4	0
Other Expenses				
- Brokerage Fees	8	0	0	0
Net Losses				
- De-recognition loss on assets measured at fair value through profit & loss	19	0	0	0
- Revaluation loss on assets measured at other comprehensive income	0	156	0	0
Interest Payable and Similar Charges	9,301	156	9,350	0
Net (Gain)/Loss for the Year	8,389	156	8,906	(30)

Notes to the Main Financial Statements

EQUITY INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the Council's annual financial performance.

	Fair Value		Dividends		Transfer Gain/(Loss)	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
Long Term						
- Investec Diversified Income Fund	4,976	0	180	0	(24)	0
- Columbia Threadneedle Strategic Bond Fund	4,949	0	128	0	(51)	0
- M&G Optimal Income Fund	4,919	0	81	0	(81)	0
Total Equity Instruments	14,844	0	389	0	(156)	0

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.

The financial assets held by the Council during the year are accounted for under the following classifications:

- Amortised cost
- Fair value through other comprehensive income
- Fair value through profit and loss

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 Council's financial liabilities held during the year were all measured at amortised cost.

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 Value

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including 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 by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

Financial instruments classified at amortised cost 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 31 March 2019, using the following methods and assumptions:

- 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.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have 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.

Notes to the Main Financial Statements

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- 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.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, 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

Pooled funds have been transferred from Level 1 to Level 2 to better reflect the underlying pricing method.

FAIR VALUE OF LIABILITIES CARRIED AT AMORTISED COST

Financial Liabilities Held at Amortised Cost	Fair Value Level	31 March 2019		31 March 2018	
		Carrying Amount	Fair Value	Carrying Amount (Restated)	Fair Value (Restated)
		£'000	£'000	£'000	£'000
PWLB Loans	2	(185,613)	(224,005)	(199,394)	(230,385)
Market Loans	2	(48,615)	(79,641)	(48,613)	(82,370)
Local Authority Loans	2	(30,031)	(30,031)	0	0
Lease & PFI Liabilities	2	(1,130)	(2,302)	(1,412)	(3,115)
Trade Payables	N/A	(36,873)	(36,873)	(39,736)	(39,736)
		(302,262)	(372,852)	(289,155)	(355,606)

The fair value of liabilities is higher than the balance sheet 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 2019) arising from a commitment to pay interest to lenders above current market rates.

FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

Financial Assets Held at Fair Value	Fair Value Level	31 March 2019		31 March 2018	
		Carrying Amount	Fair Value	Carrying Amount (Restated)	Fair Value (Restated)
		£'000	£'000	£'000	£'000
Money Market Funds	1	500	500	33,409	33,409
Pooled Funds (Short-Term)	2	0	0	15,018	15,018
Pooled Funds (Long-Term)	2	10	10	10	10
Strategic Pooled Funds (Long-Term)	2	14,844	14,844	0	0
Shares in Listed Companies (Long-Term)	1	45	45	47	47
Financial Assets Held at Amortised Cost					
Short-Term Deposits & Deposit Accounts	N/A	31,603	31,603	15,051	15,051
Cash and Bank Current Accounts	N/A	16,601	16,601	16,669	16,669
Lease Receivables	N/A	11,537	11,537	12,150	12,150
Trade Receivables	N/A	18,628	18,628	11,667	11,667
		93,768	93,768	104,021	104,021

The fair value of short-term financial assets held at amortised cost, including trade and lease receivables, is assumed to approximate to the carrying amount.

Notes to the Main Financial Statements

LOSS ALLOWANCE BY ASSET CLASS

Lifetime Expected Credit Loss - Trade Receivables

31 March 2019		31 March 2018	
Gross receivable £'000	Simplified approach Loss Allowance £'000	Gross receivable £'000	Simplified approach Loss Allowance £'000
24,773	(6,145)	18,139	(6,472)

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 2018/19 there were no accounts in an overdraft position where an offset was applied.

15. INVENTORIES

Balance outstanding at start of year
Purchases
Recognised as expense in year
Balance outstanding at year-end

Consumable Stores		Maintenance Materials		Total	
2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
48	54	150	211	198	265
1,022	938	263	280	1,285	1,218
(998)	(944)	(231)	(341)	(1,229)	(1,285)
72	48	182	150	254	198

16. SHORT TERM DEBTORS

Trade Receivables
Prepayments
Other receivable amounts

31 March 2019 £'000	31 March 2018 £'000
18,628	11,667
3,115	3,947
30,914	37,121
52,657	52,735

17. DEBTORS FOR TAXATION

Debtors for taxation are included within the 'other receivable amounts' in note 16 and are detailed below.

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

Up to one year
One to three years
Over three years

31 March 2019 £'000	31 March 2018 £'000
4,792	4,206
7,709	6,119
8,987	7,696
21,488	18,021

Notes to the Main Financial Statements

18. LONG TERM DEBTORS

	31 March 2019 £'000	To Short Term £'000	Repayments £'000	31 March 2018 £'000
Housing advances & associations	4	0	7	11
Sale of council houses	4	0	1	5
Other loans & advances	223	58	0	281
Developer contributions	2,059	1,401	0	3,460
	2,290	1,459	8	3,757

19. SHORT TERM CREDITORS

	31 March 2019 £'000	31 March 2018 £'000
Trade Payables	36,873	39,736
Other Payables	32,618	62,823
	69,491	102,559

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 £3,780k at 31 March 2019 (£3,721k at 31 March 2018).

21. CASH AND CASH EQUIVALENTS

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

	31 March 2019 £'000	31 March 2018 (Restated) £'000
Cash and Bank Current Accounts	16,601	16,669
Liquid deposits	30,901	32,909
Total Cash and Cash Equivalents	47,502	49,578

The restated note above reflects a treasury deposit held within liquid deposits in the 17/18 accounts which is now reflected in cash and bank current accounts in table above.

Notes to the Main Financial Statements

22. PROVISIONS

	1 April 2018	Additional provisions made in 2018/19	Amounts used in 2018/19	Unused amounts reversed in 2018/19	31 March 2019	Short- Term Provisions	Long- Term Provisions
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CRC Allowance Purchase	153	106	(104)	(49)	106	106	0
Dilapidation Provision	625	0	(12)	0	613	613	0
Non Domestic Rates Appeal Losses	1,527	753	(197)	(242)	1,841	1,841	0
Social Care Disputes	507	332	0	(281)	558	558	0
Insurance Provision	2,276	2,501	(808)	(1,098)	2,871	2,010	861
Other provisions	837	1,185	(94)	(474)	1,454	1,453	1
Total Provisions	5,925	4,877	(1,215)	(2,144)	7,443	6,581	862

CRC Allowance Purchase

The 2018/19 financial year was the eighth year for which there is an obligation to purchase and surrender Carbon Reduction Commitment (CRC) allowances in relation to carbon dioxide emissions. The Council is required to surrender to the scheme by the last working day in July 2019, the proportion of reported emissions for the preceding scheme year (2018/19). 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 64% obligation in relation to appeals over the rateable value of properties from NNDR purposes.

The movement in the provision is caused by the change in the London Pool retention rate that saw Hillingdon move from retaining a 30% share of Business Rates in 2017/18 to a 64% share effective from 1st April 2018. The overall Appeals Provision for the Collection Fund decreased from £5,092k at the end of 2017/18 to £2,877k at the end of 2018/19. However as a result of Hillingdon's percentage increase in the share of Business Rates, the share of the appeals provision increased

Social Care 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. In addition there are potential legal disputes in relation to funding levels of care provision.

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 2019/20.

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 - £105k

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 2019.

Notes to the Main Financial Statements

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

Other provisions

The other provisions represent amounts set aside to meet potential future liabilities. This includes items such as: legal costs; potential shortfall in damages; fly tipping clearance, among others.

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Notes to the Main Financial Statements

23. UNUSABLE RESERVES

23A. 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.

	2018/19		2017/18	
	£'000	£'000	£'000	£'000
Balance at 1 April		924,268		910,332
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	(34,670)		(32,210)	
- Revaluation gains/(losses) on Property, Plant and Equipment	30,246		(18,968)	
- Amortisation of intangible assets	(140)		(121)	
- Revenue expenditure funded from capital under statute	(9,650)		(9,488)	
- 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	(4,724)	(18,938)	(27,239)	(88,026)
Adjusting amounts written out of the Revaluation Reserve		3,122		5,401
Net written out amount of the cost of non-current assets consumed in the year		(15,816)		(82,625)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	19,054		26,526	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	24,698		25,042	
- Application of grants to capital financing from the Capital Grants Unapplied Account	(632)		215	
- Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	14,025		9,959	
- Finance Lease Principal	247		248	
- Capital expenditure charged against the General Fund and HRA balances	23,893	81,285	34,669	96,659
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		184		(98)
Balance at 31 March		989,921		924,268

Notes to the Main Financial Statements

23B. 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.

	2018/19		2017/18	
	£'000	£'000	£'000	£'000
Balance at 1 April		174,422		160,383
Upward revaluation of assets				
- Land & Buildings	291,226		11,863	
- Council Dwellings	7,302		8,355	
- Surplus Assets	1,190		0	
- Plant and Equipment	16,810		23	
- Heritage Assets	0	316,528	4,654	24,895
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(12,918)		(1,016)	
- Council Dwellings	(1,197)		(4,439)	
- Surplus Assets	(228)	(14,343)	0	(5,455)
Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or (Deficit) on the Provision of Services		302,185		19,440
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(1,740)		(2,005)	
- Surplus Assets	(16)		(14)	
- Plant and Equipment	(6)		(4)	
- Council Dwellings	(858)	(2,620)	(802)	(2,825)
Accumulated gains on assets sold or scrapped				
- Land & Buildings	(112)		(1,753)	
- Surplus Assets	(70)		(448)	
- Assets Held for sale	(1)		(1)	
- Council Dwellings	(252)		(374)	(2,576)
- Assets Under Construction	(67)	(502)	0	
Amount written off to the Capital Adjustment Account		(3,122)		(5,401)
Balance at 31 March		473,485		174,422

Notes to the Main Financial Statements

24. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2018/19 £'000	2017/18 £'000
(Surplus)/Deficit on the provision of services	(25,761)	33,376
Depreciation and impairment of non-current assets	(4,424)	(51,178)
Amortisation of intangible fixed assets	(140)	(121)
Revenue Expenditure Funded from Capital under Statute	(9,650)	(9,488)
Pension Fund adjustments	(26,580)	(26,025)
(Increase)/Decrease in impairment for provision for bad debts	(1,072)	3,834
(Increase)/Decrease in creditors	33,009	(21,763)
Increase/(Decrease) in debtors	(473)	8,390
Increase/(Decrease) in inventories	56	(67)
Carrying amount of non-current assets sold	(4,724)	(27,239)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(1,385)	(1,111)
Total adjusting items	(15,383)	(124,768)
Adjustments for items included in the net Surplus or Deficit on the Provision of Services that are investing or financing activities		
Proceeds from the disposal of plant, property and equipment, investment property and intangible assets	19,149	25,556
Capital Grants and other contributions credited to Surplus or Deficit on the Provision of Services	24,698	25,042
Billing Authorities - Council Tax and NNDR adjustments	(27,619)	13,397
Total included elsewhere on Cash Flow Statement	16,228	63,995
Net cash flows from operating activities	(24,916)	(27,397)

Interest received, interest paid and dividends received

	2018/19 £'000	2017/18 £'000
Interest paid	(9,301)	(9,350)
Interest received	912	444

Notes to the Main Financial Statements

25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

Cash Outflows

Purchase of property, plant and equipment
Other payments for investing activities

Cash Inflows

Sale of property, plant and equipment
Capital grants received
Other receipts from investing activities

Net Cash Outflow

Net Increase/(Decrease) in Short-Term Investments
Net Increase/(Decrease) in Long-Term Investments
Net cash flows from investing activities

2018/19 £'000	2017/18 £'000
72,905	83,098
9,650	9,488
82,555	92,586
(19,149)	(25,556)
(20,093)	(18,113)
(7,098)	(9,023)
(46,340)	(52,692)
36,215	39,894
(29,367)	(19,530)
15,000	(9,987)
21,848	10,377

26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

Cash Outflows

Repayments of amounts borrowed
Capital element of finance lease rental and on-balance sheet PFI payments

Cash Inflows

New borrowing taken
Billing Authorities - Council Tax and NNDR adjustments

Net cash flows from financing activities

2018/19 £'000	2017/18 £'000
17,278	17,367
247	248
(40,000)	0
27,619	(13,397)
5,144	4,218

Reconciliation of Liabilities arising from Financing Activities

	Balance 31 March 2018 £'000	Financing Cash Flows £'000	Non Cash Acquisition £'000	Other Non Cash Changes £'000	Balance 31 March 2019 £'000
Short Term Borrowing	(18,360)	(12,722)	(19,369)	1,082	(49,369)
Long Term Borrowing	(229,647)	(10,000)	0	24,757	(214,890)
Short Term Lease & PFI	(247)	247	(244)	0	(244)
Deferred Liabilities Lease & PFI	(1,165)	0	0	279	(886)
Council Tax and NNDR Adjustments	(28,523)	27,619	0	0	(904)
Total	(277,942)	5,144	(19,613)	26,118	(266,293)

	Balance 31 March 2017 £'000	Financing Cash Flows £'000	Non Cash Acquisition £'000	Other Non Cash Changes £'000	Balance 31 March 2018 £'000
Short Term Borrowing	(18,480)	17,367	(18,329)	1,082	(18,360)
Long Term Borrowing	(246,894)	0	0	17,247	(229,647)
Short Term Lease & PFI	(248)	248	(247)	0	(247)
Deferred Liabilities Lease & PFI	(1,412)	0	0	247	(1,165)
Council Tax and NNDR Adjustments	(15,126)	(13,397)	0	0	(28,523)
Total	(282,160)	4,218	(18,576)	18,576	(277,942)

Notes to the Main Financial Statements

27. EXTERNAL AUDIT COSTS

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

	2018/19 £'000	2017/18 £'000
Fees payable in regard to external audit services carried out by the appointed auditor	121	159
Fees payable for the certification of grant claims and returns	41	45
Total External Audit costs	162	204

Non Audit Fees - The Council did not incur any non-audit costs in 2018/19 or 2017/18 with Ernst and Young.

28. PARKING REVENUE ACCOUNT

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

	2018/19 £'000	2017/18 £'000
Income	(5,398)	(4,933)
Expenditure	3,663	3,396
(Surplus)/ Deficit	(1,735)	(1,537)
Contribution to transport services	1,900	1,401
Total (Surplus)/ Deficit	165	(136)

29. MEMBER ALLOWANCES

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

	2018/19 £'000	2017/18 £'000
Salaries & Allowances	1,340	1,342
Total	1,340	1,342

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

Notes to the Main Financial Statements

30. 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 1 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 2018/19 this service provided support to approximately 694 clients at a gross cost of £38,795k which included approximately 45 HCCG clients and 26 Joint Funded clients for which the Council received £6,272k.

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 2018/19, £27,861k 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 and 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.

	2018/19			2017/18		
	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000
BCF Grant	17,175	0	17,175	16,854	0	16,854
DFG Base Allocation	0	4,174	4,174	0	3,815	3,815
iBCF	0	5,258	5,258	0	4,054	4,054
Voluntary Contributions	16,035	11,646	27,681	6,389	5,702	12,091
	33,210	21,078	54,288	23,243	13,571	36,814

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

	2018/19			2017/18		
	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000
BCF Grant	10,974	6,201	17,175	10,769	6,085	16,854
DFG Base Allocation	0	4,174	4,174	0	3,815	3,815
iBCF	0	5,258	5,258	0	4,054	4,054
Voluntary Contributions	15,796	11,646	27,442	6,389	5,702	12,091
CCG Voluntary Contribution Retained by LBH	0	239	239	0	0	0
	26,770	27,518	54,288	17,158	19,656	36,814

Notes to the Main Financial Statements

31. RELATED PARTY TRANSACTIONS

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

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in note 35.

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 2018/19 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 2018/19 was £22,395k (£22,006k in 2017/18). A precept of £347k was paid to the London Pension Fund Authority in 2018/19 (£348k in 2017/18).

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 2018/19 is shown in note 29.

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 Haggar	£737,587.50
Age UK Hillingdon	Councillor Ian Edwards	£718,434.38
Hillingdon Citizens Advice Bureau	Councillor John Riley	£323,771.50
Hillingdon Citizens Advice Bureau	Councillor Raymond Graham	£323,771.50
Uxbridge United Welfare Trust	Councillor Martin Goddard	£266,500.00
Uxbridge United Welfare Trust	Councillor Raymond Graham	£266,500.00
Ruislip and Northwood Old Folks Association	Councillor Becky Haggar	£86,072.00
Ruislip and Northwood Old Folks Association	Councillor Edward Lavery	£86,072.00
Hillingdon Outdoor Activities Centre	Councillor Jane Palmer	£60,177.80
Hillingdon Outdoor Activities Centre	Councillor Henry Higgins	£60,177.80
Friends of 11(F) Group Operations Rooms	Councillor Raymond Puddifoot	£29,915.94
Hillingdon Shopmobility	Councillor Teji Barnes	£24,000.00
London Youth Games Ltd	Councillor Richard Mills	£16,800.00
Yiewsley Baptist Church	Councillor Stuart Mathers	£16,492.53
Relate London North West Family Mediation	Councillor Stuart Mathers	£15,045.00
Relate London North West Family Mediation	Councillor Susan O'Brien	£15,045.00
Hillingdon Aids Response Trust	Councillor Peter Curling	£15,000.00
Harlington Hospice Association	Councillor Kuldeep Lakhmana	£10,000.00
The Law Society	Councillor Nick Denys	£8,928.00
Groundwork South Trust Ltd	Councillor Judith Cooper	£7,000.00

Notes to the Main Financial Statements

Precepts/Levies

In 2018/19 the following precepts and levies are considered related party transactions:

	2018/19 £'000	2017/18 £'000
Business Rate Retention - DCLG	16,866	158,944
Business Rate Retention - GLA	296,088	131,138
Greater London Authority Precept	29,815	27,349
Greater London Authority Crossrail	13,087	13,488
West London Waste Authority Levy	10,670	10,645
TFL Concessionary Fares	8,061	8,037
Lee Valley Regional Park Authority	240	255
Environment Agency	225	221

32. OFFICER EMOLUMENTS

The number of employees in 2018/19 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			
	2018/19		2017/18		2018/19		2017/18	
	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum
£50,000 - £54,999	99	(1)	73	(2)	55	0	49	0
£55,000 - £59,999	42	0	40	0	24	0	25	0
£60,000 - £64,999	30	(4)	27	(6)	18	0	14	0
£65,000 - £69,999	14	(4)	5	(1)	18	0	14	0
£70,000 - £74,999	6	(1)	5	(1)	15	0	14	0
£75,000 - £79,999	5	0	7	(2)	5	0	6	0
£80,000 - £84,999	4	0	3	0	5	0	7	0
£85,000 - £89,999	10	(2)	5	0	5	0	7	0
£90,000 - £94,999	2	0	2	0	4	0	1	0
£95,000 - £99,999	2	0	1	0	2	0	1	0
£100,000 - £104,999	1	0	1	0	1	0	1	0
£105,000 - £109,999	0	0	0	0	0	0	0	0
£110,000 - £114,999	0	0	0	0	1	0	1	0
	215	(12)	169	(12)	153	0	140	0

Disclosure of Remuneration for Senior Employees (Schools):-

Details of school employees in the above table earning over £100,000 during 2018/19 is listed below.

Job Title	Pensionable Pay 2018/19	Pensionable Pay 2017/18	Due to Lump Sum
Headteacher - Harlington Community School	£113,857	£114,929	No
Headteacher - Yeading Infant School	£103,065	£100,193	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 2018/19.

Group	Job Title		2018/19			
			Pensionable Pay	Compensation for loss of employment	EER's pension Contributions	Total
Chief Executives Office	Chief Executive and Corporate Director of Administration (F Beasley)		£230,844	£0	£0	£230,844
	Head of Democratic Services		£98,830	£0	£22,830	£121,660
	Head of Legal Services and Borough Solicitor		£144,120	£0	£33,292	£177,412
	Head of Human Resources	1	£111,816	£0	£25,829	£137,645
Finance	Corporate Director of Finance (P Whaymand)		£173,811	£0	£0	£173,811
	Acting Deputy Director Exchequer Services & Business Assurance	2	£114,375	£0	£0	£114,375
	Deputy Director Corporate Finance		£127,969	£0	£29,561	£157,530
	Head of Revenues & Benefits		£95,823	£0	£22,135	£117,958
	Head of Pensions, Treasury and Statutory Accounts		£85,775	£0	£19,814	£105,589
Residents Services	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)		£216,345	£0	£0	£216,345
	Director Infrastructure, Business Improvement, Communications, Procurement, Waste Services & ICT (P Scott)	3	£158,007	£0	£36,500	£194,506
	Head of Planning, Transportation & Regeneration		£119,646	£0	£27,638	£147,284
	Head of Administrative, Technical Support, Licensing and Business Services		£110,197	£0	£25,455	£135,652
Social Care	Director Housing, Environment, Education and Health	4	£141,932	£0	£32,786	£174,719
	Corporate Director of Social Care (T Zaman)		£170,552	£0	£39,398	£209,950
	Director of Children's Services	5	£126,830	£0	£26,906	£153,737
	Assistant Director of Provider and Commissioned Care		£91,391	£0	£21,111	£112,503
	Assistant Director of Social Care, Mental Health & Learning Disabilities		£88,702	£0	£20,490	£109,192
Leavers	Head of Service - SEND	6	£57,213	£0	£13,198	£70,411
	Head of HR, Performance Improvement and Communications	7	£57,462	£104,469	£13,274	£175,205
	Assistant Director of Children's Early Intervention	8	£99,631	£46,930	£23,015	£169,576
	Assistant Director of Social Care, Older People, Physical Disabilities & OT	9	£97,223	£0	£22,459	£119,682

1. Employment in post commenced 01/09/2018
2. Change of post, acting up from 14/01/2019
3. Change of post from 08/08/2018
4. Change of post from 08/08/2018
5. Change of post from 01/11/2018
6. Employment in post commenced 10/09/2018
7. Employment ended 31/08/2018
8. Employment ended 31/03/2019
9. Employment ended 31/03/2019

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		£77,703	£0	£17,949	£95,653
	Health and Social Care Integration Manager		£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

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 was a number of changes to post titles within the Council's management structure.

Notes to the Main Financial Statements

33. 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	2018/19 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	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	37	34	3	297	357	654
£20,001 - £40,000	11	5	6	313	91	404
£40,001 - £60,000	5	0	5	242	204	446
£60,001 - £80,000	0	0	0	0	0	0
Over £80,001	1	1	0	104	0	104
	54	40	14	956	652	1,608

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	Pension Strain Costs £'000	Total Exit Package Cost £'000
£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

SCHOOL EMPLOYEES						
Cost Band	2018/19 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	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	6	2	4	37	0	37
£20,001 - £40,000	3	0	3	74	0	74
	9	2	7	111	0	111

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	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	9	8	1	16	8	24
£20,001 - £40,000	1	0	1	26	0	26
	10	8	2	42	8	50

Notes to the Main Financial Statements

34. 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 2018/19 are as follows:

Schools Budget Funded by Dedicated Schools Grant		
Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2018/19 before academy recoupment		281,538
Academy figure recouped for 2018/19		(132,583)
Total DSG after academy recoupment for 2018/19		148,955
Plus Brought-forward from 2017/18		4,126
Less Carry-forward to 2019/20 agreed in advance		(4,126)
Agreed initial budgeted distribution in 2018/19	35,206	113,749
In year adjustments		(25)
Final budgeted distribution for 2018/19	35,206	113,724
Less actual central expenditure	(38,891)	(38,891)
Less actual ISB deployed to schools		(114,405)
Plus Local Authority contribution for 2018/19	0	0
Total	(3,685)	(4,366)
Carry-forward agreed in advance		(4,126)
Carry-forward to 2019/20	(3,686)	(8,492)

Notes to the Main Financial Statements

35. GRANT INCOME

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

REVENUE GRANT INCOME

	2018/19 £'000	2017/18 £'000
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	0	19,513
Education Services Grant	0	654
Housing Benefit Administration Subsidy	1,025	1,225
Local Council Tax Support Administration Subsidy	309	329
New Homes Bonus	4,040	7,104
Other Grants	6,864	4,353
Total Non-Specific Revenue Grants	12,238	33,178
Revenue Grant Income Credited to Services		
<u>Department for Education</u>		
Dedicated Schools Grant (DSG)	148,930	143,484
Pupil Premium	6,120	6,236
Sixth Form & Adult Learning Grants	2,241	2,252
Universal Infant Free School Meals Grant	2,578	2,869
Private Finance Initiative	1,778	1,778
Adult & Community Learning	1,526	1,568
PE & Sports Grant	956	765
Teachers Pay Grant	640	0
<u>Department for Communities and Local Government:</u>		
Flexible Homelessness Support	1,932	1,269
Troubled Families Grant	1,040	704
Business Rates Cost of Collection Allowances	574	576
<u>Department of Health</u>		
Public Health Grant	17,534	17,998
Better Care Fund	22,433	20,908
Independent Living Fund	508	525
Adult Social Care Support Grant	651	0
Winter Pressures Funding	1,041	0
<u>Arts Council</u>		
Music Education Hub	457	455
<u>Department for Work and Pensions:</u>		
Housing Benefit Subsidy	138,773	143,072
Discretionary Housing Payments	856	962
<u>Home Office:</u>		
Funding for Unaccompanied Asylum Seeking Children	4,129	3,789
<u>Department for Transport</u>		
Local Highways Maintenance Funding	919	0
<u>Other</u>		
Other Grants	2,774	3,476
<u>Contributions</u>		
Other Contributions	31,792	19,577
Total Grants Credited to Services	390,182	372,263
Total Revenue Grant Income	402,420	405,441

Notes to the Main Financial Statements

CAPITAL GRANT INCOME

Capital Grant Income credited to the Comprehensive Income and Expenditure Statement

Disabled Facilities Grant

Education and Skills Funding Agency

Transport for London

Greater London Assembly

Total Capital Grant Income

Schools Capital Contributions

S106 Contributions

Community Infrastructure Levy

Other Capital Contributions

Total Capital Grants and Contributions Received

2018/19 £'000	2017/18 £'000
4,708	4,227
9,007	7,213
4,669	6,266
266	738
18,650	18,444
507	1,690
1,270	1,097
3,287	3,455
984	356
24,698	25,042

Of the capital grant income applied to the Comprehensive Income and Expenditure account within Taxation and Non Specific Grant income, £15,494k was used to fund the Capital Programme and £3,156k was transferred to the Capital Grants Unapplied Reserve for future use.

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:

Capital Grant & Contribution Receipts in Advance

ESFA Capital Grants

S106

Total Capital Grant & Contribution Receipts in Advance

2018/19 £'000	2017/18 £'000
1,944	377
11,025	10,122
12,969	10,499

Notes to the Main Financial Statements

36. 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.

	2018/19 £'000	2017/18 £'000
Opening Capital Financing Requirement	399,967	403,891
Capital investment		
Property, Plant and Equipment	72,905	83,121
Intangible Assets	40	132
Revenue Expenditure Funded from Capital under Statute	9,650	9,488
Sources of finance		
Capital receipts	(19,054)	(26,526)
Government grants and other contributions	(24,066)	(25,257)
Sums set aside from revenue:		
Direct revenue contributions	(23,893)	(34,669)
Minimum Revenue Provision (MRP) / loans fund principal	(14,025)	(9,959)
Other Revenue Provision	(255)	(254)
Closing Capital Financing Requirement	401,269	399,967
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow :		
- unsupported by Government financial assistance	1,302	(3,924)
Increase/(Decrease) in Capital Financing Requirement	1,302	(3,924)

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

Notes to the Main Financial Statements

37. LEASES

In financial years prior to 2018/19 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 was 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:

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	
2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
244	247	701	806
886	1,009	1,678	2,246
0	156	0	201
886	1,165	1,678	2,447
1,130	1,412	2,379	3,253

Operating Leases - Lessee

Plant, Property and Equipment Outstanding obligations on 31 March

Within 1 year
2 - 5 years
Total future lease payments

Operating Lease	
2018/19 £'000	2017/18 £'000
448	635
106	472
554	1,107

Operating lease obligations include commitments held by Hillingdon maintained schools as well as those held by the Council. Operating lease expenditure of £110k (£74k in 17/18) 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	
2018/19 £'000	2017/18 £'000
1,404	1,300
3,272	3,618
6,861	7,232
11,537	12,150

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

38. 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 that has a fixed annual sum over £1,000k and is over 4 years in length.

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

Year	Annual Cost £'000
2019/20	1,099
2020/21	1,045
2021/22	961
2022/23	158

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 2018/19 the Council paid principal of £230k, interest of £509k and service charges of £2,543k. Current forecasts of future payments, assuming satisfactory performance over the remaining 5 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	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Within 1 year (2019/20)	2,669	226	421	3,316
2 - 5 years	12,142	760	704	13,606
Total	14,811	986	1,125	16,922

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 £230k matching the principal repayment. The outstanding liability of the capital value at 31 March 2019 is £986k, of this £226k is due within a year and therefore included in creditors and the remaining £760k is included as a deferred liability.

Notes to the Main Financial Statements

39. CONTINGENT LIABILITIES AND ASSETS

A claim has been raised against the Council for damages for misrepresentation. The claim could amount to £1m but the Council has a partial counterclaim.

The Council is finalising costs associated with a handful of legal cases of which could total £300k liabilities collectively.

In December 2018 the Court of Appeal upheld a ruling that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Although there is an expectation liabilities will increase there is no certainty on how this will be applied, the actual cost and when it might be implemented. However based on an estimate by the Fund's actuary it is anticipated the impact to pension liabilities could be in the region of £3.4m.

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

40. EVENTS AFTER THE BALANCE SHEET DATE

Following a legal ruling regarding age discrimination arising from pension scheme transition arrangements; court of appeal judgements were made affecting judges and firefighters pensions. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Following this judgement it is likely that pension liabilities will increase, albeit at this stage there is still uncertainty regarding the method, value and timing. The Fund's actuary has assessed the likely impact to pension liabilities which reveal an estimated increase of £3.4m. The Councils statement of accounts have not been adjusted to take into account this anticipated additional liability due to materiality levels and continued uncertainty.

41. 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. Following this, the Mayoral CIL (MCIL) was introduced to assist in financing Crossrail. The MCIL Levy was ratified on 29 February 2012 and applies to developments agreed after 1 April 2012. The MCIL is charged on most developments in Central London and is charged at £35 per square metre in Zone 2. Local planning authorities are responsible for collecting Mayoral CIL payments on behalf of the Mayor. The local planning authority is able to retain 4% of the levy to cover the costs of administration and collection. Contributions of £2,232k have been received this year and £2,143k has been paid over to the charging authority (Transport for London). The balance of £89k has been retained by the Council to cover administrative expenses.

Notes to the Main Financial Statements

42. SUMMARY OF TREASURY MANAGEMENT POLICY

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

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

The Council's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement which represents the cumulative capital expenditure of the Council that has not been financed from internal resources (see note 36).

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.

43. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Financial Instruments - Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with 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 Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- 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: Treasury

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages credit risk by ensuring treasury investments are only placed with organisations of high credit quality as outlined in the Treasury Management Strategy. These include financial institutions with a minimum long term credit rating of A- (Fitch); A3 (Moody's); A- (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 UK government, other local authorities and organisations without credit ratings upon which the Council has received independent investment advice. The Treasury Management Strategy also sets maximum sums that can be invested with any financial institution.

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

Credit Rating Definitions

Long Term	
AAA	Highest credit quality
AA	Very high credit quality
A	High credit quality
BBB	Good credit quality
BB	Speculative
B	Highly speculative
CCC	Default possibility
CC	Default imminent
D	Defaulted

Money Market Funds
Fitch: AAAmmf : Extremely strong capacity to achieve fund's investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk.
Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.
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.

Notes to the Main Financial Statements

The table below summarises the credit risk exposures of the Council's treasury investment portfolio and other receivables by credit rating and remaining time to maturity, also identifying any expected loss:

Credit Risk Exposures

UK Banks:

- Barclays Current Accounts
- HSBC Current Accounts
- Lloyds Current Accounts
- Lloyds Short-Term Deposit
- Santander Current Accounts
- Handelsbanken Current Account

Sub Total

Investments where credit loss is not applicable

Government & Local Authority Investments:

- DMADF
- Lancashire County Council
- Northumberland County Council
- London Borough of Brent

Money Market Funds

Pooled Funds

Pooled Funds (Long-Term)

Strategic Pooled Funds

Shares in Listed Companies (Long-Term)

Cash Held By Council

Sub Total

Lease Receivables

Trade Receivables - Simplified Approach

Sub Total

Total

31 March 2019				31 March 2018			
Rating at 31 March 2019*	Long Term	Short Term	Expected Loss	Rating at 31 March 2018*	Long Term	Short Term	Expected Loss
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
A	0	4,832	0	A	0	2,761	0
AA-	0	883	0	AA-	0	767	0
A+	0	10,859	0	A	0	13,119	0
A+	0	702	0	N/A	0	0	0
A	0	1	0	A	0	1	0
AA-	0	1	0	N/A	0	0	0
Sub Total	0	17,278	0		0	16,648	0
AA	0	30,901	N/A	AA	0	0	N/A
N/A	0	0	N/A	AA-	0	5,038	N/A
N/A	0	0	N/A	AA	0	5,011	N/A
N/A	0	0	N/A	AA	0	5,002	N/A
AAA**	0	500	N/A	AAA**	0	33,409	N/A
AAA	0	0	N/A	AAA	0	15,018	N/A
Unrated	10	0	N/A	Unrated	10	0	N/A
Unrated	14,844	0	N/A	N/A	0	0	N/A
Unrated	45	0	N/A	Unrated	47	0	N/A
N/A	0	25	N/A	N/A	0	21	N/A
Sub Total	14,899	31,426	0		57	63,499	0
N/A	10,133	1,404	0	N/A	10,850	1,300	0
N/A	0	24,773	(6,145)	N/A	0	18,139	(6,472)
Sub Total	10,133	26,177	(6,145)		10,850	19,439	(6,472)
Total	25,032	74,881	(6,145)		10,907	99,586	(6,472)

*Ratings provided are the Fitch rating or lowest equivalent, ** All funds held with AAmmf or equivalent ratings with at least one of the rating agencies.

Notes to the Main Financial Statements

Loss Allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies. Loss allowances as at 31 March 2019 and 31 March 2018 have been calculated on treasury investments held at amortised cost but are immaterial and therefore no impairments have been made.

Loss allowances on trade receivables are calculated using a simplified approach based on historic experience adjusted for current and forecast influences. Credit impairment assessments are carried out annually with the total balance sheet carrying amount being adjusted and the movement being allocated to the CIES accordingly.

The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

Borrowing

The policy on borrowing is to spread exposure between Public Works Loans Board (PWLB), local authorities 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 2019				31 March 2018			
	PWLB	Market	Temporary Local Authorities	Total	PWLB	Market	Temporary Local Authorities	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Nominal Value	194,837	48,000	30,000	272,837	202,115	48,000	0	250,115
Premium	(9,670)	0	0	(9,670)	(3,191)	0	0	(3,191)
Accrued Interest	446	615	31	1,092	470	613	0	1,083
Amortised Value	185,613	48,615	30,031	264,259	199,394	48,613	0	248,007

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 process 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 2019	31 March 2019 £'000	31 March 2018 £'000
Less than 1 year	25%	18.68%	49,369	18,360
Between 1 and less than 2 years	25%	5.63%	14,889	17,278
Between 2 and less than 5 years	50%	8.89%	23,500	30,889
Between 5 and less than 10 years	100%	14.19%	37,500	27,500
Between 10 and less than 20 years	100%	19.30%	51,000	58,000
Between 20 and less than 30 years	100%	7.98%	21,071	22,571
Between 30 and less than 40 years	100%	7.16%	18,930	25,409
Between 40 and less than 50 years	100%	14.76%	39,000	39,000
Over 50 years	100%	3.41%	9,000	9,000
Total		100.00%	264,259	248,007

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

Notes to the Main Financial Statements

premium charge may be incurred, longer term finance costs may be significantly reduced. LOBO loans have been included at their final maturity date.

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 2018/19 balances and with all other variables held constant) the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	10
Increase in interest receivable on variable rate investments	(462)
Decrease in fair value of investments held at FVPL charged against provision of services	1
Impact on Surplus or Deficit on the Provision of Services	(451)
Share of overall impact credited to the HRA	(730)
Decrease in fair value of investments held at FVOCI	(284)
Impact on Other Comprehensive Income and Expenditure	284
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)	36,689

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

Price Risk

The Council has a small historic holding of £45k classified as shares in listed companies. Based on the holding value at 31 March 2019 a 5% fall in share prices would result in a £2k charge to the Income and Expenditure Account.

The Council's investment in pooled equity funds is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to equity investment of £15m. Based on the holding value at 31 March 2019 a 5% fall in share prices would result in transfer of £84k to Financial Instruments Revaluation Reserve.

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 which 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 (£194,838k nominal value 31 March 2019; £193,338k fixed rates, £1,500k 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 £6,000k, £5,000k and £10,000k respectively are scheduled for rate change options. In addition the Council holds £12,000k of fixed-rate market loans and £30,000k of short-term Local Authority borrowing.

In order to minimise debt cost, for most of the year the Council utilised internal balances delaying the need borrow until the last quarter of 18/19. At this time a £10m PWLB EIP loan and two temporary local authority loans totalling £30m were taken. The portfolio was reduced by £17,278k with debt that matured naturally leaving a nominal balance at year-end of £272.8m.

Financial Assets

The Council had a weighted average balance of investments for 2018/19 of £82,139k. Throughout the year deposits were placed in instant access accounts, pooled funds, in fixed-term deposits with varying maturity periods and a number of UK T-Bills were purchased. 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.

Transition to IFRS 9

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1 April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment and the remeasurement of modified loan liabilities.

The Council has made use of the transitional provisional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement.

The most significant adjustment was a £6.5m reduction to the carrying amount of a PWLB modification loan, with an opposite entry being credited to reserves. Other adjustments were assessed as immaterial.

44. 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.

Notes to the Main Financial Statements

- 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 2018/19 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 2019/20 is 24.1% with any pension strain costs being directly attributable to the service area, as was the case in 2018/19.

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.

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 2018/19 was 16.48% (16.48% 2017/18). The total contribution to the fund by the Council in 2018/19 was £7,186k (£7,108k in 2017/18), of this amount £605k was outstanding at 31 March 2019 (£589k at 31 March 2018).

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 £514k paid in respect of on-going early retirement payments in 2018/19 (£507k in 2017/18).

NHS Pension Scheme

The Health and Social Care Act 2012, made provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities. As a result of this transfer, the 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 2018/19 the Council paid a total of £33.2k (£31.8k in 2017/18) to the NHS Pension Scheme, representing 14.38% of pensionable pay. Following a recent consultation, the Department of Health and Social Care (DHSC) has confirmed the employer contribution rate will increase to 20.6% from 1 April 2019.

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:

Comprehensive Income and Expenditure Statement

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2019	31 March 2018 (Restated)	31 March 2019	31 March 2018	31 March 2019	31 March 2018 (Restated)
	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Services						0
Current Service Cost	36,870	40,628	0	0	36,870	40,628
Past Service Costs (Including curtailments)	325	1,087	0	0	325	1,087
(Gain)/Loss Settlements	0	(2,386)	0	0	0	(2,386)
Administration Expenses	677	720	1	2	678	722
Financing and Investment Income and Expenditure:						
Net Interest Expense	13,723	13,104	60	42	13,783	13,146
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	51,595	53,153	61	44	51,656	53,197
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)	(21,170)	2,139	(64)	(51)	(21,234)	2,088
Actuarial gains and losses arising on changes in financial assumptions	78,488	(24,295)	112	(150)	78,600	(24,445)
Other	1,141	(370)	(42)	0	1,099	(370)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	58,459	(22,526)	6	(201)	58,465	(22,727)
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	(25,846)	(25,985)	(57)	(40)	(25,903)	(26,025)
Actual amount charged against the General Fund Balance for pensions in the year:						
Employer's contributions payable to scheme	(22,906)	(25,057)	0	0	(22,906)	(25,057)
Contributions in respect of unfunded benefits	(2,166)	(2,111)	(4)	(4)	(2,170)	(2,115)
Total Employers Contributions Payable to Scheme	(25,072)	(27,168)	(4)	(4)	(25,076)	(27,172)

The restated figure above is in relation to administration expenses previously included in current service costs which are now shown separately.

In addition the Comprehensive Income and Expenditure Statement included an actuarial loss of £58,465k in 2018/19 (£22,727k actuarial gain in 2017/18). 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 £23,322k (£22,395k in 2018/19) in respect of contributions to the LBH Pension Fund during the financial year 2019/20.

Notes to the Main Financial Statements

45. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2019 £'000	31 March 2018 (Restated) £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 (Restated) £'000
Opening Benefit Obligation	1,395,187	1,381,086	3,783	4,283	1,398,970	1,385,369
Current Service Cost	36,870	40,628	0	0	36,870	40,628
Administration Expenses	677	720	0	0	677	720
Interest on defined liability	36,256	34,549	81	61	36,337	34,610
Contributions by Members	6,444	6,867	0	0	6,444	6,867
Remeasurement (gains) and losses:						
- Actuarial (gains)/losses arising from changes in financial assumptions	78,488	(24,295)	112	(150)	78,600	(24,445)
- Other	1,141	(370)	(42)	0	1,099	(370)
Past Service Cost including Curtailments	325	1,087	0	0	325	1,087
Liabilities Extinguished on Settlements	0	(3,038)	0	0	0	(3,038)
Estimated Unfunded Benefits Paid	(2,166)	(2,111)	(4)	(4)	(2,170)	(2,115)
Estimated Benefits Paid	(41,668)	(39,936)	(363)	(407)	(42,031)	(40,343)
Closing Defined Benefit Obligation	1,511,554	1,395,187	3,567	3,783	1,515,121	1,398,970

Reconciliation of fair value of scheme assets

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
Opening Fair Value of Employer Assets	873,391	862,749	1,111	1,450	874,502	864,199
Interest Income on Plan Assets	22,533	21,445	21	19	22,554	21,464
Contributions by Members	6,444	6,867	0	0	6,444	6,867
Contributions by the Employer	22,906	25,057	0	0	22,906	25,057
Contributions in respect of Unfunded Benefits	2,166	2,111	4	4	2,170	2,115
Remeasurement (gains) and losses:						
- The return on plan assets, excluding the amount in the net interest expense	21,170	(2,139)	64	51	21,234	(2,088)
- Other	0	0	0	0	0	0
Assets Distributed on Settlements	0	(652)	0	0	0	(652)
Administration Expenses	0	0	(1)	(2)	(1)	(2)
Estimated Unfunded Benefits Paid	(2,166)	(2,111)	0	0	(2,166)	(2,111)
Estimated Benefits Paid	(41,668)	(39,936)	(367)	(411)	(42,035)	(40,347)
Closing Fair Value of Employer Assets	904,776	873,391	832	1,111	905,608	874,502

The restated figure above is in relation to administration expenses previously included in current service costs which are now shown separately. Administration costs are included within liabilities for the LBH Pension Fund and within assets for the LPFA Pension Fund as determined by the respective actuaries.

The LBH return on scheme assets is estimated based on the actual fund returns. In 17/18, index returns were also included where necessary.

The LPFA return is based on investment returns and market returns estimated where necessary.

Notes to the Main Financial Statements

Pension Scheme assets comprised

Equity Instruments

Consumer	17,172		13,102		89		127	17,261	13,229
Manufacturing					42		64	42	64
Energy & Utilities	23,318		23,800		13		18	23,331	23,818
Financial Institutions	28,324		35,177		45		67	28,369	35,244
Health & Care	6,987		7,067		27		33	7,014	7,100
Information Technology	524		777		72		107	596	884
Other	29,547		39,597		27		31	29,574	39,628

Debt Securities

Other					39			39	0
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Private Equity

		16,205		18,999		84	118	16,289	19,117
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Real Estate

		120,840		106,487		79	80	120,919	106,567
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Investment Funds & Unit Trusts

Equities	384,406		393,139				9	384,406	393,148
Bonds	179,330		133,855				8	179,330	133,863
Infrastructure		24,393		23,350		50	49	24,443	23,399
Other		62,980		57,729			52	62,980	57,781

Target Returns

					118	65	123	103	183	226
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Cash & Cash Equivalents

	10,750		20,312		80	2	228	(106)	10,832	20,434
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LBH Pension Fund				LPFA Pension Fund				Total	
Quoted Prices in Active Markets 18/19 £'000	Quoted Prices not in Active Markets 18/19 £'000	Quoted Prices in Active Markets 17/18 £'000	Quoted Prices not in Active Markets 17/18 £'000	Quoted Prices in Active Markets 18/19 £'000	Quoted Prices not in Active Markets 18/19 £'000	Quoted Prices in Active Markets 17/18 £'000	Quoted Prices not in Active Markets 17/18 £'000	31 March 2019 £'000	31 March 2018 £'000
680,358	224,418	666,826	206,565	552	280	867	244	905,608	874,502

Notes to the Main Financial Statements

Pensions Assets and Liabilities recognised in the Balance Sheet

	2018/19 £'000	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000
Present value of liabilities:					
LBH	(1,511,554)	(1,395,187)	(1,381,086)	(1,123,590)	(1,218,712)
LPFA	(3,567)	(3,783)	(4,283)	(4,660)	(5,201)
Fair Value of Assets:					
LBH	904,776	873,391	862,749	740,154	736,612
LPFA	832	1,111	1,450	1,613	2,123
Deficit in the scheme:					
LBH	(606,778)	(521,796)	(518,337)	(383,436)	(482,100)
LPFA	(2,735)	(2,672)	(2,833)	(3,047)	(3,078)
Total	(609,513)	(524,468)	(521,170)	(386,483)	(485,178)

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,515m is offset by the scheme assets of £906m to give the net pension liability of £609m 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.

Following a legal ruling regarding age discrimination arising from pension scheme transition arrangements; court of appeal judgements were made affecting judges and firefighters pensions. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019.

The rulings have implications for LGPS schemes since similar reforms were implemented by the LGPS and benefits accrued from 2014 may need to be enhanced. Alternatively restitution may need to be achieved by another means. Although the remedy remains uncertain, how much it will cost and when it might be implemented, there is an expectation more members would see an enhanced benefit rather than just those currently subject to protections. As such there could be a retrospective increase to member benefits, which will in turn create a past service cost for employers.

The LGPS Scheme Advisory Board commissioned the Government's Actuary Board to prepare an assessment on the potential impact on scheme liabilities. The Fund's actuary has adjusted GAD's estimate to better reflect the London Borough of Hillingdon Pension Fund's local assumptions, to provide a revised estimate, which shows total liabilities could be 0.23% higher as at 31 March 2019, an increase of approximately £3.4m.

Notes to the Main Financial Statements

46. 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 2019	31 March 2018	31 March 2019	31 March 2018
<u>Financial Assumptions: (% p.a.)</u>				
Pension Increase Rate	2.5%	2.4%	2.5%	2.3%
Salary Increase Rate	2.9%	2.8%	4.0%	3.8%
Discount Rate	2.4%	2.6%	2.0%	2.3%
<u>Mortality Assumptions:</u>				
Longevity at 65 for current pensioners:				
- Men	22.6	22.6	21.2	22.2
- Women	24.6	24.6	23.4	24.5
Longevity at 65 for future pensioners:				
- Men	24.0	24.0	22.9	24.5
- Women	26.5	26.5	25.1	26.7
Take-up of option to convert annual pension to tax free lump sum pre-April 2008	65%	65%	50%	50%
Take-up of option to convert annual pension to tax free lump sum post-April 2008	85%	85%	0%	0%

Sensitivity Analysis

The estimation of the defined benefit obligation is sensitive to principal actuarial assumptions used to measure the scheme. The sensitivity analyses below have been based on 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	% Increase to Employer Liability	Increase to Employer Liability £'000
Changes in Assumptions as at 31 March 2019				
0.5% Decrease in Real Discount Rate	9%	142,193	4%	125
1 Year Increase in Member Life Expectancy	3-5%	n/a*	4%	129
0.5% Increase in the Salary Increase Rate	1%	15,196	0%	0
0.5% Increase in the Pension Increase Rate	8%	125,027	4%	125

*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.

Notes to the Main Financial Statements

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.

DRAFT

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 2019 £'000	31 March 2018 £'000
Expenditure			
Repairs and maintenance		8,909	8,228
Supervision and management		17,366	17,554
Rents, rates, taxes & other charges		206	187
Increase in provision for bad debts		351	0
Depreciation of non current assets	3	10,473	10,220
Impairment or Reversal of previous impairment / revaluation loss		37,938	16,945
		75,243	53,134
Income			
Gross dwelling rents		(55,119)	(55,696)
Gross non dwelling rents		(1,517)	(1,263)
Charges for services and facilities		(3,270)	(3,185)
Contributions towards expenditure		(901)	(719)
		(60,807)	(60,863)
Net Cost of HRA Services as included in the HRA Income and Expenditure Statement		14,436	(7,729)
HRA Services share of Corporate Operating Budgets		930	930
Net Cost of HRA services		15,366	(6,799)
(Gain) on sale of HRA non current assets		(9,456)	(9,420)
Interest payable and similar charges		7,183	7,207
Interest & Investment Income		(331)	(146)
Capital Grant Income		(1,819)	0
(Surplus)/Deficit for the year on HRA services		10,943	(9,158)

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.

	Note	31 March 2019 £'000	31 March 2018 £'000
HRA Balance 31 March		(37,108)	(45,826)
(Surplus)/Deficit for the year on HRA services		10,943	(9,158)
Adjustments between accounting basis & funding basis under regulations			
Gain/(Loss) on sale of HRA non current assets		9,456	9,420
Premium on early redemption of HRA debt		15	16
HRA share of contributions to or from the Pension Reserve		(1,398)	(1,667)
Revaluation of Non Current Assets		(37,938)	(16,945)
Annual Leave Accrual Adjustment		(4)	(1)
Revenue Expenditure funded by Capital Under Statute		(9)	1
Provision for repayment of debt		9,129	9,035
Capital Expenditure charged to HRA Balance		27	0
Capital Grant Income		1,819	0
Net Increase before transfer to reserves		(7,960)	(9,299)
Transfer to Major Repairs Reserve		26,808	18,017
(Increase)/Decrease in year on HRA		18,848	8,718
HRA Balance at 31 March		(18,260)	(37,108)
Major Repairs Reserves		(31,878)	(18,463)
Total HRA Balances		(50,138)	(55,571)

Notes to the Housing Revenue Account

1. HOUSING STOCK

The Council was responsible at 31 March 2019 for managing dwellings (including shared ownership). The stock was as follows:

	Total Properties 31 March 2019	Total Properties 31 March 2018
1 Bed Properties	3,650	3,563
2 Bed Properties	3,449	3,457
3 Bed Properties	2,733	2,705
4 Bed plus Properties	246	234
Total	10,078	9,959

2. VALUE OF HRA ASSETS

	Net Book Value 31 March 2019 £'000	Net Book Value 31 March 2018 £'000
Council Dwellings	729,897	721,942
Other Land & Buildings	1,169	1,106
Vehicle, Plant & Equipment	4,218	4,508
Surplus Assets	410	419
Intangible Asset	0	2
Assets Held For Sale	0	44
Assets Under Construction	25,461	32,452
Total	761,155	760,473

The vacant possession value of dwellings within the Council's HRA as at 31 March 2019 was £2,919m; this differs from the balance sheet value of £730m which is based on the economic use value of social housing. The difference of £2,189m 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 31 March 2019 £'000	Depreciation 31 March 2018 £'000
Council Dwellings	9,898	9,686
Other Land & Buildings	20	21
Intangibles	2	2
Surplus Assets	8	8
Vehicle, Plant & Equipment	545	503
Total	10,473	10,220

Notes to the Housing Revenue Account

4. CAPITAL EXPENDITURE

HRA Capital Expenditure during 2018/19 totalled £37,351k. This was financed by:

	31 March 2019 £'000	31 March 2018 £'000
Capital Receipts	11,639	14,494
Capital Grants & Contributions	1,819	0
RCCO	27	0
Major Repairs Reserve	23,866	32,922
	37,351	47,416

Capital receipts from the sale of HRA RTB properties during 2018/19 totalled £10,090k of which £2,508k was paid to Central Government under the pooling arrangements, with £7,582k remaining with the Council.

5. RENT ARREARS

At 31 March 2019 the gross HRA rent arrears amounted to £2,393k (£2,252k in 2017/18).

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2019 was £1,617k (£1,707k in 2017/18). In year, there was an increase in the HRA bad debt provision of £351k and debts totalling £441k 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.

	31 March 2019 £'000	31 March 2018 £'000
Balance as at 1 April	18,463	23,148
Depreciation transferred to Reserve	10,473	10,220
Transfer to MRR	26,808	18,017
Capital programme funding	(23,866)	(32,922)
	31,878	18,463

The £31,878k 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 2018/19 was £1,398k.

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 2019 £'000	31 March 2018 £'000
Council Tax Income		(139,844)	(136,231)
Contribution towards previous years' estimated Council Tax (Surplus)/Deficit	1	3,346	625
Write-offs Uncollectable Council Tax Debt		156	211
Write-back Uncollectable Council Tax Debt		(52)	(7)
Provision for Doubtful Council Tax Debts		214	(871)
London Borough of Hillingdon Council Tax Precept	1	110,258	108,199
Greater London Authority Council Tax Precept	1	29,149	27,224
Council Tax (Surplus)/Deficit for the Year		3,227	(850)
Opening Council Tax (Surplus)/Deficit Balance		(3,978)	(3,128)
Council Tax (Surplus)/Deficit for the Year		3,227	(850)
Brought Forward Council Tax (Surplus) / Deficit Balance		(751)	(3,978)

National Non-Domestic Rates (NNDR) & Business Rate Supplement (BRS)	Note	31 March 2019 £'000	31 March 2018 £'000
National Non-Domestic Rates Income		(384,242)	(375,859)
Business Rate Supplement Income		(13,228)	(12,986)
Contribution towards previous years' estimated NNDR (Surplus)/Deficit		(2,391)	4,982
Write-offs Uncollectable NNDR Debt		1,990	643
Write-back Uncollectable NNDR Debt		(16)	(33)
Provision for Doubtful NNDR Debts		(902)	(517)
Provision/(Release of Provision) for Backdated Appeal Losses	3	(2,215)	444
London Borough of Hillingdon Share NNDR Income	2	233,754	105,520
Greater London Authority Share NNDR Income	2	131,486	130,142
Central Government Share NNDR Income	2	0	116,072
Transitional Payment Protection Receivable		18,683	25,050
Payment to Greater London Authority in respect of BRS Income		13,217	12,975
NNDR Cost of Collection Allowance		574	576
BRS Cost of Collection Allowance		11	11
NNDR (Surplus)/Deficit for the Year		(3,279)	7,020
Opening NNDR (Surplus)/Deficit Balance		5,295	(1,725)
NNDR (Surplus)/Deficit for the Year		(3,279)	7,020
Brought Forward NNDR (Surplus)/Deficit Balance		2,016	5,295

Notes to the Collection Fund Account

1. Calculation of the Council Tax Base and 2018/19 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 2018/19 base agreed by full Council on 18 January 2018.

Band	Estimated No. of Properties	Discounts & Exemptions	Council Tax Support Scheme	Net Estimated No. of Properties	Band D Equivalent Ratio	Band D Equivalent 2018/19	Band D Equivalent 2017/18
A	1,125	(190)	(178)	757	6/9	506	438
B	6,854	(1,165)	(1,208)	4,481	7/9	3,485	2,867
C	25,246	(3,222)	(3,585)	18,439	8/9	16,390	16,314
D	46,334	(3,724)	(4,312)	38,298	9/9	38,298	37,857
E	18,613	(1,578)	(867)	16,168	11/9	19,761	19,673
F	9,958	(849)	(199)	8,910	13/9	12,870	12,766
G	5,151	(764)	(47)	4,340	15/9	7,233	7,240
H	458	(36)	(3)	419	18/9	838	832
Total	113,739	(11,528)	(10,399)	91,812		99,381	97,986
Adjustment for Non-collection						(994)	(1,470)
Ministry of Defence Contribution						683	704
Council Tax Base						99,070	97,220
London Borough of Hillingdon Band D Council Tax (£)						1,112.93	1,112.93
Greater London Authority Band D Council Tax (£)						294.23	280.02
Total Band D Council Tax (£)						1,407.16	1,392.95
Demand on Collection Fund (£'000)						139,408	135,423

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 2018	2018/19 Precept	Release of Prior Year Estimated Surplus	2018/19 Council Tax Revenues	2018/19 Surplus	Balance 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
London Borough of Hillingdon	(3,179)	110,258	2,680	(110,355)	2,583	(596)
Greater London Authority	(799)	29,149	666	(29,171)	644	(155)
Total	(3,978)	139,407	3,346	(139,526)	3,227	(751)

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 2019 the aggregate Rateable Value across the 8,748 hereditaments within the borough totalled £809,867k, with rates payable determined by the National Non-Domestic multiplier which is set annual by Central Government. For 2018/19 the standard multiplier was 49.3p in the pound and for small businesses 48.0p in the pound.

The Business Rate Retention System requires that locally raised income is shared between the Council (64%) and the Greater London Authority (36%). The Council's own share of these revenues are reflected in the main statement of accounts.

	Balance 31 March 2018	2018/19 Budgeted Share of Income	Release of Prior Year Estimated Surplus	2018/19 Non- Domestic Rates Revenues	2018/19 Surplus	Balance 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
London Borough of Hillingdon	1,589	233,754	(717)	(234,323)	(1,286)	303
Greater London Authority	1,406	131,486	(331)	(131,805)	(650)	756
Central Government	2,300	0	(1,343)	0	(1,343)	957
Total	5,295	365,240	(2,391)	(366,128)	(3,279)	2,016

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. 395 such appeals relating to 229 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2019. Given the inherent uncertainty around the financial impact of such appeals, a provision of £2,878k has been established on the basis of past experience. This represents an decrease of £2,215k on the previously held provision, within this movement £1,387k was released to fund refunds paid during 2017/18, £1,715k was released where provision was no longer required and an additional £888k was added to the provision in respect of outstanding appeals.

Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2019 £'000	31 March 2018 £'000
Contributions	4	43,176	42,829
Transfers In from other pension funds	5	1,487	34,362
		44,663	77,191
Less: Benefits	6	(44,016)	(42,003)
Less: Payments to and on account of leavers	7	(2,626)	(3,297)
		(46,642)	(45,300)
Net additions/(withdrawals) from dealings with members		(1,979)	31,891
Less: Management expenses	8	(8,833)	(7,332)
Net additions/(withdrawals) including fund management expenses		(10,812)	24,559
Return on investments			
Investment income	9	22,732	15,289
Profit and losses on disposal of investments and changes in market value of investments	10A	35,501	15,834
Taxes On Income		(83)	(86)
Net return on investments		58,150	31,037
Net Increase in the fund during the year		47,338	55,596
Net Assets at start of year		1,012,303	956,707
Net Assets at end of year		1,059,641	1,012,303

NET ASSETS STATEMENT

		31 March 2019 £'000	31 March 2018 £'000
Investment Assets	10	1,058,873	1,010,428
Investment Liabilities	10	(89)	(326)
Total net investments		1,058,784	1,010,102
Current Assets	11	1,424	2,480
Current Liabilities	12	(567)	(279)
Net assets of the fund available to fund benefits at the end of the reporting		1,059,641	1,012,303

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
30 May 2019

Notes to the 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.

Organisations participating in the London Borough of Hillingdon Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the fund.
- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

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

Admitted Bodies:

Braybourne Facilities

Bishop Ramsey Cleaners

Caterlink

Frays Academy

Caterplus

Churchill Services - Mitie & McMillan Cleaning

Cucina

Haydon Academy

Ruislip High School

Greenwich Leisure

Hayward Services

Ruislip Academy

Highfield Primary

Hillingdon Primary

Pabulum – *West Drayton Academy* (Start date April 2018)

Busy Bee Cleaning – *Skills Hub* (Start date August 2018)

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Security

Mitie Facilities Management

NHS - Michael Sobel House

The Pantry

Whiteheath Infant

Warrender School

Frithwood School

Hillside School

Taylor Shaw

Haydon Academy

Scheduled Bodies:

Middlesex Partnership Trust

Barnhill Academy

Belmore Academy

London Housing Consortium

Orchard Hill College Academy Trust

Skills HUB (formerly Hillingdon Tuition Centre)

Notes to the Pension Fund Account

Bishop Ramsey Academy	Young Peoples Academy
Bishopshalt Academy	Park Federation Trust
Charville Academy	Central Payroll
Douay Martyrs Academy	Cranford Park Academy
Eden Academy Trust	Lake Farm Park Federation
Moorcroft School	Wood End Academy
Pentland Field School	West Drayton Academy
Grangewood School	QED Academy Trust
Elliot Foundation Trust	Coteford Academy
Hillingdon Primary School	Queensmead Academy
John Locke Academy	Northwood Academy
Pinkwell School	Rosedale Hewens Academy Trust
Guru Nanak Academy Trust	Rosedale College
Nanak Sar Primary School	Mellowlane School
Guru Nanak Sikh Academy	Brookside Primary School
Global Academy	Vanguard Learning Trust
Harefield Academy	Ruislip High School
Harrow & Uxbridge College	Ryefield Primary School
Haydon Academy	Vyners Academy
Heathrow Aviation Engineering	Stockley Academy
LBDS Frays Academy Trust	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 2019, there were 9,015 active members contributing to the fund, with 6,881 members in receipt of benefit and 9,643 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2019	31 March 2018
Number of employers with active members	65	62
Number of employees in scheme		
London Borough of Hillingdon	5,613	5,401
Other employers	3,402	3,190
Total	9,015	8,591
Number of Pensioners		
London Borough of Hillingdon	6,294	6,106
Other employers	587	347
Total	6,881	6,453
Deferred Pensioners		
London Borough of Hillingdon	7,483	7,135
Other employers	2,160	1,375
Total	9,643	8,510

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.

Notes to the Pension Fund Account

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, Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

e. Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2018/19:

Pensions Committee

Cllr Phillip Corthorne (Chairman)
Cllr Martin Goddard (Vice-Chairman)
Cllr Teji Barnes

Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)

Zak Muneer (Employer Representative)
Hayley Seabrook (Employer 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 2018/19, 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 2019.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2019).

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.

Notes to the Pension Fund Account

- 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.
- 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 2019 was £113,288k (£114,879k at 31 March 2018).
- 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 the 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 £16,693k. 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 £28,035k. 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 £8,226k. 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 £60,294k. 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 2019 by the fund's actuaries.

Notes to the Pension Fund Account

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.

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	137
0.5% p.a. increase in the Salary Increase Rate	1%	22
0.5% p.a. decrease in the Real Discount Rate	10%	169

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

4. CONTRIBUTIONS

By category	31 March 2019 £'000	31 March 2018 £'000
Employees	9,846	9,920
Employers Contributions:		
Normal	27,465	27,356
Deficit Funding	5,865	5,553
	43,176	42,829

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. The new actuarial valuation results are due to be released in Q3, 2019.

By authority	31 March 2019 £'000	31 March 2018 £'000
LB Hillingdon	30,267	30,938
Scheduled Bodies	12,509	11,484
Admitted Bodies	400	407
	43,176	42,829

5. TRANSFERS IN

	31 March 2019 £'000	31 March 2018 £'000
Individual transfers in from other schemes	1,487	3,313
Bulk Transfers In	0	31,049
	1,487	34,362

Notes to the Pension Fund Account

6. BENEFITS

By category

Pensions
Commutations and Lump Sum
Retirement Benefits
Lump Sum Death Benefits

31 March 2019 £'000	31 March 2018 £'000
(36,423)	(33,721)
(6,750)	(7,607)
(843)	(675)
(44,016)	(42,003)

By authority

LB Hillingdon
Scheduled Bodies
Admitted Bodies

31 March 2019 £'000	31 March 2018 £'000
(40,973)	(40,220)
(2,579)	(1,428)
(464)	(355)
(44,016)	(42,003)

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

Refunds to members leaving service
Individual transfers out to other schemes

31 March 2019 £'000	31 March 2018 £'000
(79)	(62)
(2,547)	(3,235)
(2,626)	(3,297)

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2019 as follows:

Administrative Costs
Investment Management Expenses
Oversight and Governance

31 March 2019 £'000	31 March 2018 £'000
(840)	(753)
(7,897)	(6,392)
(96)	(187)
(8,833)	(7,332)

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

Management Fees
Performance Related Fees
Custody Fees
Transaction Costs

31 March 2019 £'000	31 March 2018 £'000
(5,934)	(5,291)
(1,405)	(525)
(66)	(56)
(492)	(520)
(7,897)	(6,392)

Notes to the Pension Fund Account

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2019 £'000	31 March 2018 £'000
Equities	(28)	(14)
Pooled Investments	(464)	(506)
	(492)	(520)

8C. EXTERNAL AUDIT COSTS

	31 March 2019 £'000	31 March 2018 £'000
Payable in Respect of External Audit	(22)	(20)
	(22)	(20)

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

9. INVESTMENT INCOME

	31 March 2019 £'000	31 March 2018 £'000
Income from Equities	6,254	5,294
Private Equity Income	0	11
Pooled Property Investments	4,713	4,838
Pooled Investments- Unit trusts and other managed funds	11,266	5,496
Interest on cash deposits	110	55
Other (for example from stock lending or underwriting)	389	(405)
	22,732	15,289

Notes to the Pension Fund Account

10. INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
Investment Assets		
Equities	128,054	128,306
Pooled investments	772,162	679,908
Pooled property investments	130,309	127,808
Private equity	16,693	20,091
Other Investment balances		
Cash deposits	10,472	53,558
Investment income due	1,183	757
Total investment assets	1,058,873	1,010,428
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(89)	(326)
Total investment liabilities	(89)	(326)
Net investment assets	1,058,784	1,010,102

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Value 1 April 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value 31 March 2019 £'000
2018/19					
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	30,344	772,162
Pooled Property Investments	127,808	5,109	(1,288)	(1,319)	130,309
Private Equity	20,091	201	(6,512)	2,913	16,693
	956,113	509,743	(447,707)	29,069	1,047,218
Forward Foreign Exchange	0	0	0	0	0
	956,113	509,743	(447,707)	29,069	1,047,218
Other investment balances					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
Total Investment Assets	1,010,428			35,501	1,058,873
	Value 1 April 2017 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value 31 March 2018 £'000
2017/18					
Equities	123,992	257,437	(254,089)	966	128,306
Pooled Investments	672,256	197,317	(188,869)	(796)	679,908
Pooled Property Investments	114,894	4,006	0	8,908	127,808
Private Equity	27,128	370	(9,669)	2,262	20,091
	938,270	459,130	(452,627)	11,340	956,113
Forward Foreign Exchange	0	12	(19)	7	(0)
	938,270	459,142	(452,646)	11,347	956,113
Other investment balances					
Cash Deposits	16,276			(575)	53,558
Investment Income Due	644				757
Adjustments to Market Value Changes				5,062	
Total Investment Assets	955,190			15,834	1,010,428

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
Equities		
UK		
Quoted	128,054	128,306
	128,054	128,306
Pooled funds - additional analysis		
UK		
Fixed income unit trust - Quoted	82,707	56,312
Other Unit trusts - Quoted	249,859	233,063
Unitised insurance policies - Quoted	343,000	295,839
Limited liability partnerships - Unquoted	96,597	94,694
	772,163	679,908
Pooled property Investments - Unquoted	130,309	127,808
Private equity - Unquoted	16,693	20,091
Cash deposits	10,472	53,558
Investment income due	1,183	757
	158,656	202,214
Total investment assets	1,058,873	1,010,428
Investment liabilities		
Purchase Settlements Outstanding	(89)	(326)
Total investment liabilities	(89)	(326)
Net investment assets	1,058,784	1,010,102

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2019 £'000	%	Market Value 31 March 2018 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	343,000	32	295,839	29
London CIV Asset Pool	249,858	24	233,020	23
	592,858	56	528,859	52
Investments Managed Outside of London				
Adams Street Partners	11,819	1	13,565	1
AEW UK	54,186	5	54,361	5
JP Morgan Asset Management	82,707	8	56,312	6
LGT Capital Partners	4,874	0	6,526	1
M&G Investments	8,226	1	12,419	1
Macquarie Infrastructure	28,035	3	28,307	3
Permira Credit Solutions	60,294	6	53,968	5
UBS Global Asset Management (Equities)	131,174	12	133,133	13
UBS Global Asset Management (Property)	76,521	7	75,192	7
Other*	8,089	1	47,460	5
	465,926	44	481,243	48
Total	1,058,784	100	1,010,102	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 the 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 £17,125k (31 March 2018: £31,377k). 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 £18,428k (31 March 2018: £34,288k) representing 108% 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 2019 £'000	31 March 2018 £'000
Debtors		
Employers' contributions due	68	50
Employees' contributions due	17	16
Cash balances	1,339	2,414
	1,424	2,480

12. CURRENT LIABILITIES

	31 March 2019 £'000	31 March 2018 £'000
Creditors		
Other local authorities (LB Hillingdon)	(223)	(8)
Other entities	(344)	(271)
	(567)	(279)

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 2019 £'000	Market Value 31 March 2018 £'000
Prudential Assurance Company	5,086	5,546
	5,086	5,546

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, £180k 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 the 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 2019. 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 2019 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	28,035	30,839	25,232
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	68,520	75,372	61,668
Private Equity	5%	16,693	17,528	15,858
Venture Capital	5%	41	43	39
Total		113,289	123,781	102,797

Notes to the 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 2019

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,054	805,876	113,288	1,047,218
Loans and Receivables	11,655	0	0	11,655
Financial Liabilities at Fair Value through Profit and Loss	(89)	0	0	(89)
Net investment Assets	139,620	805,876	113,288	1,058,784

Values as at 31 March 2018

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,307	712,927	114,879	956,113
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	114,879	1,010,102

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2018/19.

Notes to the Pension Fund Account

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2018	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	20,091	201	(6,509)	196	2,714	16,693
Private Finance - M&G	12,472	0	(3,886)	(1,646)	1,286	8,226
Infrastructure - Macquarie	28,307	1,493	(4,193)	2,065	363	28,035
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	53,968	12,063	(5,568)	(201)	32	60,294
	114,879	13,757	(20,156)	414	4,395	113,289
Other investment balances	0				0	0
Total Investment Assets	114,879				4,395	113,289

There were no transfers in or out of level 3 assets in 2018/19.

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 the 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 the 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 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000
Financial Assets								
Equities	128,054	0	0	128,054	128,306	0	0	128,306
Pooled Investments	772,162	0	0	772,162	679,908	0	0	679,908
Pooled property investments	130,309	0	0	130,309	127,808	0	0	127,808
Private Equity	16,693	0	0	16,693	20,091	0	0	20,091
Cash	0	10,472	0	10,472	0	53,558	0	53,558
Other Investment balances	0	1,183	0	1,183	0	757	0	757
	1,047,218	11,655	0	1,058,873	956,112	54,315	0	1,010,428
Financial Liabilities								
Purchase Settlements	0	0	(89)	(89)	0	0	(326)	(326)
Outstanding	0	0	(89)	(89)	0	0	(326)	(326)
Total	1,047,218	11,655	(89)	1,058,784	956,112	54,315	(326)	1,010,102

Notes to the 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 2019 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	464,055	9.60%	508,604	419,506
UK Equity	128,054	9.60%	140,347	115,760
Bonds	211,512	6.70%	225,683	197,341
Alternatives	113,288	3.70%	117,480	109,096
Property	130,309	5.20%	137,085	123,533
Total	1,047,218		1,129,199	965,236

Note: Bonds valuation in the table above includes pooled fund held bonds.

Notes to the Pension Fund Account

Asset Type

	Value as at 31 March 2018 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
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	114,879	5.10%	120,738	109,020
Property	127,785	5.40%	134,685	120,885
Total	956,207		1,026,007	886,407

Note: changes in asset values as at 31 March 2018 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 2019 and 31 March 2018 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.

	Value as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Assets exposed to income rate risks				
Cash balances	10,472	105	10,577	10,367
Bonds - pooled funds	211,512	2,115	213,627	209,397
Total change in assets available	221,984	2,220	224,204	219,764

	Value as at 31 March 2018 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Assets exposed to income rate risks				
Cash balances	53,558	535	54,093	53,023
Bonds - pooled funds	154,478	1,545	156,023	152,933
Total change in assets available	208,036	2,080	210,116	205,956

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 2019 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 2019 and as at the previous period ending 31 March 2018.

Notes to the 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 7.30%, based on the data provided by PIRC. A 7.30% 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 7.30% 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 2019	Potential market movement	Value on increase	Value on decrease
		7.30%		
	£'000	£'000	£'000	£'000
Overseas Managed Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	44,728	3,265	47,993	41,463
	258,924	18,901	277,825	240,023

Assets exposed to currency risk

	Asset Value 31 March 2018	Potential market movement	Value on increase	Value on decrease
		8.70%		
	£'000	£'000	£'000	£'000
Overseas Managed Funds	111,250	9,679	120,929	101,571
Private Equity/Infrastructure	48,398	4,211	52,609	44,187
	159,648	13,890	173,538	145,758

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 2019 was £11,811k (31 March 2018: £55,972k) and this was held with the following institutions

Summary	Rating S&P	Balances as at 31 March 2019 £'000	Rating S&P	Balances as at 31 March 2018 £'000
Money market funds				
Northern Trust	AAAf S1+	10,672	AAAf S1+	53,758
Bank current accounts				
Lloyds	A+	1,139	A	2,214
Total		11,811		55,972

Notes to the Pension Fund Account

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 as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£1,339k). 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 2019 these assets totalled £805,876k, with a further £10,672k 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).

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.

Notes to the Pension Fund Account

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 the 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 2019 % per annum	31 March 2018 % per annum
Inflation /Pensions Increase Rate	2.5%	2.4%
Salary Increase Rate	2.9%	2.8%
Discount Rate	2.4%	2.6%

An IAS 26 valuation was carried out for the fund as at 31 March 2019 by Hymans Robertson with the following results:

Description	31 March 2019 £m	31 March 2018 £m
Present Value of Promised Retirement Benefits	1,695	1,548
Active Members	749	624
Deferred Members	377	350
Pensioners	569	574

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 2019 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.

Key Management Personnel

Three employees of the London Borough of Hillingdon held 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:

Notes to the Pension Fund Account

	31 March 2019 £'000	31 March 2018 £'000
Short term benefits	74	82
Post employment benefits	49	84
	123	166

This note highlights the funding by the pension fund for key officers and pension benefits of those staff accrued in year.

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring. The current version of the ISS is available on the pension fund pages of the Council's website: www.hillingdon.gov.uk and included in the Annual Report.

20. BULK TRANSFER

There were no bulk transfers in 2018-19. 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 17/18 financial year.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2019 totalled £10,305k (£23,859k at 31 March 2018).

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 up to six years from the date of each original commitment. It is anticipated all outstanding commitments will be called by December 2019.

There were no contingent liabilities outstanding for the fund at the end of the financial year 2018/19.

22. CONTINGENT ASSETS

Two 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

Following a legal ruling regarding age discrimination arising from pension scheme transition arrangements; court of appeal judgements were made affecting judges and firefighters pensions. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Following this judgement it is likely that pension liabilities will increase, albeit at this stage there is still uncertainty regarding the method, value and timing. The Fund's actuary has assessed the likely impact to pension liabilities which reveal an estimated increase of £3.4m. There is no impact to the Pension Fund financial statements as a result of this judgement, however the actuarial present value in note 18 to these accounts would be higher. The statement of accounts have not been adjusted to take into account this anticipated additional liability due to materiality levels and continued uncertainty.

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London Borough of Hillingdon Annual Governance Statement 2018/19

1. Introduction

- 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) 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. Executive Summary

- 2.1 The review of effectiveness has concluded that internal control and governance systems were in place for the financial year ended 31st March 2019 and, except where identified in Section 3, the Council's management and control systems are operating effectively in accordance with good practice. The Council will continue the operation of its governance framework and take steps to carry out the actions for improvement identified in the review of effectiveness to further strengthen its governance arrangements.

3. Significant Governance Issues

- 3.1. LBH has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. All governance issues reported in the **2017/18 AGS** and in previous years have been addressed and the following points are noted:
- 3.1.1 **Anti Social Behaviour Environment Team (ASBET)** - An Internal Audit (IA) review of ASBET highlighted a need to strengthen the procedure for referrals and management of cases for community trigger casework. A follow up IA review in 2018/19 found that recommendations had been fully implemented by the Community Safety Team.
- 3.1.2 **Disabled Facilities Grant (DFG)** - An IA assurance review of the DFG identified opportunities to strengthen governance, clarify roles and responsibilities and strengthen the use of systems and key performance indicators to track contractor performance. Positive management actions were agreed to address these risks and all actions were implemented.
- 3.1.3 **House in Multiple Occupation (HMO)** - During 2018/19 IA undertook a follow-up review of the HMO process and found progress had been made to address the recommendations. The control environment and system have moved on so significantly that the recommendations are no longer fully relevant. It was therefore agreed with management that Internal Audit would undertake a wider review of the Private Sector Housing Service (including HMOs) in 2019/20.
- 3.1.4 **Trading Standards** - An IA review identified the need to strengthen the governance arrangements regarding the risk assessment and scoring process for referrals. Operating procedures also required updating to include prescribing the standards for electronic case recording and document retention. Positive management actions were agreed to address these risks and all actions were implemented.
- 3.2 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 **2018/19**:
- 3.2.1 **Adoption Services** - LBH is in the process of implementing the Government's requirements to join a Regional Adoption Agency. As such, a decision was made by Cabinet that LBH will enter a partnership, alongside other 6 Local authorities and a National Adoption Agency (Coram Capital Ambitious for Adoption). Work is underway to revisit policies and procedures to ensure compliance with Government's expectations and adoption legislative requirements as well as a revision of

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processes to embed new practice models regarding achieving permanency, through adoption for children.

- 3.2.2 **Early Years Centres** - During 2018/19 IA issued an opinion of no assurance identifying inconsistent practices regarding the application of enrolment fees and reliance upon manual processes. Improved processes for managing income have been developed and following a restructure of the function, it is now part of a wider Business Improvement Delivery (BID) review of early support services.
- 3.2.3 **Emergency Duty Team** - An IA assurance review of the EDT service identified opportunities to strengthen areas around governance, remit for out of hours social work services as well as effective use of key performance information. A follow up review is scheduled to take place 2019/20 Quarter 2. Alongside this work a review of the social care out of hours service across both Adults and Children's Social Care is currently underway to include a review of the relationship with the supplier, regarding the handling of calls linked to social care activity.
- 3.2.4 **National Transfer Scheme** - As a port authority LBH are under statutory obligation to intervene and safeguard children and their families at their point of entry into the UK. The National Transfer Scheme (NTS) is not legislated for and therefore dispersing Unaccompanied Asylum Seeking Children (UASCs) through this scheme remains a challenge for LBH. LBH remains significantly over the nationally agreed limit of UASCs (0.07%) and continues to face an increased challenge with regards to capacity to meet needs of this growing cohort. This coupled with changes to the care leavers legislation means that these young people who remain in LBH's care are entitled to services up until the age of 25. The Government review of appropriate or adequate funding especially once these young people turn 18 and become care leavers remains overdue and this has a direct impact on LBH's ability to accurately financially forecast commitments linked to UASCs.
- 3.2.5 **Parking Services** - An IA Review identified the need to strengthen governance arrangements regarding the management of cases and review of system hierarchy user settings. Positive progress has been made with the introduction and embedding of a specialised Penalty Charge Notice ICT system. A temporary cash collection service was implemented during 2018/19 whilst a tendering exercise was undertaken. This temporary service has enhanced service delivery in relation to the cash collection service for the Council. A new long term contract is currently in the process of being awarded.
- 3.2.6 **School Improvement** - LBH continues to undertake regular performance reviews of Community Schools where there are concerns and where appropriate Warning Notices are served. Concerns are escalated to the Regional Schools Commissioner in the case of Academy Schools. The Council is working closely with all Head Teachers and Governing Bodies in the Borough to embed a school-led improvement approach in Hillingdon and to ensure all children receive a 'good' or better education.
- 3.2.7 **Supported Housing Service** - A contracted social care provider is being closely monitored by the Council via its Care Governance process due to safeguarding concerns about the management of tenants finances. A Police investigation is ongoing and the Council and the provider have taken appropriate remedial action and will continue to monitor and support the service until the matter is concluded.

- 3.3. 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. 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 with 2018/19 savings of £10.7 million delivered or on track for delivery. This proven successful approach is set to be continued beyond 2018/19, enabling the Council to continue 'putting our residents first' despite the challenging financial conditions and demographic pressures.

Fran Beasley
Chief Executive
22 May 2019

Cllr Ray Puddifoot MBE
Leader of the Council
30 May 2019

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4. The Purpose of the Governance Framework

- 4.1 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.
- 4.2 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.
- 4.3 The governance framework has been in place at LBH for the year ended 31st March 2019 and up to the date of approval of the 2018/19 Statement of Accounts.

5. The Governance Framework

- 5.1 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 in the table overleaf demonstrate how LBH maintains effective internal controls and an effective governance system and aligned to the seven principles of the CIPFA/SOLACE 2016 Framework and guidance 'Delivering Good Governance in Local Government'. The table overleaf includes examples and hyperlinks to sources of further information which include detail about how the LBH has implemented its commitments.

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1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.		
The Council's Commitment	How the Council meets these principles	Governance in action
1a Behaving with integrity	<ul style="list-style-type: none"> ✓ The Council's vision, 'Putting Our Residents First' and priority themes; "Our People", "Our Natural Environment", "Our Built Environment" and "Financial Management". Our vision and priority themes underpin everything the Council does, including how it works with partners, makes decisions and serves communities. ✓ 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. ✓ The Committee Standing Orders (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually. ✓ 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. ✓ The Council has a zero tolerance approach towards fraud and corruption and this commitment is set out in the Council's Counter Fraud Strategic Plan 2018/19. This is underpinned by the ongoing development of the Fraud Universe and a full range of investigative policies and procedures. ✓ 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 fraud or corruption. ✓ 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. 	<p>Constitution</p> <p>Register of Interests</p>

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2. Ensuring openness and comprehensive stakeholder engagement		
The Council's Commitment	How the Council meets these principles	Governance in action
2a Ensuring openness	<ul style="list-style-type: none"> ✓ The Council's website is set out in a clear and easily accessible way using plain language. The information which residents use most, such as Council Tax, and Waste and Recycling can be accessed easily from the main page. Further work is being undertaken to improve the website through Business Improvement Delivery. ✓ LBH's commitment to the seven Nolan Principles of Public Life (including openness) detailed in the Constitution. ✓ All Council and Committee meetings are held in public (other than in limited circumstances where consideration of confidential or exempt information means that the public are excluded), with agenda and reports being produced in paper form and on the Council's website. Key Council meetings are broadcast live on YouTube including full Council, Cabinet, Planning Committees and Licensing Sub Committees. 	LBH Website Constitution Council Meetings Council's YouTube channel
2b Engaging with institutional stakeholders	<ul style="list-style-type: none"> ✓ 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. ✓ Hillingdon Partners is a voluntary body which brings 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 LBH with external organisations, regional bodies and central government. They have 9 priority areas for the focus of its work, with actions to address local priorities delivered through theme groups. Other statutory providers (Health & Wellbeing Board and Safer Hillingdon Partnership) are referenced in section 3b. ✓ The Council's Policy Overview, Scrutiny and Select Committees secure strong local stakeholder and expert witness participation in their reviews delivering added value findings to Cabinet. Exercising its statutory Health and Crime & Disorder responsibilities, the External Services Select Committee regularly scrutinises the work of the local NHS, Police and other public agencies with their most senior representatives attending. Corporate parenting responsibilities have been integrated within the Council's overview and scrutiny arrangements to provide stronger oversight and directly engage children in care and care leavers in the democratic process. ✓ LBH's Employee Forum is a consultative body and created to ensure that the views of the whole employee population can be heard in an open and transparent way. 	Hillingdon Partners Annual Report

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	<ul style="list-style-type: none"> ✓ Regular meetings are taking place with the Hillingdon Foster Carers Association to discuss and consult on issues pertinent to our Hillingdon foster carers who are corporate parents for our most vulnerable children ✓ There are well established Tenant and Resident Associations in the Borough as well as Council tenant forum groups (e.g. sheltered housing forum) which provide valuable opportunities to discuss important service developments and to receive and listen to resident feedback. These groups directly inform service developments and provide the platform for effective communication and engagement with council tenants and leaseholders. 	
2c Engaging with individual citizens and service users effectively	<ul style="list-style-type: none"> ✓ The Council supports different ways for residents to present their individual and community's concerns directly to elected members, for example via Ward Surgeries, Ward Budgets and the Members' Enquiries process. ✓ The Council has in place a well-established Petition Scheme, including e-Petitions. This is widely used by residents in the people in the borough to submit their views on local matters directly to decision-makers. ✓ 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. ✓ Hillingdon Youth Council represents the young people of Hillingdon and provides a voice for young people who live, study or work in the borough and is made up of a variety of people from different ethnic and cultural backgrounds between the ages of 11 to 19 (up to 25 years with Special Educational Needs and Disability). It is a forum in which they can discuss and exchange their views and opinions about issues affecting young people. ✓ Children in Care Council engages and enables children in care to express how they are being cared for by Hillingdon. They regularly meet with managers in children's services and councillors to discuss changes we would like to make to practices and procedures which are affecting them. ✓ 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 all Committee and Executive reports prior to decision, for Legal compliance. 	Petition Scheme JSNA Youth Council Children in Care Council

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3. Defining outcomes in terms of sustainable economic, social and environmental benefits		
The Council's Commitment	How the Council meets these principles	Governance in action
3a Defining outcomes	<p>✓ 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.</p> <p>✓ 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 (CMT).</p> <p>✓ 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 develop 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. A budget consultation report is also produced for each Policy Overview, Scrutiny & Select Committee for discussion at the January round of meetings with any comments added to the final budget report in February. The Council also undertakes the statutory budget consultation process with business ratepayers and residents in the Borough across December and January with the responses included as an appendix to the final budget report. Throughout this process updates are communicated through key officer forums, such as CMT and Business Transformation Board, with regular monthly updates to HIP Steering Group through the Corporate Finance work stream.</p> <p>✓ LBH recognises there is a continued need for effective strategic and operational risk management processes and procedures. The Council has processes in place to identify and manage risks to the achievement of its objectives, as set out in the Risk Management Policy and Guidance 2017-20. The Corporate Risk Register is a part of this framework and is used to inform decision making, provide assurance over actions being taken to manage key risks, and to inform risk management planning and mitigation activities. 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 actions by the Risk and Insurance Team to raise awareness of such risks.</p>	<p>HIP</p> <p>MTFF Budget Reports and Budget Consultation</p> <p>Risk Management Policy</p>

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<p>3b Sustainable economic, social and environmental benefits</p>	<ul style="list-style-type: none"> ✓ Part 2, article 8 of the Constitution 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. ✓ 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. ✓ LBH has introduced a significant number of measures to improve air quality in the borough as set out in the Air Quality Action Plan. ✓ The Homelessness Prevention Strategy 2017-2022 demonstrates the Council's commitment to preventing homelessness and supporting those who become homeless. It sets out how the Council will work with partner agencies to intervene early to prevent homelessness wherever possible and to access suitable housing and support solutions for those faced with homelessness. ✓ LBH is on track to achieve its equality-related objectives (set in April 2018) as part of the Council's Public Sector Equality Duty set out in the Equality Act 2010. 	<p>Constitution</p> <p>Safer Hillingdon Partnership</p> <p>Air Quality Action Plan</p> <p>Homelessness Prevention Strategy</p> <p>Promoting Equality Targets</p>
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4. Determining the interventions necessary to optimise the achievement of the intended outcomes		
The Council's Commitment	How the Council meets these principles	Governance in action
<p>4a Determining interventions</p>	<ul style="list-style-type: none"> ✓ Decision makers receive accurate, relevant and timely performance and intelligence to support objective and analysis of options, intended outcomes, financial impact and associated risks informing service delivery. ✓ 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. ✓ Part 2 of the Constitution outlines the roles and responsibilities of the Executive, Non-executive, Mayoralty, Overview, Scrutiny 	<p>Constitution</p>

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	<p>and Select Committees, Standards Committee and officer functions. Part 5 of the Constitution sets out the framework governing the conduct of Members and co-opted members and comprise of:</p> <ul style="list-style-type: none"> • A structure of the Leader of the Council, a Cabinet, Regulatory Committees and Policy Overview, Scrutiny and Select 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. <p>✓ 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 transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions.</p> <p>✓ 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. Details of what decisions are taken in this way are included in the Scheme of Delegation in the Council's Constitution. Further specific delegations may be granted through recommendation in public reports to Committees.</p> <p>✓ 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.</p>	
4b Planning interventions	<p>✓ The Council plans its activity at a strategic level through its HIP which aims to deliver excellence.</p> <p>✓ The effectiveness of the Council's interventions and the quality of its services is monitored through the provision of regular performance reports showing progress towards goals and targets set in the budget and business plans. Key areas are highlighted so that decision-makers can take corrective action where necessary.</p>	
4c Optimising achievement of intended outcomes	<p>✓ The Business Improvement Delivery (BID) programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates without reducing service delivery to residents. Through the programme, savings of £10.7 million are being delivered for 2018/19, taking total savings since 2010 to approximately £133.6 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.</p> <p>✓ The Council integrates and balances service priorities, affordability and other resource constraints, to take into account the cost of operations over the medium and longer term including revenue and capital spend budgets.</p> <p>✓ The Public Services (Social Value) Act 2012 is considered by Procurement during every tender.</p>	<p>HIP & BID programme</p> <p>Public Services Act</p>

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	wellbeing initiatives and a 24/7 Employee Assistance Programme.	
✓	The Council has an open approach to external, peer review and inspection and actively considers feedback.	

6. Managing risks and performance through robust internal control and strong public financial management

The Council's Commitment	How the Council meets these principles	Governance in action
6a Managing risk	<ul style="list-style-type: none"> ✓ LBH has established an effective Risk Management Framework that aids decision-making in pursuit of the organisation's strategic objectives, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations. ✓ 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 (CRR) enables the identification, quantification and management of key strategic risks. Directorate Risk Registers are updated quarterly, reviewed by each Senior Management Team and the most significant risks are escalated to the CRR where appropriate. The Head of Business Assurance has overall responsibility for the facilitation of the Council's Risk Management Framework and work in this area is ongoing. LBH's Risk Management framework is reviewed annually by the Business Assurance team, Corporate Management Team and the Audit Committee. ✓ A Corporate Risk Management Group (CRMG), chaired by the Corporate Director of Finance, reviews the CRR on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The CRR is presented to the Audit Committee in the following quarter. Where appropriate, the 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 and compulsory for managers as part of the induction process. Completion rates have been steady and Business Assurance continues to raise awareness and promote the module via staff publications. ✓ An updated combined GDPR training programme was rolled out to staff in March 2018 to raise awareness and train staff on the new data protection requirements. This training forms part of the mandatory induction process for new staff and was included as a Performance and Development Appraisal objective. ✓ The Council's health and safety management system assists in managing health and safety for the council's undertakings, integrating health and safety and the assessment of risk into the Council's daily business. 	Risk Management Policy
6b Managing performance	<ul style="list-style-type: none"> ✓ The Council puts in place Key Performance Indicators (KPIs) to monitor service delivery whether services are produced internally or through external providers. Reports compiling KPIs are submitted to SMTs, CMTs and Members to support transparency and resource allocation to address challenges. 	

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	<ul style="list-style-type: none"> ✓ The Council ensures that external companies who deliver services have an understanding of expected contract performance, and monitoring takes place throughout the contract period. 	
6c Effective overview and scrutiny	<ul style="list-style-type: none"> ✓ Part 2, articles 6 and 8 and Part 4E of the Constitution set out how the Council's non-executive decisions by Members are taken. Policy Overview, Scrutiny and Select Committees undertake regular monitoring of services, performance, 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. 	Policy Overview, Scrutiny and Select Committees
6d Robust internal control	<ul style="list-style-type: none"> ✓ LBH has robust internal control processes which support the achievement of its objectives while managing risks. LBH's approach is set out in the Annual Corporate Risk Management report, and Internal Audit Plan. ✓ 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'. ✓ LBH maintains policies and arrangements in respect of counter fraud and anti-corruption which include: Anti-Fraud and Anti Corruption; Whistleblowing; Anti Money Laundering and Anti Bribery Policies. ✓ An assessment of the overall effectiveness of the framework of governance, risk management and control is provided by the Council's Internal Audit in the Business Assurance (& Head of Internal Audit) Annual Opinion. ✓ LBH has robust expenditure controls in place to facilitate compliance with Standing Orders and financial regulations. This includes a comprehensive capital release process for the approved MTFF Capital Programme and wider expenditure control processes which are referenced in principle 4a. ✓ The Head of Internal Audit has additional responsibilities outside of internal auditing. Safeguards to address any potential impairment to organisational independence of the internal audit activity or the individual objectivity are in place and include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes. Internal Audit have conducted 3 assurance reviews related to the areas of additional responsibility and the Head of Internal Audit was not included in the reviewing process to obtain assurance. 	Audit Committee Terms of Reference
6e Managing data	<ul style="list-style-type: none"> ✓ The Council is committed to safeguarding the personal data it holds and sharing this data only in circumstances required or permitted by law. Personal data is processed in accordance with the General Data Protection Regulations (GDPR) and the Data Protection Act 2018. ✓ All personal information LBH keeps is stored safely, only accessed by people who need to access it, used safely and responsibly, and disposed of safely and securely when it is no longer required. This also includes transporting data, either 	GDPR Data Protection Policy

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	<p>physically or electronically.</p> <ul style="list-style-type: none"> ✓ 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). 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 GDPR in May 2018, LBH reviewed all of its data protection policies and procedures. ✓ Following the introduction of the General Data Protection Regulation (GDPR) LBH updated its data protection procedures and training programme, which was rolled out to all staff and Members in March 2018. The training programme which included legislative changes and revised working practices was mandatory and completion rates were monitored at Corporate Director level. The revised training programme forms part of the mandatory induction process for all new staff and included as a Performance and Development Appraisal objective. ✓ The Corporate Director, Social Care, is the appointed Caldicott Guardian and plays a key role in ensuring that LBH satisfies the highest practical standards for handling person identifiable information and embedding the 7 Caldicott Principles within practice. ✓ The Council regularly reviews policies relating to records management, data quality, and data protection and information security. These policies are accessible by all staff via the intranet. ✓ LBH passed the Code of Connection Audit in October 2018 ensuring our ICT Infrastructure is secure in order to gain access to the Public Services Network (PSN). The PSN enables specific teams across the Council to directly access Government data which includes high risk data about individuals, such as social care issues. ✓ LBH is committed to sharing appropriate data safely with agencies; where this improves effective and efficient service delivery, and is compatible with the rights of individuals. Further to this, LBH is compliant with the Data Security and Protection Toolkit requirements in order to access systems and data provided by the NHS. ✓ LBH conducts Data Protection (DP) compliance checks throughout the Civic Centre and uses communication campaigns; email reminders signposting to information protection principles and guidance. The DP compliance checks and raising awareness provides assurance over the Council's adherence to the GDPR and to remind staff of their responsibility to take due care to protect information. Where data protection breaches occur, managers take appropriate remedial action which is then documented under the staff supervision procedures. ✓ The Council makes information available to the public via the information access regimes provided for by the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. Individuals may access their own personal data by exercising the right of subject access under the Data Protection Act 2018. 	<p>Information Governance Policy</p> <p>HIAG Terms of Reference</p> <p>The United Kingdom Caldicott Guardian</p> <p>DSP Toolkit Guidance</p> <p>FOI</p>
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6f Strong public financial management	<ul style="list-style-type: none"> ✓ The Chief Finance Officer (CFO) (the Corporate Director of Finance) ensures that appropriate advice is given on all financial matters, proper financial records and accounts are kept and oversees an effective system of internal financial control. The CFO ensures well developed financial management is integrated at all levels of planning and control including management of financial risks, systems and processes. The Constitution (Part 4) details the financial regulations which underpin the financial arrangements. ✓ Please refer to principle 4c for further information on BID. ✓ In order to monitor the MTFF position and manage financial risk comprehensive budget monitoring is undertaken across the Council on a monthly basis and formally reported to Cabinet. Please refer to principle 3a for further information on the MTFF. 	Constitution
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Annual Governance Statement 2018/19

7. Implementing good practices in transparency, reporting and audit to deliver effective accountability		
The Council's Commitment	How the Council meets these principles	Governance in action
7a Implementing good practice in transparency	<ul style="list-style-type: none"> ✓ The Council follows the Local Government Transparency Code 2015, which includes requirements and recommendations for local authorities to publish certain types of data. ✓ In accordance with this code, financial information about projected and actual income and expenditure, procurement, contracts and financial audit is published on the Council's website. ✓ Please refer to principle 2a for further information the Council's website. ✓ The Council has published Privacy Notices, which are key transparency requirements under the GDPR as individuals have the right to be informed about the collection, type and use of their personal data. 	Council Spending Statement of Accounts Privacy Notices
7b Implementing good practices in reporting	<ul style="list-style-type: none"> ✓ The Council explains how it reviews its governance arrangements, and how it has complied with CIPFA's "Delivering Good Governance in Local Government (2016)" principles by producing this Annual Governance Statement (AGS). A concise summary of the findings of the AGS is included within the Annual Report. 	CIPFA/Solace Framework
7c Assurance and effective accountability	<ul style="list-style-type: none"> ✓ LBH welcomes peer challenge, internal and external review, audit, and inspections from regulatory bodies and gives thorough consideration to recommendations. An example of positive improvement is the outcome of the Ofsted inspection in April 2018 where inspectors rated our children's services as 'good'. Further to this, leadership in the service was graded as 'outstanding' and the overall effectiveness of the services as 'good'. ✓ Public Sector Internal Audit Standards set out the standards for internal audit adopted by the Council. 	Ofsted Inspection PSIAS

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6. Review of Effectiveness

- 6.1 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 Business Assurance 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), other review agencies and inspectorates.
- 6.2 The CIPFA/SOLACE 2016 Framework '*Delivering Good Governance in Local Government*' (Chapter 5), sets out seven principles of good practice. The review of effectiveness has considered each of the principles, including the sub-principles and behaviours and actions that demonstrate good governance in practice.
- 6.3 The review has also been informed by a range of management information and improvement action, including:
- 6.3.1 A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees as well as the Audit Committee.
 - 6.3.2 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.
 - 6.3.3 The work of the external auditors as reported in their Annual Audit Letter. They carry out auditing of the Council's activities in accordance with the National Audit Office Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014. Their key responsibilities are to give an opinion on LBH's financial statements and assess arrangements for securing economy, efficiency and effectiveness in its use of resources.
 - 6.3.4 The work of Business Assurance, which develops its quarterly Internal Audit plans after assessment of risk and priorities including discussions with senior managers and reported quarterly to the CMT and the Audit Committee.
 - 6.3.5 Management Assurance Statements (MASs) were completed by all Deputy Directors and Heads of Service covering the financial year 2018/19. The MASs provide confirmation the control environment is operating effectively to safeguard delivery of services and that governance issues other than those identified in Section 3 have been raised and dealt with appropriately.
 - 6.3.6 LBH continued to maintain effective financial management throughout the financial year with unallocated reserves of £41.6 million as at 31st March 2019.
 - 6.3.7 LBH has a clear commitment to a capable and fit for purpose procurement function. Procurement ensures a best value approach to quality and expenditure commitment. By engaging with groups, Procurement supports the delivery of financial and service requirements to meet corporate objectives with a 'Residents First' approach.
- 6.4 The Head of Internal Audit has provided a 'reasonable' level of assurance on the Council's internal control environment for 2018/19.

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 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

DRAFT

AUDIT COMMITTEE - 2018/19 Review of the Effectiveness of the Audit Committee

Committee name	Audit Committee
Officer reporting	Sarah Hydrie, Head of Internal Audit & Risk Assurance
Papers with report	Final Internal Audit Assurance Report 2018/19 Review of the Effectiveness of the Audit Committee
Ward	All

HEADLINES

An effective and independent Audit Committee is a key element in the Council's corporate governance and risk management framework. An effective Audit Committee leads to improved internal control, risk management and financial reporting.

Best practice guidance states that in order for an Audit Committee to be fully effective and therefore able to provide meaningful advice and assurance to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. The guidance also sets out that Audit Committee Members must be in a position to feel able to challenge Directors and the Cabinet, as well as draw attention to any significant governance weaknesses.

In addition, the guidance states that the Audit Committee should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required/ appropriate). The Audit Committee should also have sufficient administrative support and access to all relevant and timely information.

RECOMMENDATIONS:

That the Audit Committee:

- 1. Review and note the findings, recommendations and management action proposed in the Effectiveness of the Audit Committee final report.**

SUPPORTING INFORMATION

The report aims to provide independent, objective assurance to the Council over the Effectiveness of the Audit Committee. Specifically Internal Audit (IA) reviewed the following key areas:

- Terms of Reference;
- Independence & Membership;
- Members Skills, Training & Development;
- Audit Committee Meetings - Review of key documentation;

- Audit Committee Benchmarking; and
- Follow-up of recommendations arising from the 2016/17 IA Assurance Review.

BACKGROUND PAPERS

Final Internal Audit Assurance Report 2018/19 Review of the Effectiveness of the Audit Committee, issued on 14th May 2019.

BUSINESS ASSURANCE

Final Internal Audit Assurance Report 2018/19

Review of the Effectiveness of the Audit Committee

14th May 2019

Overall IA Assurance Opinion:

SUBSTANTIAL

Recommendation Overview:

High Risk	0
Medium Risk	0
Low Risk	6
Notable Practice	2

Review Sponsor:

Fran Beasley

Chief Executive

Draft Report Distribution:

Audit Committee

All Audit Committee Members (including the Independent Chairman)

Lloyd White

Head of Democratic Services

Mark Braddock

Democratic Services Manager

Ownership of all final Internal Audit assurance reports rests with the relevant Audit Sponsor. However, we will disclose final Internal Audit assurance reports to the Audit Committee upon their specific request.



1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review forms part of the 2018/19 Quarter 4 Operational IA Operational Plan, presented to Audit Committee on 21st January 2019. **The purpose of this review is to provide assurance to the Corporate Management Team (CMT) and the Audit Committee over the following key risks in relation to the Effectiveness of the Audit Committee:**
- The scope of work to be performed by the Audit Committee is not suitably defined in the Terms of Reference; therefore it may not encompass all the assurance needs of the Council and the Cabinet. There is therefore an increased risk that the Audit Committee is not performing its role and responsibilities in line with best practice guidelines;
 - The Audit Committee members are not suitably independent and objective, resulting in potential biased and ineffective decisions being made. Members may not have a good understanding of the Council's objectives, priorities, risks and strategies and therefore decision making by the committee may not be suitably aligned;
 - The Audit Committee does not contain or have at its disposal an appropriate mix of skills or its Members may not have been adequately trained. Consequently, there is a risk that Members may not be able to perform their duties effectively and fulfil the requirements of their role, which may result in reputational damage for the council;
 - The Audit Committee does not effectively support the Council by reviewing and scrutinising the completeness of key documentation to satisfy their needs, and by reviewing the reliability and integrity of documentation. As a result, the Council may be in breach of their statutory obligations which could cause reputational damage or financial loss for the Council;
 - The Audit Committee does not engage effectively with financial and performance reporting issues, and with the work of key stakeholders, primarily IA and External Audit; Further, the Audit Committee may not communicate effectively with the Council's CMT, Cabinet and other stakeholders. This may result in a loss of public money resulting in adverse public reaction and reputational loss; and
 - The Audit Committee's reputational image amongst other local authorities audit committee's is considered weak and ineffective in its role, scrutiny, decision making and therefore may result in further adverse reputational damage for the Council.
- 1.2 This report is produced on an exception basis, highlighting the key aspects from the IA assurance review to management. Further detailed findings are available upon specific request.

2. Background

- 2.1 An effective and independent Audit Committee is a key component of the Council's corporate governance and risk management framework. The purpose of an Audit Committee is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 2.2 The Audit Committee plays a key role in assisting the Council's Cabinet to fulfil its oversight responsibilities in areas such as financial reporting, the system of internal controls, risk management framework and the IA and external audit functions.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) best practice guidance states that in order for the Audit Committee to be fully effective, and therefore able to provide meaningful advice to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. This guidance also indicates that Audit Committee Members must be in a position to challenge Directors and the Cabinet and draw attention to any significant governance weaknesses.

-
- 2.4 Best practice guidance also states the Audit Committee should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required). In addition, the Audit Committee will have sufficient administrative support and access to all relevant and timely information.
- 2.5 The Audit Committee currently comprises of five members including an Independent Chairman. The remainder of the Committee, in accordance with best practice, is representative of the political make up of the Council which helps to ensure that no political agenda is given a priority at Audit Committee meetings and that decisions made by the Committee are free from political influence.

3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **SUBSTANTIAL** assurance over the key risks to the achievement of objectives for the Review of the Effectiveness of the Audit Committee. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**.
- 3.2 This audit has been conducted in reference to the CIPFA Practical Guidance for Local Authorities and Police 2018. This guidance provides a comprehensive list of what a 'good' Audit Committee looks like. As a result of our testing, we are pleased to report that no **HIGH** or **MEDIUM** risk recommendations have been raised. We have issued **6 LOW** risk recommendations that are best practice for management consideration and **2 NOTABLE PRACTICE** observations which highlight good practice; re the appointment of an Independent Chairman; and attendance at Audit Committee meetings over the last 3 years.
- 3.3 During testing we noted that the Audit Committee has not fully adopted the recommended best practice in relation to the Member's right to call other officers into their meeting. However, the impact of this practice is considered on an annual basis and reported through the Audit Committee's Annual report. According to the latest report for 2017/18, there have been no occasions during that year where the Audit Committee believed the lack of this power has hindered its effectiveness in any way. Inviting officers from across the Council gives Members a better understanding of risks and controls in specific areas, although we note this has not impaired the effectiveness of the Audit Committee.
- 3.4 Following discussions with Democratic Services, it was noted that all Members from across the Council (including Audit Committee Members) have rights of access to other committees, functions and individual officers via an established 'Members Enquiries' protocol. This gives Members an opportunity to contact officers outside of their meeting. We are satisfied that this control helps to further manage the minor risk identified in para 3.3.
- 3.5 Good practice suggests that the Audit Committee should periodically review their Terms of Reference (ToR) for appropriateness, which we confirmed is taking place. The Audit Committee's ToR includes a requirement for an annual independent review of its effectiveness. However, it was confirmed that this does not reflect current practice, whereby the review is performed on a cyclical basis every 2-3 years. We have therefore raised a low risk recommendation to address this.
- 3.6 The CIPFA guidance recommends regular self-assessment by Audit Committee Members to support the planning of their work programme and training plans. This is not currently in place at the Council but might be something that the Committee may wish to consider as part of their training and development programme.
- 3.7 According to CIPFA guidance the Audit Committee should operate at a resolutely strategic level. Whilst it was noted that the Council's Audit Committee has a well-planned agenda and an experienced Independent Chairman, co-ordination of the challenge by Members would provide an additional mechanism for prioritising key areas. We have therefore raised a low risk recommendation to support and help facilitate this.

- 3.8 Part of our testing involved performing a benchmarking exercise where we compared our Audit Committee against 9 other local authorities. One of our findings related to the way Committees utilise Part I (public) and Part II (private) agenda items. Currently, the Council's Corporate Risk Register (CRR) is discussed as a Part II item, this is because of the commercial and legal sensitivity of some of the risks (specifically risks relating to Heathrow and HS2). CIPFA does not make a recommendation about how risks are reported and therefore we support the Council's view to report these under Part II. Should these risks no longer feature in the CRR then the Committee may wish to discuss the CRR under Part I.
- 3.9 A review of the last 4 Audit Committee meetings found that it took between 2 to 7 calendar days (average of 4.5 days) for the first set of draft minutes to be sent to Officers for review. The reviewed minutes had to be sent back within a further 7 days, which meant that draft minutes would have been ready for publication between 9 to 14 calendar days. Whilst there is no statutory requirement to publish draft minutes of meetings promptly, the ICSA's (the Governance Institute) "The practice of minuting minutes" guidance states that minutes should be available within a week/ 5 working days. For this to happen minutes need to be reviewed promptly and the 'Business Management Daily' recommends that the minute-takers should circulate the first draft of meeting minutes as soon as possible and preferably within 24 hours. We have therefore raised a low priority recommendation to consider this best practice suggestion.
- 3.10 Other areas where we showed compliance against the CIPFA guidance include the skills matrix, declarations of interest, frequency of the Audit Committee meetings, distribution of the papers and composition of its membership. In comparison with 9 other authorities we noted that only 1 other had an Independent Chairman. Although, the Chairman's appointment is not fixed term, as per best practice guidance, there are provisions in place for early termination if that became required. However, having one Independent Member could become an issue in relation to succession planning. It was also noted that during 2018/19 the Vice-Chairman was unable to attend 50% (2 out of the 4) Audit Committee meetings.
- 3.11 As recorded within the Audit Committee's ToR, an Annual Report is required to be submitted to Full Council on the activities of the Committee. It was confirmed that the last one was completed on 5th July 2018.
- 3.12 We verified that the Committee has met quarterly for the last 3 years and that the quorate requirement has been met at all meetings reviewed, although some meetings were attended by Substitute Members. In line with best practice, there are arrangements in place for the Chairman to have private meetings with the Head of Internal Audit, external auditors and the Corporate Director of Finance on a rotational basis.
- 3.13 Following verification testing of the previous audit recommendations (raised in Nov'16) we noted that they have been successfully implemented with the exception of the Members rights to invite officers to Audit Committee meetings, which has been raised in this report.
- 3.14 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting with the Head of Democratic Services and are available to management upon specific request. The key findings and IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

4. Acknowledgement

- 4.1 Business Assurance would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular the Democratic Services Officer and the Democratic Services Manager, whose advice and help were gratefully appreciated.

5. Business Assurance Contact Details

This audit was led by: Jenia Islentsyeva FCCA, CISA
Principal Internal Auditor

This audit was reviewed by: Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

Thank you,



Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

APPENDIX A

Management Action Plan

No.	Key Finding
	No HIGH or MEDIUM risk recommendations have been raised in this report.

Please refer to **Appendix C for Risk definitions.*

APPENDIX B

Good Practice Suggestions & Notable Practices Identified

No.	Key Finding	Observation / Suggestion	Risk / Rationale	Risk Rating*
1	To be fully effective, an Audit Committee may need to engage with a wide range of officers (other than representatives from Finance and Internal/External Audit). While it is for each Audit Committee to determine who attends its meetings, it may be helpful to invite representatives to explain their work programme or recent reports. During our fieldwork we noted that the Council's Audit Committee does not have the right to call any other officers into the meeting. Nevertheless, according to the latest annual Audit Committee report for 2017/18, there have been no occasions where the Audit Committee believed the lack of this power has hindered its effectiveness in any way.	Management may wish to consider annually a review of the current arrangements for the Members rights to invite other officers to Audit Committee meetings, to ensure the Audit Committee is effective and fit for purpose.	<i>Lack of the Members right to call other senior officers to attend an Audit Committee meeting, may result in poor relationships between the committee and the executive or senior officers, which may hinder the effectiveness of the Audit Committee, which in turn could lead to reputational damage for the Council.</i>	LOW ●
2	Although the current Independent Chairman has not missed a single meeting since his appointment, having just one Independent Member places an over-reliance on their expertise, which would be absent if he could not attend.	In line with emerging recommended practice, Management may wish to consider having an Independent Vice-Chairman of the Audit Committee to allow for the possible absence of the Chairman.	<i>Where there is only one Independent Member of the Audit Committee, there is a risk that one person's expertise is not available if they are not able to attend which could compromise the effectiveness of the Audit Committee.</i>	LOW ●
3	The Audit Committee Terms of Reference includes a requirement for an annual independent review of their effectiveness. However, it was confirmed that this does not reflect the current practice, whereby the review is performed on a cyclical basis every 2-3 years.	Management to consider amending the Terms of Reference to reflect the current practice of cyclical review of the Audit Committee effectiveness.	<i>Where the content of the Terms of Reference does not accurately reflect the practice in place, there is a risk that expectations will not be met and users/readers misinformed, potentially leading to reputational damage for the Council.</i>	LOW ●

*Please refer to **Appendix C** for Risk definitions.

APPENDIX B (cont'd)**Good Practice Suggestions & Notable Practices Identified**

No.	Key Finding	Observation / Suggestion	Risk / Rationale	Risk Rating*
4	At present, all relevant officers receive their papers in advance of the AC meeting and raise questions without prior consultation with other Members or the Chairman. In line with best practice a pre-meet between AC Members may be beneficial.	Consideration should be given to conducting a pre-meeting for all Audit Committee Members to ensure an appropriate level of focus, sufficient constructive challenge and improved overall assurances.	<i>Without the ability for Members to pre-meet and discuss the papers, there is a risk that the AC may not be able to focus on material issues and spends too much time on minor risks, leading to inefficient use of Committee time.</i>	LOW ●
5	CIPFA Practical Guidance for Local Authorities and Police 2018 recommends a regular self-assessment by Audit Committee Members to support the planning of their work programme and training plans, which is not in currently place.	Consideration should be given to introducing regular (i.e. annual) self-assessment by the Audit Committee Members against the CIPFA guidance to assess whether they are fulfilling their ToR and that adequate consideration has been given to all core areas.	<i>Without a regular self-assessment, there is a risk that the Committee may become inefficient, leading to poor coverage and value to the Council and its residents.</i>	LOW ●
6	A review of the last 4 meetings found that it took between 2 to 7 calendar days (average of 4.5 days) for the first set of AC minutes to be sent to officers for review. The reviewed minutes had to be sent back within a further 7 days, which meant that draft minutes would have been ready for publication between 9 to 14 calendar days. Whilst there is no statutory requirement to publish draft minutes of meetings promptly, the ICOSA's (the Governance Institute) "The practice of minuting minutes" guidance states that minutes should be available within 5 days. For this to happen minutes need to be reviewed promptly and the 'Business Management Daily' recommends that the minute-takers should circulate the first draft of meeting minutes as soon as possible and preferably within 24 hours.	Consideration be given to ensuring that draft Audit Committee minutes are published within 5 days of the meeting taking place.	<i>If there is delay to distribution of the minutes, there is a risk that the notes taken are not an accurate representation of the items discussed/agreed during the meeting which in turn may lead to inaccuracies in the minutes which may never get resolved.</i>	LOW ●

*Please refer to **Appendix C** for Risk definitions.

APPENDIX B (cont'd)

Good Practice Suggestions & Notable Practices Identified

No.	Key Finding	Observation / Suggestion	Risk / Rationale	Risk Rating*
7	The Council was one of the 2 out of 10 authorities which had an Independent Chairman. Further, the Chairman has attended all required meetings since his appointment.	A strong and suitably experienced and skilled Independent Chairman is one of the characteristics of a good Audit Committee.	<i>The activity reflects current good practice or is an innovative response to the management of risk which has been shared with others.</i>	NOTABLE PRACTICE ●
8	Through review of the published Audit Committee papers, it was confirmed that the committee has met quarterly for the last 3 years and that the quorate requirement has been met at all meetings reviewed, although some were attended by the Substitute Members.	In line with best practice, for the Audit Committee to be effective it should meet regularly and at least 4 times a year. Further, to be able to make decisions a quorate is required. Both requirements have been met by the Council's Audit Committee every quarter over the last 3 years.	<i>The activity reflects current good practice or is an innovative response to the management of risk which has been shared with others.</i>	NOTABLE PRACTICE ●

*Please refer to **Appendix C** for Risk definitions.

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.

RISK RESPONSE DEFINITIONS

RISK RESPONSE	DEFINITION
TREAT	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
TOLERATE	The risk is accepted by management and no further action is proposed.
TRANSFER	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
TERMINATE	The activity / project from which the risk originates from are no longer undertaken.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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

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AUDIT COMMITTEE - Annual Internal Audit Report & Opinion Statement 2018/19

Committee name	Audit Committee
Officer reporting	Sarah Hydrie, Head of Internal Audit & Risk Assurance
Papers with report	Annual Internal Audit Report & Opinion Statement 2018/19
Ward	All

HEADLINES

The UK Public Sector Internal Audit Standards (PSIAS) requires the Head of Internal Audit & Risk Assurance, 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 2018/19. This report provides the opportunity for the Head of Internal Audit & Risk Assurance to highlight to the Committee any significant matters arising from the work of IA during 2018/19. The draft report was considered by CMT on 10th July 2019 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. The Audit Committee are asked to note the Annual IA Report and Opinion Statement 2018/19.**

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 LBH. 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.

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BUSINESS ASSURANCE

Annual Internal Audit Report & Opinion Statement 2018/19

30th June 2019



Contents

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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 2018/19 IA 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 Internal Audit & Risk Assurance (as the Council's statutory Head of Internal Audit [HIA]) to account on delivery of the 2018/19 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 significant changes to the IA team during the year, the HIA is pleased to report that **the 2018/19 IA plan was 100% complete to final report stage by 31st May 2019**. This is an excellent achievement for the IA service in light of the major changes in resources across the team during the year and the constraints this has placed on available resource, particularly during quarter 4. This also 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 2018/19 has been achieved in a relatively timely manner against a backdrop of continuous change and improvement for IA 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 our IA software (TeamMate) which continues to help improve the efficiency of the IA service, particularly 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 2019 accords with proper practice, except for the significant internal control issues referred to in para 3.8 (see para 3.12 for further details).*

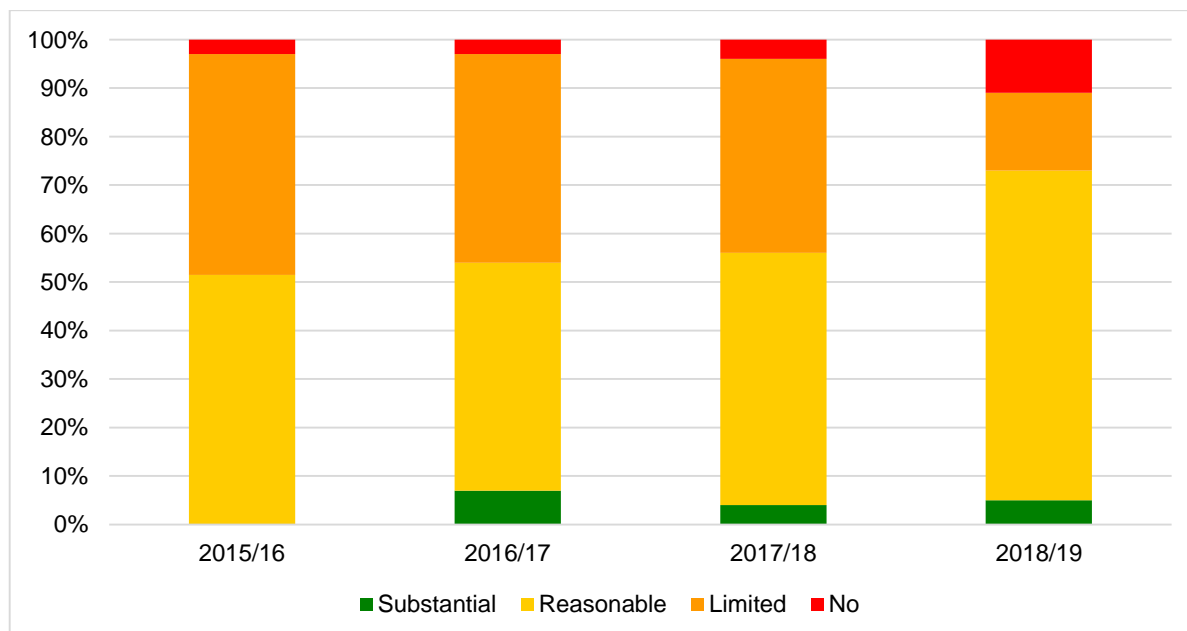
2.4 In total **48** pieces of IA work have been delivered as part of the 2018/19 IA plan. This included **19** assurance reviews, **12** follow-up reviews, **9** consultancy reviews and **8** grant claim audits. Over half of the assurance reviews (**68%**) resulted in a **REASONABLE** opinion this provides 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 2018/19 **HIGH** and **MEDIUM** risk recommendations raised by IA were accepted by the relevant manager's/ 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 2018/19). Further analysis of the IA assurance levels issued in 2018/19 along with a breakdown of the risk recommendations raised can be found at section 4 of this report.

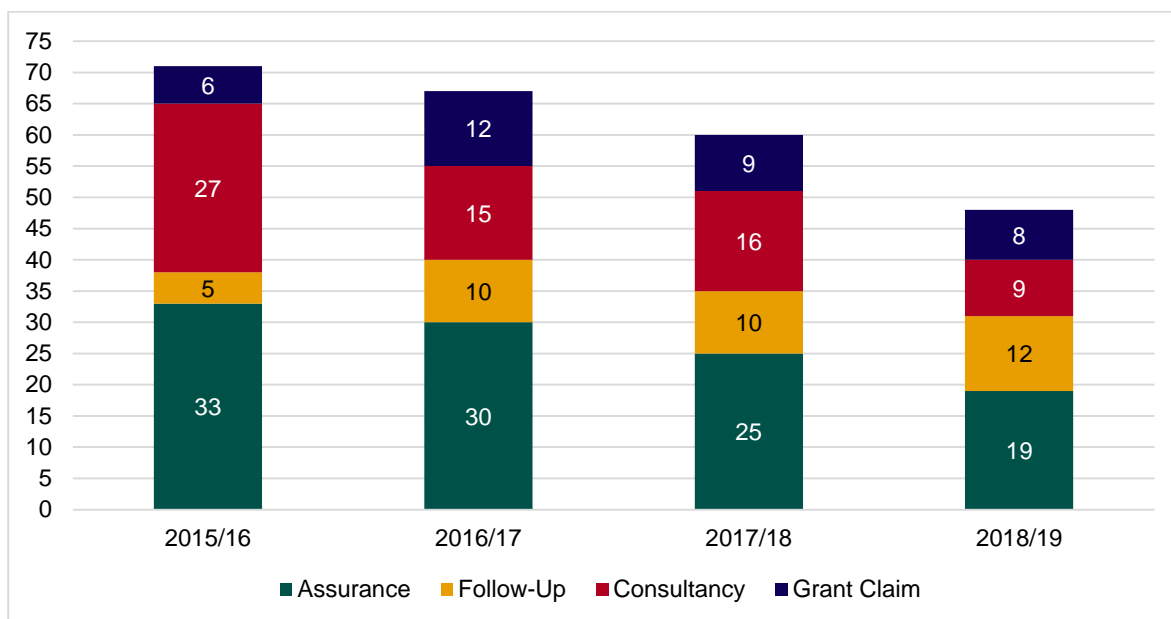
2.6 The table below provides an analytical review of assurance opinions issued by IA over the last 4 years. This partly demonstrates a broadly consistent picture, although this is within the context of 14 (57%) less assurance reviews in 2018/19 compared to 2015/16:

Assurance Level	2015/16	2016/17	2017/18	2018/19
Substantial	0 (0%)	2 (7%)	1 (4%)	1 (5%)
Reasonable	17 (51.5%)	14 (47%)	13 (52%)	13 (68%)
Limited	15 (45.5%)	13 (43%)	10 (40%)	3 (16%)
No	1 (3%)	1 (3%)	1 (4%)	2 (11%)
Totals	33	30	25	19

2.7 The bar chart below highlights that IA assurance reviews continue to be focussed on the areas of greatest risk:



- 2.8 The impact of major resource changes in IA during 2018/19 led to a reduction in consultancy services, which was broadly in line with the IA strategy i.e. to focus on assurance and follow-up reviews and concentrate IA efforts on the highest risks facing the Council. However, resource constraints during 2018/19 did not detrimentally affect the HIA Opinion Statement and have since been resolved. Nevertheless, they did impact the amount of assurance reviews conducted in the year as illustrated in 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 2018/19. Specifically, as at 1st July 2019, **100%** of the **HIGH** risk recommendations raised in 2018/19 that have fallen due (8) 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 2018/19

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 2018/19 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, 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 HIA opinion is based primarily on the work carried out by the Council's IA service during 2018/19, 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.
- 3.4.2 The IA Plan for 2018/19 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.

3.5 Basis of Assurance

- 3.5.1 All of the IA reviews carried out in 2018/19 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 provider Mazars. As a result, the 2018/19 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 2018/19 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 3.12.3).

As a consequence, **there are no qualifications to the 2018/19 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 HIA 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 2018/19;
- 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 2018/19.** 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 2018/19 IA review of **Early Years Centres** (EYC) identified an absence of a clear method for raising and managing invoices. It was found to be a manual process with no involvement from Finance and as a result invoices were inconsistent, unclear, and inaccurate. Because payments could not be reconciled to the Council's finance system, there was an absence of a formalised debt recovery process, aged debt monitoring, escalation processes and recovery controls. Finally, a review of the 2017/18 financial outturn position for each of the EYC identified that income targets had been significantly missed and resulted in overall overspend. Following this review management have taken swift action. The function has undergone a restructure and is now part of a wider Business Improvement Delivery (BID) review of early support services. Once feedback on this BID review is received officers will present further detail on how the outstanding recommendations will be addressed.
2. The 2018/19 IA review of the **Emergency Duty Team** (EDT) identified a range of issues which cumulatively created significant concerns in the undertaking of and documenting of policies and procedures, the Service Level Agreement, performance management and the process for alerting and making referrals to EDT staff. Management have responded positively to our findings and have provided a comprehensive response and prompt action plan to address the control weaknesses and risks identified within the control framework. An IA follow-up is due to take place in 2019/20 Quarter 2.
3. The 2017/18 IA review of **Houses in Multiple Occupation** (HMO) 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. An IA **follow-up review of HMOs** was commissioned in October 2018, however during testing we found that the control environment and system have moved on so significantly since the last follow-up review (March 2018) that the recommendations are no longer fully relevant. It was therefore agreed with management that IA would provide consultancy support to the Housing team (during Quarters 1 to 3 2019/20) as well as undertake a wider review of the Private Sector Housing Service in Quarter 4.

-
4. Following the decision taken by Schools Forum in October 2015, IA no longer carried 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.
 5. A key theme identified throughout a number of IA reviews within 2018/19 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 2018/19 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 Finance, Residents Services and Social Care have enhanced the control framework, stabilising and enhancing the robustness of the internal environment and associated monitoring activities; and
- 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

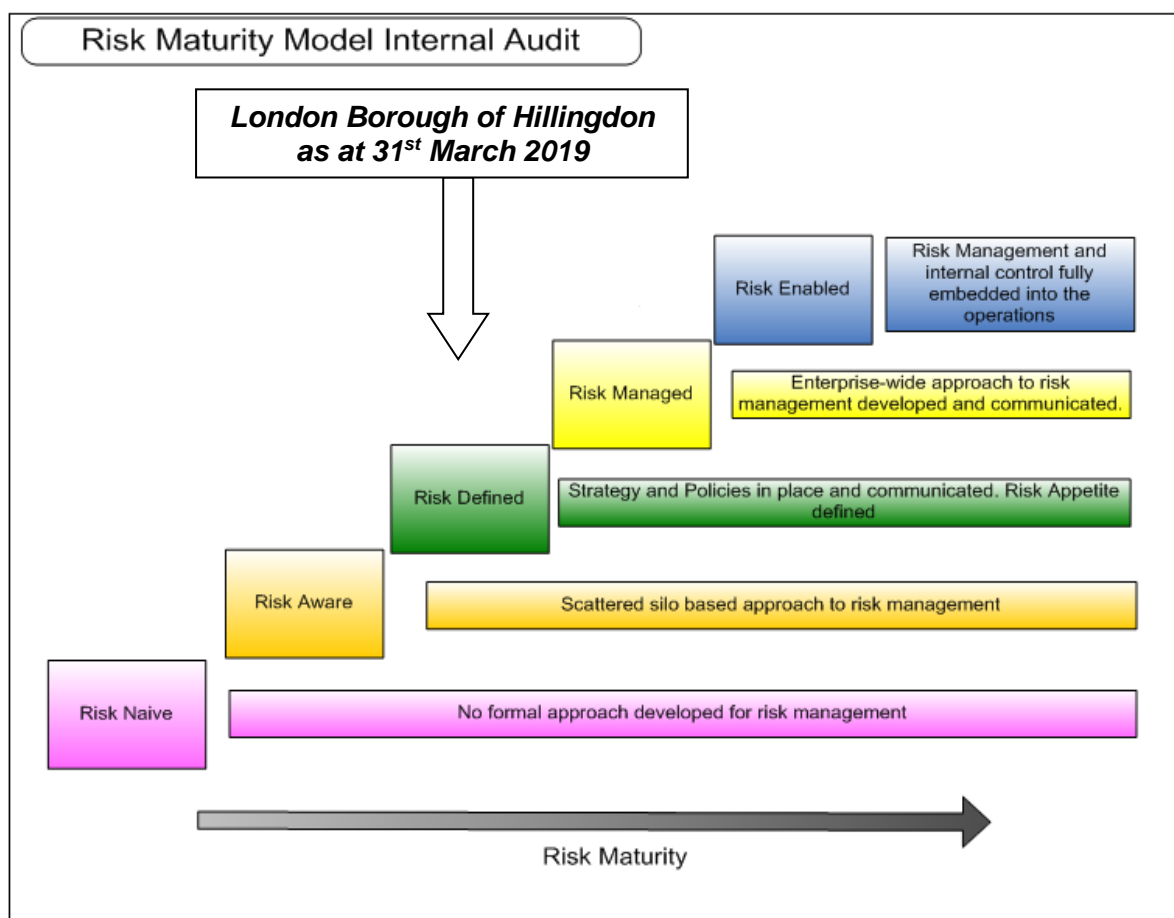
3.10.1 Risk Management (RM) is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council to achieve its objectives and 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 last updated and approved in January 2018 with comprehensive detail including clarity of roles, responsibilities and accountabilities of Members and Officers in relation to RM.

- 3.10.4 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 representing each Group (Directorate) with accountability assigned for each identified strategic risk to own and manage, in liaison with the lead Cabinet Member.
- 3.10.5 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.
- 3.10.6 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 2019. 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 2018/19 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 2019, which is underpinned by a 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. The Council's AGS process was enhanced within 2018/19, however there remains scope for further improving understanding across the Council of what governance is and what it means. (cont'd)

Langland's Governance Principles	IA Assessment of Hillingdon
5. Good governance means developing the capacity and capability of the governing body to be effective.	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.
6. Good governance means engaging stakeholders and making accountability real.	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.

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.

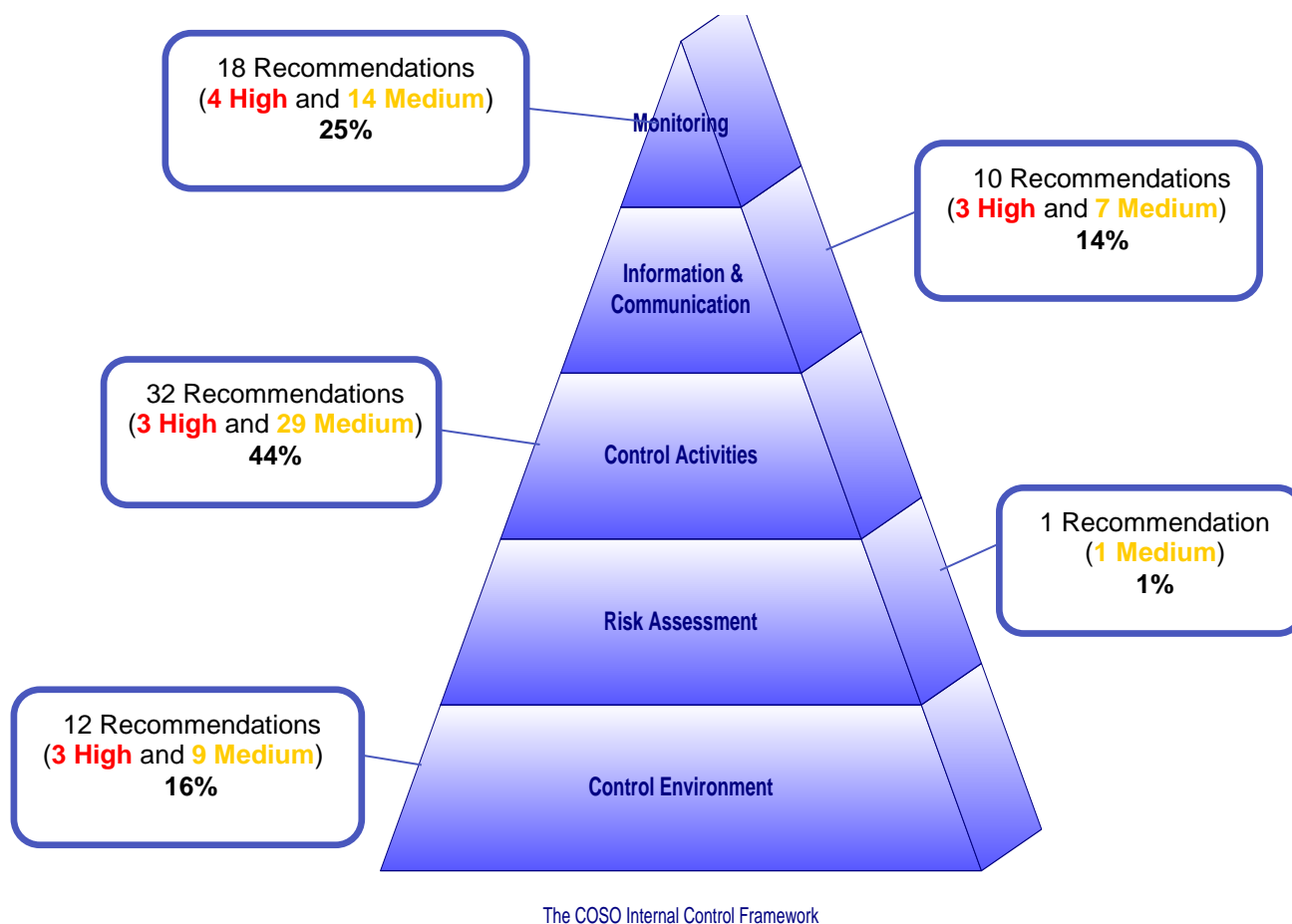
3.11.3 IA also noted the Cabinet is collectively viewed as effective and renowned for generally quick decision making. In IA's opinion, although the Council's CG arrangements are not fully in line with more traditional CG models, **the outcomes the Council has achieved within a period of austerity measures 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 and history of record low Council Tax levels. Nevertheless, 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).

3.11.5 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. 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 with 2018/19 savings of £10.7 million delivered or on track for delivery. This proven successful approach is set to be continued beyond 2018/19, enabling the Council to continue 'putting our residents first' despite the challenging financial conditions and demographic pressures.

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)**. The diagram below details the elements of the COSO internal control framework and analyses all **73 HIGH** and **MEDIUM** risk IA recommendations (per para. 5.8) raised during the 2018/19 year:



3.12.2 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.

3.12.3 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 2018/19, 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 2019 accords with proper practice**, except for the significant internal control issues referred to in para 3.8.

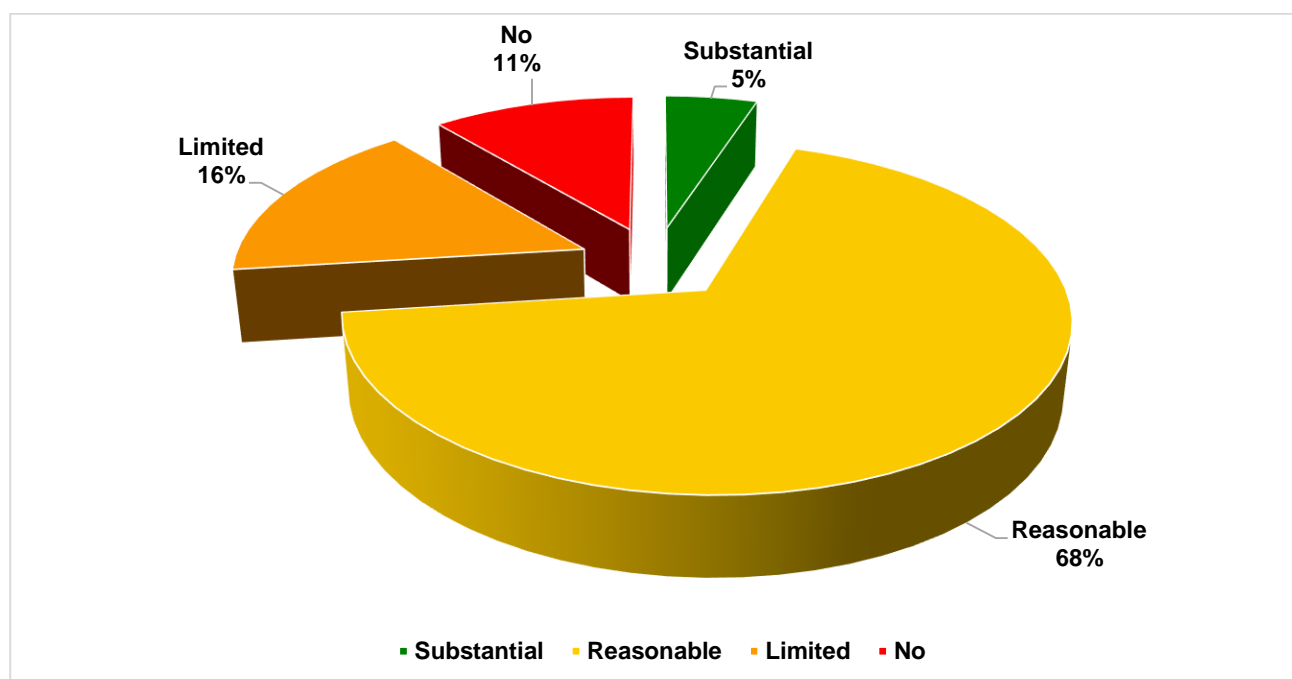
4. Analysis of Internal Audit Activity 2018/19

4.1 Internal Audit Assurance Work 2018/19

4.1.1 The 2018/19 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	2018/19 IA Assurance Reports	Percentage Split 2018/19	Comparison		
			2017/18	2016/17	2015/16
SUBSTANTIAL	1	5%	4% (1)	7% (2)	0% (0)
REASONABLE	13	68%	52% (13)	47% (14)	52% (17)
LIMITED	3	16%	40% (10)	43% (13)	45% (15)
NO	2	11%	4% (1)	3% (1)	3% (1)
TOTAL	19	100%	100% (25)	100% (30)	100% (33)

4.1.2 The pie chart below depicts the levels of assurances achieved based on a percentage of the total 2018/19 assurance audits completed by IA:



4.1.3 The chart above highlights the positive news for the Council that 73% of the areas audited in 2018/19 were assessed by IA as providing **REASONABLE** or **SUBSTANTIAL** levels of assurance over the management of the key risks to achieving the service objectives. Further, results from 2018/19 IA Assurance work represent an improvement when compared to 2017/18 outturn figures (56%). 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 2018/19.

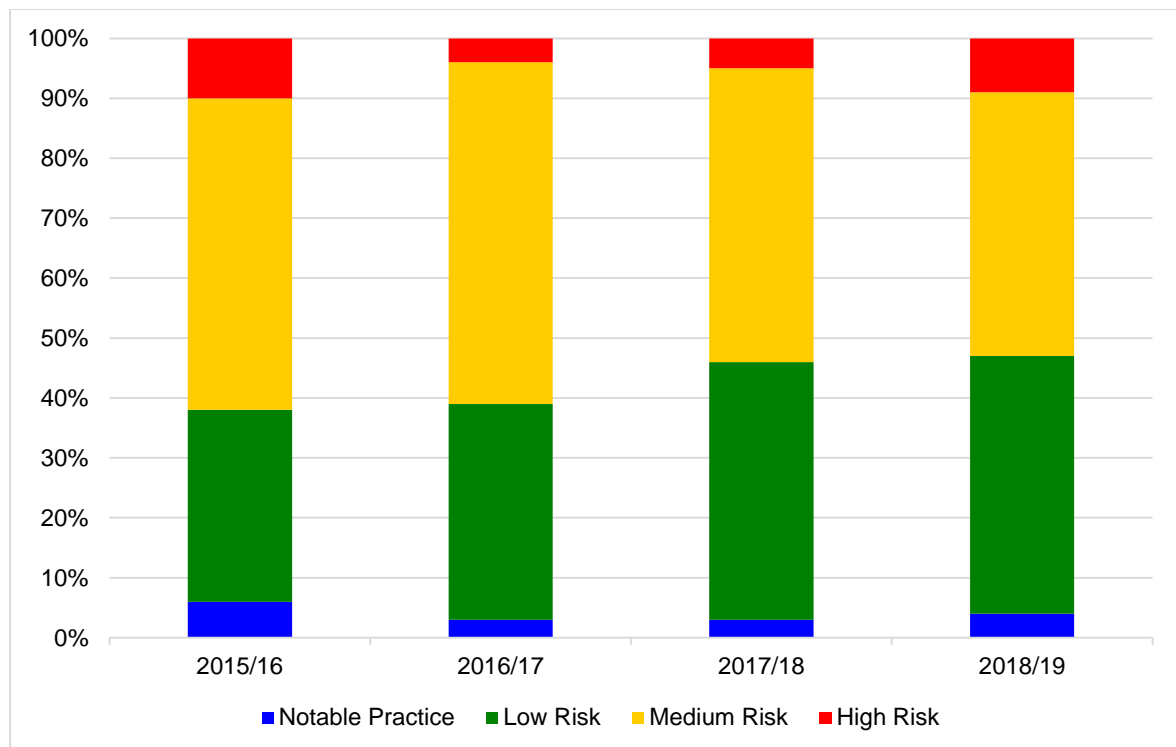
4.1.4 The individual assurance reviews carried out during 2018/19 are fully listed at [Appendix A](#) which highlights the assurance levels achieved (as outlined at [Appendix B](#)) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at [Appendix C](#)).

4.1.5 Within the **19** IA assurance reviews in 2018/19, we raised **131** IA assurance recommendations in total as set out in the table overleaf:

Risk Rating	2018/19		Comparison		
	Recommendations	Percentage	2017/18	2016/17	2015/16
HIGH	13	10%	5% (12)	15% (7)	11% (31)
MEDIUM	60	46%	50% (110)	57% (116)	55% (158)
LOW	58	44%	45% (98)	36% (73)	34% (97)
TOTALS	131	100% (131)	100% (220)	100% (204)	100% (286)
NOTABLE PRACTICE	5	-	6	6	20

4.1.6 Given that an increasingly risk based IA approach has been applied in 2018/19, 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 2018/19 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 **10% (13)** of recommendations raised by IA in 2018/19 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 2018/19.

4.2 Internal Audit Consultancy Work 2018/19

4.2.1 During 2018/19 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, Hillingdon Health & Safety Group, 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 **9** consultancy pieces of work in 2018/19, including reviews. This included support, advisory and data analytical work in relation to **Universal Credit, Ofsted Preparation and Private Sector Housing**.

4.3 Quality Assurance and Improvement Programme 2018/19

- 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 monitoring of IAA and sets out how IA is maintaining the required quality standards/ 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 2018/19

- 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. 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**.
- 5.2 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.

- 5.3 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 2018/19 we have undertaken a dedicated verification work on **HIGH** and **MEDIUM** risk recommendations in addition to 12 specific follow-up reviews. Our follow-up work found that **83 (72%)** of the **116** recommendations followed-up were deemed **Implemented**. Of the remaining recommendations we deemed **28 (24%) Partly Implemented** and **5 (4%) 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 **19** IA assurance reviews have resulted in **131** IA recommendations being raised in **2018/19** as well as **5 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 **five times as many MEDIUM risk recommendations than HIGH risk recommendations raised** in 2018/19.
- 5.8 The table below summarises the **status of IA 2018/19 recommendations** raised as at 30th June 2019:

2018/19 IA Recommendation Status as at 30 th June 2019	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (per Appendix A)	13	60	58	131	5
Total No. of Recommendations Risks Tolerated by Management	-	-	-	0	-
No. Not Yet Due for Implementation	6	33	-	39	-
No. Implemented	7	25	-	32	-
No. of Recommendations Outstanding	0	2	-	2	-

- 5.9 Positive management action was proposed to address all **73** of the 2018/19 **HIGH** and **MEDIUM** risk recommendations raised, **39** of which have not yet reached their target date for implementation. IA is pleased to report that **32 HIGH** and **MEDIUM** risk recommendations which were due for implementation have been confirmed by management as being implemented. **This is a good outcome and comes directly as a result of the strong collaborative approach between IA and senior management across the organisation.**

- 5.10 In 2019/20 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 2019/20 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 2018/19

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 2018/19 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%	75%	GREEN
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 st March.	90%	63%	RED
KPI 6	Percentage of IA Plan delivered to final report stage by 31 st March.	80%	58%	RED
KPI 7	Percentage of draft reports issued as a final report within 15 working days.	75%	79%	GREEN
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 The team's performance against **KPI 5** and **KPI 6** has seen a significant decline this year compared to previous years and are both reported as **RED** (in 2017/18 KPI 5 was 93% and KPI 6 was 84%). The major resource changes to the IA team during 2018/19 have impacted on meeting some of the timeliness KPIs. In addition, recruitment of new team members happened in Quarter 4 which is the busiest period of the year for IA and therefore had an impact on meeting the 31st March deadline. Whilst delivering a challenging IA plan, new IA colleagues were learning about LBH, developing working relationships with officers across the Council and familiarising themselves with the risk based IA approach we take.

- 6.1.4 In this climate and during a period of significant change and learning some slippage is expected. Despite this, **100% of 2018/19 IA reviews were completed to final report stage by 31st May 2019**, which is a significant achievement for the team who worked diligently to deliver the IA plan to this deadline. The IA team meets regularly to discuss delivery against its KPIs and the HIA will continue to be carefully monitoring progress carefully against KPIs 5 and 6 in particular moving forward. In addition, now that new colleagues are familiar with the IA methodology and are establishing themselves across the Council, the HIA is confident that these targets will be improved upon in 2019/20.
- 6.1.5 The team has seen an improvement against **KPI 4**, which was reported as **RED** in 2017/18 (at 49%) and **KPI 7**, also reported as **RED** in 2017/18 (at 57%). Both **these KPIs relate to management action** and the need for Management to own their risks and provide responses in a timely manner. This year's improvement is due to the stronger working relationships we are developing with risk owners across the Council, working collaboratively with colleagues. Also IA supports officers to manage their risks and take accountability in a meaningful and value added way, as opposed to the process feeling like a tick box exercise.
- 6.1.6 Management feedback continues to be positive about our coverage. 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 HIA 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 **38** CFQs completed in relation to the 2018/19 IA Plan (as per **Appendix A**):

IA CFQ Areas	Average Score 2015/16	Average Score 2016/17	Average Score 2017/18	Average Score 2018/19	% Change (17/18-18/19)
Q1. Planning: The planning arrangements for the IA review were good	3.41	3.49	3.63	3.63	-
Q2. Scope: The scope of the IA review was relevant	3.50	3.44	3.59	3.66	+1.9%
Q3. Conduct: The IA review was conducted in a highly professional manner	3.65	3.76	3.67	3.68	+0.3%
Q4. Timing: The IA review was carried out in a timely manner	3.35	3.61	3.59	3.55	-1.1%

IA CFQ Areas	Average Score 2015/16	Average Score 2016/17	Average Score 2017/18	Average Score 2018/19	% Change (17/18-18/19)
Q5. Report: The IA report was presented in a clear, logical and organised way	3.47	3.61	3.67	3.71	+1.1%
Q6. Recommendations: The IA recommendations were constructive and practical	3.18	3.51	3.46	3.53	+2.0%
Q7. Value: The IA review added value to your service area	3.18	3.44	3.48	3.53	+1.4%
Q8. Overall: I look forward to working with IA in future	3.47	3.66	3.72	3.71	-0.3%
Average Total Score	3.43 (85.3%)	3.56 (89.1%)	3.60 (90.0%)	3.63 (90.6%)	

6.2.4 Analysis of the above results provides a very 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 timing and working with IA in the future which can be attributed to the changing staff mix during the year. Despite this, increases in CFQ scores for scope, conduct, report, recommendations and value 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 **38** CFQs returned in 2018/19, IA has received a range of formal client comments on IA performance, **a snapshot of additional comments is provided below:**

Recruitment and Retention of Foster Carers

- *"Yet again another exceptional piece of work. Swift and good grasp of the issues and very helpful suggestions which could help strengthen our sufficiency strategy approach."*

Corporate Payments (Off Invoice and Emergency Payments)

- *" Audit conducted in a timely manner which generated useful findings"*

Youth Offending Service

- *"We initiated this audit and there was a bit of a challenge in the auditor understanding this was not simply about the service but the functioning of the partnership. The framework used to audit was the HMIP inspection framework which is not the easiest document to use and credit to the auditor for trying to make some sense from it."*

Extra Care Follow-Up

- *"A supportive process as always, thanks!"*

Financial Resilience & Appetites for Public Sector Contracts

- *"Practicalities of implementing all recommendations need to be considered, and whether they would add value to the service or just be a 'tick box' exercise, having said that the findings were generally appropriate and improvements have been made."*

Estates Management – Selling assets

- *"As always the team have added value and constructive feedback."*

Mortuary

- *"The audit was very beneficial to my service as we are preparing for a governance inspection and it was a valuable opportunity to look at all process and procedures."*

Debtors

- *"Really useful set of recommendations received, exactly what was required for this service at this moment in time. Only slight issue was that after the initial testing, and following the pre-draft meeting with IA the team were asked to then produce a considerable number of additional reports. It would have been beneficial if these reports were requested during the initial round of sampling/meetings."*

6.2.6 Whilst the HIA 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.

6.3 2018/19 Staffing Matrix

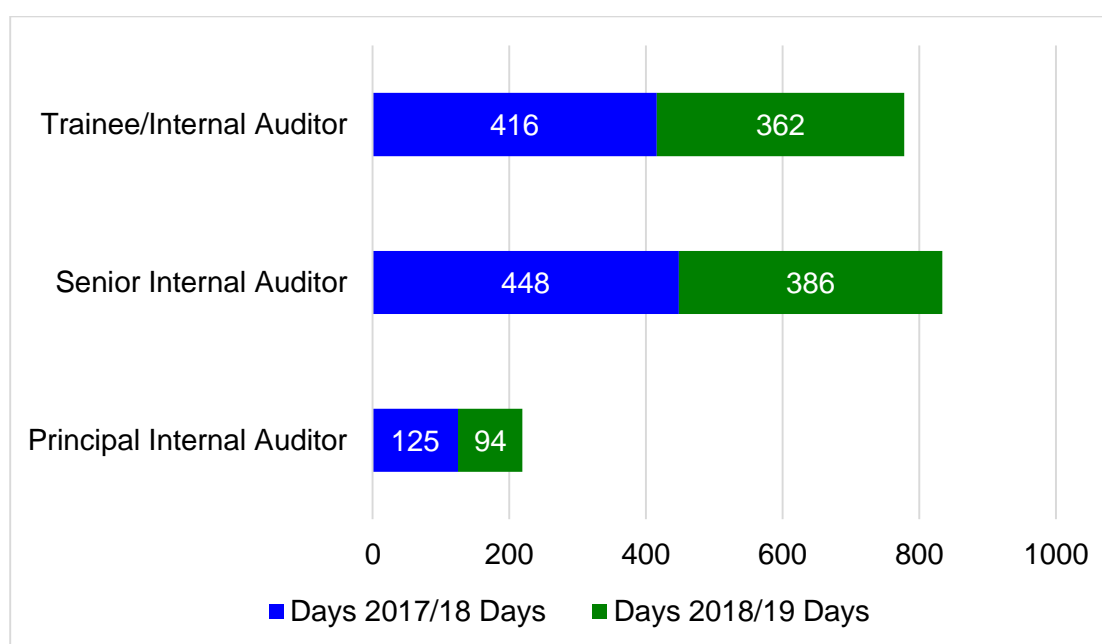
6.3.1 Following a request by Audit Committee, the 2018/19 IA annual report contains a **Staffing Matrix** (below) which provides a summary breakdown and comparison of each category of auditor's performance and the **total days spent on IA reviews in 2017/18 and 2018/19** compared to the available IA resource in both years.

6.3.2 In **2017/18** the approved IA annual resource **plan had 1,000 chargeable* IA days**. The actual IA chargeable* days delivered in 2017/18 was **989** days (**99%** of the planned days), of which **71% (702 days)** was focussed on assurance and follow-up reviews (including any core financial systems and corporate risk register reviews).

6.3.3 In **2018/19** the approved IA annual resource **plan had 900 chargeable* IA days**. The **actual** IA chargeable* days **delivered** in 2018/19 was **842** (**94%** of the planned days), of which **76% (640 days)** was focussed on assurance and follow-up reviews (including any core financial systems and corporate risk register reviews).

6.3.4 So to conclude, there were **147 (989 minus 842) less chargeable* IA days delivered in 2018/19 compared to 2017/18**; the staffing breakdown of these is highlighted below:

Total days spent on IA reviews



* = By '**chargeable**' we mean time allocated for IA reviews that auditors have carried out. This excludes non-chargeable time which IA staff also carry out, including training (internal and external), management duties such as performance reviews, attending team meetings and QAIP responsibilities.

- 6.3.5 When comparing the Staffing Matrix against the amount of actual assurance reviews conducted in the year (refer to table at para. 2.8) there is a direct correlation between the number of assurance audits that have been delivered in the year versus staff capacity. Specifically, in **2017/18** the IA team consisted of **7.0 FTE** (not including the Senior IA Manager or the HIA) and together the IA team delivered **35 pieces** of assurance work and follow-up reviews in that year.
- 6.3.6 By comparison, in **2018/19** the IA team consisted of **6.0 FTE** plus the Business Assurance Manager and the HIA and **31 pieces** of assurance and follow-up reviews were delivered. Therefore, whilst the number of IA assurance and follow-up reviews delivered in **2018/19** is an **11% reduction** on **2017/18** (**31** compared to **35**), the actual IA staffing capacity which was available in **2018/19** was **1.0 FTE (14%)** lower compared to **2017/18**. In addition, the actual number of **days delivered** on IA assurance and follow-up reviews in **2018/19** was **62 days lower than in 2017/18** (**640** compared to **702**). As a result, 31 pieces of assurance and follow-up work delivered in 2018/19 can be seen as a considerable achievement for IA and is broadly in line with the HIA's expectations, when putting everything into context.
- 6.3.7 What can also be said, is that the HIA opinion statement supporting evidence has not been adversely affected or diminished in 2018/19. IA work that was undertaken in 2018/19 has had greater focus on depth of reviews, rather than breadth of coverage in IA quarterly plans. As a consequence, the HIA opinion statement this year is supported by sufficient evidence, including the number of IA recommendations raised in the year (**131**).

7. Forward Look to 2019/20

- 7.1 The 2019/20 IA Annual Plan was approved by CMT and the Audit Committee in April 2019 and includes **765 total chargeable days** including **552 days on assurance and follow-up** reviews (including any core financial systems and corporate risk register reviews). Part of the 552 days will include our recently developed **IT audit plan**. This has been produced by the **qualified IT auditor** recruited to the team in 2018/19. This has long been a skills gap within the in-house team and as a result we have historically purchased IT audit services from external firms, which will not be required for IT audits moving forward.
- 7.2 Having **our own in-house IT auditor** allows to work more collaboratively with the ICT Department and other services across the Council to help further develop our IT audit plan coverage. Further, the IT auditor can train and develop colleagues in the IA team to enable them to eventually be able to perform these specialist reviews, giving them all opportunities for progression and enhancing their skills set. The IT audit plan will form part of the quarterly planning process and reviews are already being timetabled for 2019/20.
- 7.3 During 2019/20 the **skill set within IA is set to further develop and evolve** as we follow our strategy of 'growing our own'. Following successful recruitment campaigns in 2018/19, IA is now fully resourced and the HIA believes the mix of skills and experience in the current team will improve the overall resilience of the IA function, whilst maintaining the quality. 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. In addition, the new team structure provides staff members with an opportunity to take on more responsibility, facilitating their ongoing professional and personal development.
- 7.4 As a result of the decision taken by Schools Forum in October 2015, IA stopped carrying out value added thematic audits in local authority **maintained schools**. Instead IA coverage was reduced to the statutory minimum in schools (significant risks only). This year the Dedicated Schools Grant (DSG) is running at a cumulative deficit of over £8m and subsequently the risk has become significant enough that it now features in the Council's Corporate Risk Register. Further to this, IA has reviewed and revised its risk assessment of schools and as a result IA is beginning a programme of audits in schools on the areas of highest risk. Linked to this, a thematic **review of Schools Payroll arrangements** is in progress in Quarter 1 2019/20.

-
- 7.5 Moving forward IA will also be reviewing the way it communicates its findings to **maintained schools** across the borough so that good practice and risk areas that are identified are communicated effectively and best practice is adopted. We are looking at developing regular updates to Head Teachers which will include IA matters but also areas of Business Assurance including Counter Fraud, Insurance, Information Governance, Business Continuity and Health & Safety.
- 7.6 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.

Sarah Hydrie CMIIA CIA
Head of Internal Audit & Risk Assurance

30th June 2019

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19**

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

2018/19 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 30 th June 2019	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
18-A8	Early Years Centres	Final report issued on 10 th July 2018	No	3	5	2	0	✓
18-A13	Emergency Duty Team	Final report issued on 3 rd December 2018	No	4	3	1	0	✓
18-A1	Cyber Security	Final report issued on 13 th December 2018	Limited	2	3	2	0	✓
18-A6	Positive Behaviour Support Team	Final report issued on 7 th January 2019	Limited	0	4	4	0	✓
18-A20	Merchiston House	Final report issued on 15 th May 2019	Limited	2	4	2	0	✓
18-A3 (17-A33)	Corporate Payments	Final report issued on 29 th June 2018	Reasonable	0	2	4	0	✓
18-A5	Complaints	Final report issued on 27 th July 2018	Reasonable	0	4	6	0	✓
18-A4	Symology Data Quality	Final report issued on 4 th September 2018	Reasonable	0	2	2	0	✓
18-A2	Declarations of Interests	Final report issued on 12 th September 2018	Reasonable	0	3	2	0	✓
18-A12	Youth Offending Service	Final report issued on 12 th November 2018	Reasonable	0	3	5	0	✓
18-A17	Mortuary	Final report issued on 5 th February 2019	Reasonable	0	2	3	0	✓
18-A18	Gifts and Hospitality	Final report issued on 26 th February 2019	Reasonable	0	5	3	0	✓
18-A21	Financial Resilience and Appetites for Public Sector Contracts	Final report issued on 3 rd April 2019	Reasonable	0	2	3	0	✓
18-A19	General Data Protection Regulation	Final report issued on 11 th April 2019	Reasonable	1	5	5	3	✓

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19 (cont'd)****2018/19 IA Assurance Reviews (cont'd):**

IA Ref.	IA Review Area	Status as at 30 th June 2019	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
18-A28	Estates Management – Selling Assets	Final report issued on 24 th May 2019	Reasonable	0	4	3	0	✓
18-A32	Debtors	Final report issued on 28 th May 2019	Reasonable	0	5	2	0	✓
18-A27	Traffic Management - Order Making Process	Final report issued on 29 th May 2019	Reasonable	0	2	3	0	✓
18-A31	Corporate Equifax Arrangements	Final report issued on 30 th May 2019	Reasonable	1	2	0	0	✓
18-A30	Review of the Effectiveness of the Audit Committee	Final report issued on 29 th May 2019	Substantial	0	0	6	2	✓
Total <u>number</u> of IA Assurance Recommendations raised in 2018/19				13	60	58	5	
Total <u>percentage</u> of IA Assurance Recommendations raised in 2018/19				10%	46%	44%	-	

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19 (cont'd)****2018/19 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 30 th June 2019	Recommendations			
			Implemented	Partly Implemented	Not Implemented	Total
18-A14	Follow-up of implemented IA recommendations	Verification testing concluded	48	0	0	48
18-A9	Physical Access Controls	Memo issued on 31 st July 2018	8	0	0	8
18-A10	Extra Care	Memo issued on 9 th August 2018	2	4	1	7
18-A15	Houses in Multiple Occupation	Memo issued on 20 th December 2018	0	6	0	6
18-A23	Housing Planned Maintenance & Repairs	Memo issued on 9 th January 2019	3	4	0	7
18-A24	Housing Needs Allocations & Assessments and Tenancy Mgmt	Memo issued on 9 th January 2019	0	4	0	4
18-A22	Extra Care - 2nd review	Memo issued on 15 th January 2019	1	1	1	3
18-A16	Anti-Social Behaviour and Environment Team	Memo issued on 22 nd February 2019	3	2	0	5
18-A35	Harefield Junior School	Memo issued on 26 th February 2019	7	0	0	7
18-A34	Semi-Independent Living	Memo issued on 15 th May 2019	4	3	1	8
18-A36	Estate Management - Leases	Memo issued on 15 th May 2019	0	2	1	3
18-A33	Missing Children (from Education, Home & Placement)	Memo issued on 23 rd May 2019	7	2	1	10
Total Number			83 (72%)	28 (24%)	5 (4%)	116 (100%)

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2018/19 (cont'd)****2018/19 IA Consultancy Reviews:**

IA Ref.	IA Review Area	Status as at 1 st July 2019	CFQ Received
18-C3	CYPS Thematic Review - Ofsted Preparations	Memo issued on 9 th May 2018	✓
18-C4	Recruitment and Retention of Foster Carers	Memo issued on 4 th July 2018	✓
18-C5	Financial Assessments	Memo issued on 12 th July 2018	✓
18-C6	Adult and Community Learning	Memo issued on 17 th July 2018	✓
18-C2	Client Financial Affairs	Memo issued on 3 rd October 2018	✓
18-C9	Mayor of Hillingdon's Charitable Trust Accounts 2017/18	Memo issued on 10 th December 2018	N/A
18-C1	Introduction of Universal Credit	Memo issued on 20 th December 2018	✓
18-C8	Parking Penalty Charge Notices	Memo issued on 3 rd January 2019	✓
18-C12	Private Sector Housing	Memo issued on 11 th March 2019	✓

2018/19 IA Grant Claims certified:





IA Ref.	IA Review Area	Status as at 1 st July 2019
18-GC1	Troubled Families Grant - Quarter 1	Certified, memos issued on 25 th Apr, 17 th May and 12 th Jun 2018
18-GC3	Troubled Families Grant - Quarter 2	Certified, memos issued on 26 th July, 30 th Aug and 26 th Sep 2018
18-GC4	Disabled Facilities Grant	Certified and memo issued on 28 th Aug 2018
18-GC2	Housing Benefit Subsidy Grant	Certified and memo issued on 3 rd Sep 2018
18-GC6	Pothole Action Fund	Certified and memo issued on 13 th Sep 2018
18-GC5	Bus Subsidy Grant	Certified and memo issued on 18 th Sep 2018
18-GC7	Troubled Families Grant - Quarter 3	Certified, memos issued on 30 th Oct, 30 th Nov and 21 st Dec 2018
18-GC8	Troubled Families Grant - Quarter 4	Certified, memos issued on 23 rd Jan, 1 st Mar and 26 th Mar 2019

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.

AUDIT COMMITTEE - Internal Audit Progress Report for 2019/20 Quarter 1 (including the Quarter 2 IA Plan)

Committee name	Audit Committee
Officer reporting	Sarah Hydrie, Head of Internal Audit & Risk Assurance
Papers with report	Internal Audit Progress Report for 2019/20 Quarter 1 & Internal Audit Plan for Quarter 2
Ward	All

HEADLINES

The attached report presents the Audit Committee with summary information on all Internal Audit (IA) work covered in 2019/20 Quarter 1 and assurance in this respect. It also provides an opportunity for the Head of Internal Audit & Risk Assurance to highlight to the Audit Committee any significant issues that they need be aware of that have arisen since the last IA progress report. Further, it enables the Audit Committee to hold the Head of Internal Audit & Risk Assurance to account on delivery of the IA Plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of IA activity. Appended to this report is the IA Plan for Quarter 2 which has been produced in consultation with senior managers and outlines the planned programme of IA work to be carried out within the next quarter.

RECOMMENDATIONS:

That the Audit Committee:

1. **Notes the IA Progress Report for 2019/20 Quarter 1 and consider the Quarter 2 IA Plan and, subject to any further minor amendments, approve it; and**
2. **The Audit Committee should ensure that the coverage, performance and results of Business Assurance IA activity in this quarter are considered and any additional assurance requirements are communicated to the Head of Internal Audit & Risk Assurance.**

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.

BACKGROUND PAPERS

The Business Assurance service holds various background research documents in relation to the Quarter 2 IA Plan.

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BUSINESS ASSURANCE

Internal Audit Progress Report to Audit Committee: 2019/20 Quarter 1 (including the Quarter 2 Internal Audit Plan)

30th June 2019



Contents

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

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1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, 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 the UK Public Sector IA Standards or guidance.
- 1.1.2 The UK Public Sector IA Standards (PSIAS) define the nature of IA and set out basic principles for carrying out IA within the public sector. The PSIAS help the Council to establish a framework for providing IA services, which adds value to the organisation, leading to improved organisational processes and operations.

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

- 1.2.1 This Quarter 1 progress report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on IA work for the period 1st April to 30th June 2019. In addition, it provides an opportunity for the Council's Head of Internal Audit & Risk Assurance (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 (refer to [Appendix B](#)).
- 1.2.2 A key feature of the Quarter 1 IA progress report is the inclusion of the 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 Quarter 2 period (1st July to 30th September 2019).

2. Executive Summary

- 2.1 Since the last IA Progress Report to CMT and the Audit Committee dated 1st April 2019, **1 follow-up review** has concluded, **8 assurance reviews** (including 1 follow-up review) are at an advanced stage, **3 grant claims** have been certified and **8 pieces of 2018/19 work** have been finalised. As highlighted at [Appendix A](#) the vast majority of the work finalised in Quarter 1 has been in relation to the finalisation of the 2018/19 IA plan, which is broadly in line with our expectations. This quarter has seen IA take on 3 unscheduled pieces of work including verifying two grant claims at a school and significant work assisting Social Care with an upcoming Troubled Families (TF) Programme inspection by the Ministry of Housing, Communities and Local Government (MHCLG).
- 2.2 Our work on the 2019/20 Quarter 1 IA Plan commenced on 1st April 2019 and the initial planning stage has now been completed and testing is well underway on all Quarter 1 pieces of IA work. As stated above, progress against the Quarter 1 IA Plan has been relatively slow, with only **1** follow-up review finalised (Volunteering). Nevertheless, **7** IA assurance reviews and **1** follow-up review are at an advanced testing/fieldwork stage. During this quarter IA has also continued to provide a range of advisory and consultancy work across the Council.
- 2.3 Following IA undertaking its initial planning stage, **1** assurance review (CCTV Control Room Arrangements) has been deferred at Management's request (and in agreement with the HIA) to Quarter 3. During this quarter there have also been **3 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. Further details of all IA work carried out in this period are summarised at section 3 of this report overleaf.

3. Analysis of Internal Audit Activity

3.1 Assurance Work in Quarter 1

- 3.1.1 On 1st April 2019, IA formally commenced work on the 2019/20 Quarter 1 IA plan. As is usual at this time of year, the primary focus this quarter was on finalising completion of the 2018/19 IA Plan. A detailed summary of all 2018/19 IA work finalised within Quarter 1 of 2019/20 is contained within the **2018/19 Annual IA Report and Opinion Statement** due to be presented to the Audit Committee on 22nd July 2019, alongside this progress report.
- 3.1.2 Planning has been completed for each of the **7** Quarter 1 assurance audits and they are now at an advanced testing stage (as individually listed at **Appendix A**). The assurance level definitions and recommendation risk categories are outlined at **Appendix D**.

3.2 Consultancy Work in Quarter 1

- 3.2.1 The IA team continues to undertake some consultancy work across the Council. The consultancy coverage includes IA staff attending working groups or project groups, whilst ensuring they are clear about whether they are attending in an assurance or advisory capacity. This type of approach to IA work 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 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 the list of consultancy work carried out this quarter with **1** consultancy review completed. The unplanned IA consultancy review of **TF Spot Check** was concluded within the quarter. IA was asked by the Director to assist in the Council's preparations for an inspection by the MHCLG by providing an independent review of **68** 'turned around' families (refer to **Appendix C**).
- 3.2.4 IA continues to support to the Housing Team, by providing consultancy advice in **Private Sector Housing (PSH)**. Following the Houses in Multiple Occupation follow-up in 2018/19 and a request from the Director, IA has been asked to assist the Housing Team in Quarters 1 to 3, in preparation for the planned 2019/20 IA assurance review of PSH.

3.3 Grant Claim Verification Work in Quarter 1

- 3.3.1 During this quarter IA has assisted the Council in certifying **3** grant claims. As detailed at **Appendix A**, IA continues to carry out verification work on the **Troubled Families (TF) Grant** and completed two pieces of verification work on the **Department for Education (DfE) Collaborative Fund**. On the 17th June 2019, IA was contacted by St Mary's Catholic Primary School who requested two grant certifications for the **DfE Collaborative Fund 2017/18 and 2018/19** (refer to **Appendix B**). The certifications were due for submission by the 28th June 2019 and IA significantly revised its plans to make resource available to complete the unscheduled pieces of work before the tight deadline (refer to **Appendix A**).
- 3.3.2 As detailed at **Appendix A** the planned quarterly verification work on the **TF Grant** progressed this quarter. IA tested a sample of TF that had been identified as being 'turned around' by the Council's TF Team. At the conclusion of our work we issued 2 memos in April and June 2019 (there was no submission in May). The total number of families claimed for in Quarter 1 was **127**). IA continues to work with the TF Co-ordinator to discuss their strategy for the TF programme.

3.4 Follow-up of Previous Internal Audit Recommendations in Quarter 1

- 3.4.1 IA continues to monitor all **HIGH** and **MEDIUM** risk IA recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. In addition to this, we actively follow-up on prior **LIMITED** or **NO** assurance reviews within 6 to 12 months after their finalisation.
- 3.4.2 Due to IA resource constraints, follow-up work within this quarter has been focussed on 2018/19 IA recommendations. The results of this work are reported in detail within the **2018/19 Annual IA Report and Opinion Statement**, due to be presented to the Audit Committee on 22nd July 2019, 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.
- 3.4.4 In preparation for the **Early Years Centre follow-up** which was due to commence in 2019/20 Quarter 1, IA met with the Corporate Director and the Head of Service to receive an update on the progress of the **3 HIGH** and **3 MEDIUM** risk recommendations. They confirmed that **1 MEDIUM** risk recommendation (regarding budget setting) has been **Implemented** and that a BID report is in the process of being completed for consideration. Further to that, Management will set out further details on how the outstanding IA recommendations (all of which relate to admin/finance day-to-day functions at the centre, as opposed to safeguarding issues) will be addressed. Management is aware of the outstanding risks and will be monitoring operational impacts to ensure sound delivery.

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.
- 3.5.2 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 2019/20 (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.
- 3.5.3 During this quarter, several members of the IA team have undertaken training with Exchequer Services staff in preparation for the Housing Benefit Subsidy Grant due for review by IA during Quarter 2. This training has also included installing new IT software and meeting with the Council's External Auditors (Ernst & Young) to agree deadlines before testing officially begins.
- 3.5.4 The quarterly planning cycle has been informed by the **'Assurance Mapping' programme of work** carried out by the Risk and Insurance Manager. This process identifies and records the main sources of assurance that inform key stakeholders of the effectiveness of how each risk is managed and the associated controls and processes relied upon. To date 10 corporate risks have been successfully mapped.
- 3.5.5 Some progress has been achieved this quarter in relation to the **Quality Assurance and Improvement Programme (QAIP)**. The IA Manual and the IA Charter have both been subject to updating and reviews of the Assurance and Consultancy process templates have been reviewed. 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.

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 2019/20 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 25th April 2019.
- 4.2 We believe that the 2019/20 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 2019, all **7** 2019/20 IA assurance reviews in advanced testing/fieldwork stage, therefore it would not be of sufficient value at this stage to report on 2019/20 performance against the IA KPIs. The analysis of overall IA performance for the 2018/19 period is reported in full within the **2018/19 Annual IA Report and Opinion Statement** due to be presented to the Audit Committee on 22nd July 2019, alongside this progress report.

5. Forward Look

- 5.1 Looking ahead to Quarter 2, we anticipate finalising the thematic review of schools payroll in July. This has been a very resource intensive piece of assurance work including visiting 6 schools as part of the testing.
- 5.2 Whilst this quarter has seen a steady progress with the QAIP, in Quarter 2 we will continue to review our ways of working to identify further areas for improvement and looking for opportunities to introduce better processes.
- 5.3 As part of our quarterly planning process we have been working in conjunction with the Council's ICT department and have now developed a risk-based ICT IA programme of work. The quarterly IA plans now will include IA work in key ICT areas, with the first scheduled to start in Quarter 2 (refer to **Appendix C**). This is a new initiative for IA which has been successfully led by the team's CISA qualified Principal Internal Auditor.
- 5.4 IA would like to take this opportunity to formally thank all staff throughout the Council with whom it had contact during the quarter. 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.
- 5.5 There are no other matters that the HIA needs to bring to the attention of the Council's CMT or Audit Committee at this time.

Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

30th June 2019

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2019/20****Key:**

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

2019/20 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 30 th June 2019	Assurance Level	Risk Rating				CFQ Received?
				H	M	L	NP	
19-A1	Thematic Review of Schools Payroll	Testing in progress						
19-A2	Compliance with Criminal Finances Act	Testing in progress						
19-A3	Grounds Maintenance - Spend on High Value Equipment	Testing in progress						
19-A4	Battle of Britain Bunker	Testing in progress						
19-A6	Imported Food Office – Regs 669 & 884	Testing in progress						
19-A7	Food H&S - Site Inspections	Testing in progress						
19-A8	Cash Handling in Registrar's Office	Testing in progress						
19-A5	CCTV Control Room Arrangements	Internal Audit review deferred at Management's request – See Appendix B						
Total Number of IA Recommendations Raised				-	-	-	-	
Total % of IA Recommendations Raised				-	-	-	-	

APPENDIX A (cont'd)**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2019/20****2019/20 IA Follow-Up Reviews:**

IA Ref.	IA Follow-Up Review Area	Status as at 30 th June 2019	Recommendations				CFQ Received?
			Implemented	Partly Implemented	Not Implemented	Total	
19-A10	Volunteering	Memo issued on 21 st June 2019	3	0	0	3	Not yet due
19-A9	Follow-Up of Previous IA Recommendations	Testing in progress					
19-A11	Trading Standards	Testing in progress					
Total Number			3 100%	0 0%	0 0%	3	

2019/20 IA Consultancy Reviews:

IA Ref.	IA Review Area	Status as at 30 th June 2019	CFQ Received?
19-C4	Troubled Families Spot Check	Memo issued on 25 th June 2019	Not yet due
19-C1	Private Sector Housing Q1 - Q3	Testing in progress	
19-C2	Inquest Hearing Preparation	Testing in progress	
19-C3	HR IT Projects (Working Group)	Testing in progress	

2019/20 IA Grant Claim Verification Reviews:

IA Ref.	IA Review Area	Status as at 30 th June 2019
19-GC1	Troubled Families Grant - Quarter 1	Certified, memos issued on 24 th April and 26 th June 2019
19-GC3	2017/18 DfE Collaborative Fund	Certified and memo issued on 27 th June 2019
19-GC4	2018/19 DfE Collaborative Fund	Certified and memo issued on 27 th June 2019

APPENDIX B**REVISIONS TO THE 2019/20 INTERNAL AUDIT PLAN ~ QUARTER 1****IA work DEFERRED from the 2019/20 Operational IA Plan for Quarter 1:**

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
19-A5	CCTV Control Room Arrangements	Assurance	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Originally scheduled to start in 2019/20 Quarter 1, Management requested that this review be deferred as a restructure is currently underway and operations are still in development. IA has agreed to review CCTV in Quarter 3 when staffing and processes are embedded.

IA work ADDED to the 2019/20 Operational IA Plan for Quarter 1:

IA Ref.	Planned IA Review Area	Review Type	IA Risk Rating	Review Sponsor	Scope / Rationale
19-C4	Troubled Families Spot Check	Consultancy	HIGH	Tony Zaman Corporate Director, Social Care	Following an announcement by the MHCLG, an inspection of the administration and operation of the Troubled Families grant was carried out on 25 th June 2019. IA was requested by Social Care to provide assistance by verifying the details of 68 'turned around' families before their visit.
19-GC3	Department for Education (DfE) Collaborative Fund 2017/18	Grant Claim	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The Teaching Schools initiative, which is grant funded (in part) by the DfE, provides high quality training, development and support to new and experienced school staff. As part of the grant conditions, each school receiving funding is required to obtain independent external assurance that this funding has been spent in accordance with the aims and objectives of the grant as indicated in the Grant Funding Agreement. This external assurance grant is not part of core school funding and hence there will be a cost to be met by the school for the external assurance grant claim audit.
19-GC4	DfE Collaborative Fund 2018/19	Grant Claim	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	

APPENDIX C**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2019/20 ~ QUARTER 2****IA work scheduled to commence in the 1st July to 30th September 2019 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
19-A12	Cyber Incident Management	Assurance (ICT)	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	All organisations are exposed to the significant threat of security incidents. Investment in establishing effective incident management policies and processes will help to improve resilience, support business continuity, improve customer and stakeholder confidence and potentially reduce the impact of a cyber incident on an organisations operations and objectives. This IA review will provide assurance over the management of cyber incidents and the robustness of our controls.
19-A13	Thematic Review of Pupil Premium Funding in Schools	Assurance	HIGH	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	The Pupil Premium Grant (PPG) provides additional funding for publicly funded schools in England to raise the attainment of disadvantaged pupils and close the gap between them and their peers; and support children and young people with parents in the regular armed forces. The allocation for Hillingdon schools (including academies) for 2018/19 was c£13m. During our quarterly planning process, we identified concerns over some Hillingdon Schools in relation to the effective use of the PPG to support the attainment of disadvantaged pupils. This thematic review aims to provide management with independent assurance over the PPG internal controls and governance arrangements.
19-A14	Absence Management	Assurance	MEDIUM	Fran Beasley Chief Executive	FirstCare is the Council's absence management system. Introduced in 2014, it has automated the way absences are notified, recorded, communicated and managed. The process is easier to use and report upon which helps identify patterns of behaviour and assess the environment and culture of the organisation. All of which are used to make strategic decisions regarding the health and wellbeing of our workforce. IA will perform a methodical review of a sample of long term absences, management of cases and compliance with Council processes.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2019/20 ~ QUARTER 2****IA work scheduled to commence in the 1st July to 30th September 2019 period:**

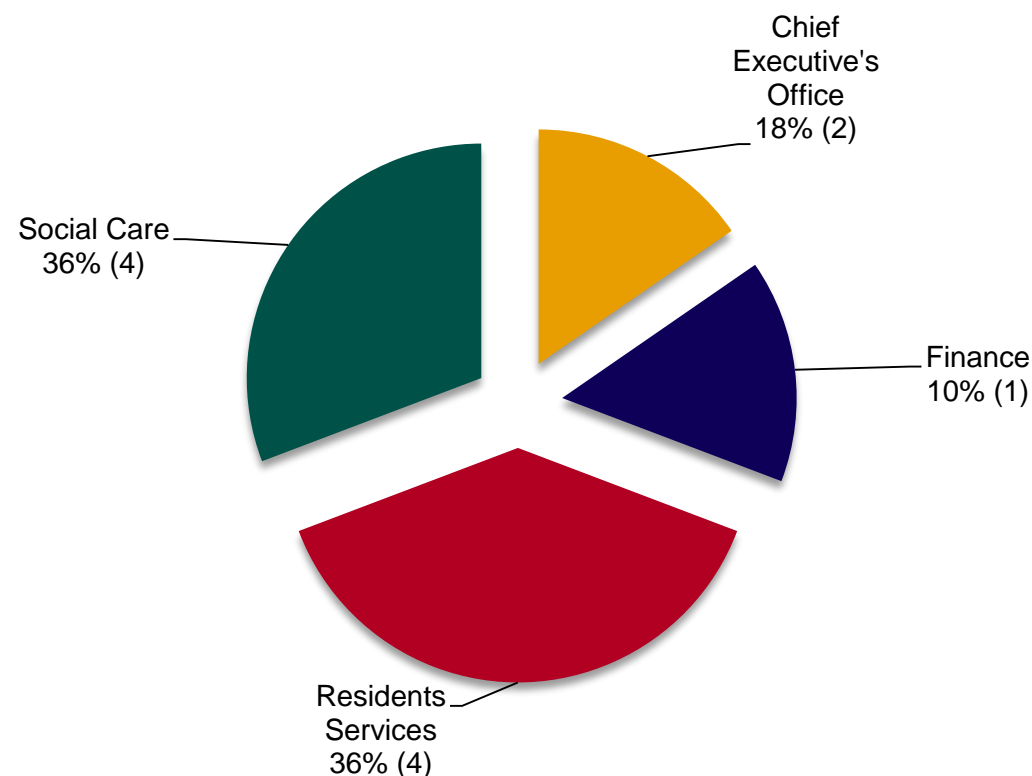
IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
19-A15	Emergency Duty Team Follow-Up	Assurance (Follow-Up)	MEDIUM	Tony Zaman Corporate Director, Social Care	Following the 2018/19 IA assurance review of Emergency Duty Team which received a NO assurance opinion we will check that the 3 HIGH and 1 MEDIUM risk recommendations marked as Implemented by management have been verified.
19-A16	Positive Behaviour Support Team Follow-Up	Assurance (Follow-Up)	MEDIUM	Tony Zaman Corporate Director, Social Care	Following the 2018/19 IA assurance review of Positive Behaviour Support Team which received a LIMITED assurance opinion we will check that the 4 MEDIUM risk recommendations marked as Implemented by management have been verified.
19-A17	Cyber Security Follow-Up	Assurance (Follow-Up)	MEDIUM	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Following the 2018/19 IA assurance review of Cyber Security which received a LIMITED assurance opinion we will check that the 2 HIGH and 1 MEDIUM risk recommendations marked as Implemented by management have been verified.
19-GC2	Housing Benefit Subsidy Grant	Grant Claim	N/A	Paul Whaymand Corporate Director of Finance	LA's are responsible for administering housing benefit claim subsidy from the DWP in accordance with section 140 of the Social Security Admin Act 1992 and the Income-related Benefits (Subsidy to Authorities) Order 1998, SI 562 as amended. Ernst & Young (EY), as the Council's appointed External Auditor, 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 EY fees.
19-GC5	Disabled Facilities Capital Grant	Grant Claim	N/A	Jean Palmer Deputy Chief Executive & Corporate Director of Residents Services	Disabled Facilities Capital Grants (DFGs) are provided by the Council to help meet the cost of adapting a property for the needs of a disabled person. IA is required to undertake verification work for the DFG claim due for submission by 30th September 2019.

APPENDIX C (cont'd)**DETAILED OPERATIONAL INTERNAL AUDIT PLAN 2019/20 ~ QUARTER 2****IA work scheduled to commence in the 1st July to 30th September 2019 period:**

IA Ref.	Planned Audit Area	Audit Type	Risk Assessment	Review Sponsor	Rationale
19-GC6	Bus Service Operators Grant	Grant Claim	N/A	Tony Zaman Corporate Director, Social Care	The Local Authority Bus Service Operators Grant (BSOG) 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 BSOG Ring-Fenced (Revenue) Grant Determination 2018/19.
19-GC7	Pothole Action Fund	Grant Claim	N/A	Fran Beasley Chief Executive	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 to London Authorities of which LBH was awarded £415,158 to help repair damage to the local road network. As part of the conditions of the grant the Authority is required to audit the Fund by 30 th September 2019.
19-GC8	Troubled Families (TF) Grant - Quarter 2	Grant Claim	N/A	Tony Zaman Corporate Director of Social Care	The TF programme is a Central Government scheme under the MHCLG, with the stated objective of helping troubled families turn their lives around. The Council receives a payment by results from the MHCLG 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 2019/20 ~ QUARTER 2 (cont'd)**

IA work scheduled to commence in the 1st July to 30th September 2019 period – Analysis by Corporate Director:







- The relevant Audit Sponsor (Corporate Directors, Directors, Deputy Directors and Heads 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 Directorate (Group).

APPENDIX D**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

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

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the authority and the reporting of financial management; and
 - the performance management of the authority and the reporting of performance management.
2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.
3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX D (cont'd)**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

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

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AUDIT COMMITTEE - Internal Audit Charter

Committee name	Audit Committee
Officer reporting	Sarah Hydrie, Head of Internal Audit & Risk Assurance
Papers with report	The Internal Audit Charter - July 2019
Ward	All

HEADLINES

The Internal Audit (IA) Charter establishes the IA activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. As such it is a key document in respect to the Council's internal control, risk management and corporate governance framework. This update of the IA Charter is in line with best practice, and reflects minor changes to the UK Public Sector Internal Audit Standards (PSIAS) and International Internal Audit Professional Practices Framework (IPPF). The last update of the IA Charter was previously approved by the Council's Audit Committee on 11th April 2018.

RECOMMENDATIONS:

That the Audit Committee:

1. **Note the updated Internal Audit Charter.**

SUPPORTING INFORMATION

The IA Charter sets out how IA complies with the PSIAS across the following key areas:

1. Purpose;
2. Statutory Requirement & Authority;
3. Status of IA within the Council;
4. Objectives & Mission;
5. Scope of IA;
6. Responsibility;
7. Reporting Lines;
8. Other IA Work;
9. Ethics; and
10. Quality Assurance.

BACKGROUND PAPERS

The IA Charter - July 2019.

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Internal Audit Charter

1. Purpose

- 1.1 In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit (IA) Charter, consistent with the [Mission of Internal Audit](#) and the mandatory elements of the International Professional Practices Framework (the [Core Principles for the Professional Practice of Internal Auditing](#), the [Code of Ethics](#), the [Standards](#) and the [Definition of Internal Auditing](#)).
- 1.2 The London Borough of Hillingdon IA Charter defines the purpose, authority and responsibility of the IA Service within the Council. The Charter establishes the Head of IA's (HIA's) position within the Council including the nature of the HIA's functional reporting relationships. The Charter authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of IA activities.
- 1.3 The HIA is responsible for applying this IA Charter and ensuring it is maintained, up to date and, in line with the [Public Sector Internal Audit Standards](#) (PSIAS). This Charter will be reviewed every 3 years or sooner if significant changes have been made by senior management (Corporate Management Team [CMT]) to ensure that it remains relevant to the needs of the Council. This Charter shall be presented to the Board (which for the purpose of the PSIAS is the Audit Committee) for approval.

2. Statutory Requirement and Authority

- 2.1 The Local Government Accounts and Audit Regulations 2015 require every local authority to undertake an effective IA to evaluate the effectiveness of its risk management, control and governance processes, taking into account the PSIAS or guidance.
- 2.2 The IA service is responsible for providing assurance to all of its key stakeholders including the Audit Committee, Senior Management and in particular the Chief Financial Officer to help them discharge their statutory responsibilities under Section 151 (S151) of the Local Government Act 1972. An effective IA service will be seen as a catalyst for improvement at the core of the Council and will become recognised across the Council as a value added, trusted advisor and business assurance provider.
- 2.3 Deriving from those regulations, and those authorising this Charter, **the IA service has free unrestricted access** and ability to plan and undertake audit assignments necessary to fulfil its scope. To enable full discharge of its duties, the HIA and **the IA service has authority** to:
 - Have right of direct access to the independent Chair of the Audit Committee;
 - Have unrestricted access to all Council functions, records, property and personnel; and
 - Obtain assistance, where necessary, from Council officers and contractors involved in the subject of audit engagements.

- 2.4 The HIA has overall accountability for ensuring the IA service safeguards information it has obtained and for maintaining confidentiality of information where applicable.

3. Status of Internal Audit within the Council

- 3.1 IA will be independent of all activities that it audits to enable internal auditors to perform their duties in a way that allows them to make professional and impartial judgements and recommendations.
- 3.2 The IA activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not engage in any activity that may impair their judgement or objectivity.
- 3.3 IA will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 3.4 The Council's IA service is part of the Finance Directorate (Group) and is led by the Head of Internal Audit & Risk Assurance (HIA), who reports directly to the Deputy Director of Exchequer & Business Assurance Services and indirectly to the Corporate Director of Finance (S151 Officer). The HIA also has unrestricted access to the independent Chair of the Audit Committee, the Chief Executive, External Audit (Ernst and Young), the Leader of the Council and all other Members and staff.
- 3.5 The HIA will annually confirm to the Board the organisational independence of the IA activity with any impairment disclosed to the appropriate parties.

4. Objectives and Mission

- 4.1 IA is defined in the PSIAS as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"*.
- 4.2 The IA service acknowledges and aspires to achieving the mission of Internal Auditing as provided by the IIA:
"To enhance and protect organisational value by providing stakeholders with risk based and objective assurance, advice and insight."
- 4.3 IA is not responsible for control systems and managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.

5. Scope of Internal Audit

- 5.1 The HIA will provide an annual Opinion Statement to the Council, assisting the S151 Officer, through the Board (Audit Committee) in completing the AGS, which forms part of the statutory Statement of Accounts. The AGS provides public assurances about the effectiveness of the Authority's risk management framework, corporate governance arrangements and the system

of internal control. The HIA opinion statement (see 3 core areas overleaf) meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015 and is in line with the UK PSIAs as follows:

- (i) **Risk Management** - Risk Management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives;
- (ii) **Corporate Governance** - Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled; and
- (iii) **System of Internal Controls** - The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies which incorporates both financial and non-financial systems.

- 5.2 In addition to these **3 core annual opinion areas**, IA may, subject to specific arrangements, undertake engagements in the areas of counter fraud as detailed within this IA Charter.
- 5.3 IA also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The IA service may evaluate specific operations at the request of the Audit Committee or Senior Management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity.

6. Responsibility

Professional Standards

- 6.1 The HIA and their team have responsibility to undertake their work at all times in accordance with the PSIAs (the 'Standards') and, the IIA's Code of Ethics (the 'Code') and the broader International Professional Practices Framework (IPPF) which applies across the global practice of IA. Those members of the IA team who have membership of professional bodies will comply with the relevant requirements of that organisation.
- 6.2 Deriving from those regulations, and those authorising this Charter, the IA service has free unrestricted ability to plan and undertake IA assignments necessary to fulfil its scope. IA undertakes work in accordance with the Standards as set out below.

Risk Based IA Strategy and IA Plan

- 6.3 The IA plan is a crucial component of the annual opinion statement provided by the HIA to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive risk-based IA plan to determine the priorities of the IA activity, consistent with the organisation's goals. The overarching IA plan is presented to the Council's Corporate Management Team (CMT) and Audit Committee for approval. This plan is supplemented by quarterly operational risk based IA plans for approval. Any significant deviation from the approved quarterly IA plans will be communicated to senior management and the Audit Committee through quarterly IA progress reports.
- 6.4 The quarterly IA plan is undertaken based on a risk assessment, enabling the HIA to ensure that the most effective IA coverage is achieved, which focuses on the Council's key risks. Managers are required to ensure that key staff are available to IA during the agreed period of a review and for ensuring that information requested is accurate, timely and reliable. The

quarterly IA plan, including resource requirements and limitations, is presented to CMT and Audit Committee for approval.

Management of Engagements

- 6.5 For each IA engagement, a detailed Terms of Reference (ToR) will be prepared and discussed with the relevant managers. The ToR will establish the engagement's service objectives, key risks, scope, timing and resource allocations for the review. Each IA engagement will be sponsored by a member of CMT and engagements intended to provide an IA assurance opinion will be undertaken using a risk-based approach. IA will promptly communicate its findings and conclusions to management, proposing recommendations to address any identified weaknesses, risks or issues. The HIA will inform the Council (via the Audit Committee) of any remaining material weaknesses.
- 6.6 The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and engagement results to demonstrate the adequacy of evidence obtained to support professional judgements made. This includes management supervision to ensure objectives are achieved, quality assured and staff developed.
- 6.7 A report is issued to appropriate parties following the conclusion of each IA engagement and is distributed to the review sponsor and relevant key contact(s). The report includes an executive summary with a particular emphasis on risk management, internal control and governance strengths and weaknesses identified during the review. A management action plan is appended to reports (where applicable) which provides management with the opportunity to respond to the recommendation(s) raised and set out what action (risk response) they propose to address the risk(s) identified.

Follow-up

- 6.8 IA follows-up all 'High' and 'Medium' risk-rated recommendations to establish if management has taken appropriate action to address any weaknesses, risks or issues identified. Escalation procedures are in place for any management responses that are judged to be inadequate in relation to the identified risk. These procedures will ensure that the impact of not taking action (Tolerating the risk) have been understood and accepted at a sufficiently senior management level.

Management Responsibilities

- 6.9 In order to be effective, **the IA service requires full co-operation of senior management**. IA is not responsible for internal control systems or managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.
- 6.10 Senior management must also keep the IA service abreast of significant proposed changes in processes, systems, newly identified significant risks and all suspected or detected fraud or corruption. Senior management will also ensure that the IA service has access to sufficient resources in order to deliver the IA plan as approved by the Audit Committee. Responsibility for the deployment of resources in delivery of the IA plan rests with the HIA.

7. Reporting Lines

Reporting Lines

- 7.1 The HIA has overall responsibility for the day-to-day management of the IA service. In agreement with those charged with governance, the HIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for

the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.

- 7.2 The IA service will maintain effective relationships with management within the Council, including consultation in the IA planning process at quarterly planning level and with respect to individual reviews. The HIA will share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Staff Training and Development

- 7.3 IA will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to the IA objectives and to the standards set out in the PSIAS. The staffing of IA will be kept under review by the HIA and the Audit Committee.
- 7.4 The HIA holds a relevant professional qualification (CMIIA, CCAB, or equivalent) and will be suitably experienced. All IA staff will be properly trained to fulfil their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

8. Other Internal Audit Work

Wider Remit of Business Assurance

- 8.1 The IA activity sits within the Council's Business Assurance Service. The role of the HIA incorporates wider responsibilities of Business Continuity, Risk Management, Insurance and Health & Safety. Whilst the remit of Business Assurance is wide, we will continue to focus on delivering consistently high quality value added IA reviews to help services to succeed. This will be undertaken through the application of appropriate safeguards to maintain independence and objectivity to ensure an unbiased assessment, having regard to the principles contained within the Code of Ethics.

Third Parties

- 8.2 IA may carry out assurance work for third parties (i.e. organisations outside of the Council). Assurances provided to third parties are provided in line with the assurance provided to the Council, as described within this document.

Consulting and Advisory Services

- 8.3 IA may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Council. IA may also evaluate specific operations at the request of the Audit Committee or CMT, as appropriate. Based on its activity, IA is responsible for reporting significant risk exposures and control issues identified to the Audit Committee/ CMT.

Counter Fraud

- 8.4 IA's role in any fraud or corruption related work will be in accordance with the Council's Counter Fraud Strategy and with resources approved by the Audit Committee in the Quarterly IA Plans (in liaison with the Head of Counter Fraud). However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, IA may assist or lead, as needed, in the identification and investigation of suspected fraudulent activities within the Council and notify Management and the Audit Committee of the results.

Major Projects

- 8.5 The IA service will be informed of major projects and their progress through continued discussion with Management and attendance at project working groups, where invited to attend. Where a project team seeks advice or further support from the IA service, we will treat the request as one for consultancy support and make appropriate arrangements to ensure future objectivity is not impaired.

Risk Management

- 8.6 Business Assurance will be guided by the IIAs position paper on [*The Role of Internal Auditing in Enterprise-Wide Risk Management*](#) and therefore Business Assurance will not undertake any roles defined as inappropriate by that guidance. Inappropriate roles include setting the Council's risk appetite, imposing a risk management process and taking on full accountability for risk management. The position paper lists the following as legitimate roles (with safeguards):
- Co-ordination of risk management activities;
 - Consolidating risk reporting;
 - Developing a risk approach for approval and its subsequent maintenance;
 - Facilitating identification and evaluation of risks; and
 - Coaching management in responding to risks.
- 8.7 The Council's [*Risk Management Policy and Guidance*](#) defines the role of Business Assurance in relation to risk management, including safeguards put in place, which include:
- Internal separation of duties within the Business Assurance team, managed through the roles of the Head of Internal Audit & Risk Assurance and the Risk & Insurance Manager. Any Internal Audit review of risk management will be undertaken by an external provider to enhance independence and objectivity in this area;
 - The Cabinet holding responsibility for approving the Authority's Risk Management Policy and Guidance;
 - The Corporate Director of Finance, as Chief Finance Officer, being responsible for preparing the Authority's risk management policy statement and for promoting it throughout the authority; and
 - The Audit Committee will monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on strategic risk related issues.

9. Ethics

Code of Ethics

- 9.1. IA will abide by the Code of Ethics set out in the PSIAS. IA staff are bound by the two essential components of the Code of Ethics: 1) *Principle*; and 2) *Rules of Conduct*, applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency.
- 9.2 IA will apply the four *Attribute Standards* and the eight *Performance Standards* set out in the PSIAS. Any instances of non-conformance with the Code of Ethics or the PSIAS that impact the scope or operation of IA activity will be reported to CMT and the Audit Committee. Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life*.

Due Professional Care and Competency

- 9.3 IA staff will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Independence and Objectivity

- 9.4 The HIA will maintain and regularly review a register of the Internal Auditors' declarations of business and personal interests. If there are occasions where internal auditors undertake non-IA activities including the development, design or implementation of systems, then that individual will not subsequently perform an IA review of those systems.

10. Quality Assurance

Professional Standards

- 10.1. The IA activity will govern itself by adherence to The Chartered Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics and the International Professional Practices Framework (IPPF), incorporating the Mandatory Standards.
- 10.2 This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activities performance to ensure that engagements are performed with proficiency and due professional care. In addition, IA will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Staff Training and Development

- 10.3 All IA staff will be properly trained (ref para. 7.3) to fulfil their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

Quality Assurance Improvement Programme

- 10.4 The work of IA will be controlled at each level of operation to ensure that a continuously effective level of performance is being maintained. The HIA maintains a Quality Assurance and Improvement Programme (QAIP) designed to gain assurance that the work of IA is compliant with the PSIAS and achieves its objectives. The QAIP will cover all aspects of the IA activity, including but not limited to:
- Client Feedback Questionnaires (CFQs) that are sent out at the completion of each audit;
 - A self-assessment of the IA service each year and its compliance with the PSIAS; and
 - On-going internal performance monitoring and reporting by the HIA, as well as an external assessment at least once every five years by a suitably qualified, independent assessor.
- 10.5 The results of the QAIP and progress against any improvement plans will be reported to Senior Management and the Board through quarterly IA progress reports, as well as within the Annual IA Report.
- 10.6 To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

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AUDIT COMMITTEE - 2018/19 Counter Fraud Annual Report

Committee name	Audit Committee
Officer reporting	Muir Laurie, Deputy Director of Exchequer & Business Assurance Services
Papers with report	2018/19 Counter Fraud Annual Report
Ward	All

HEADLINES

The attached report presents the Audit Committee with an overview of all Counter Fraud work carried out in relation to 2018/19 and assurance in this respect. It also provides an opportunity for the Deputy Director of Exchequer & Business Assurance Services 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 Deputy Director of Exchequer & Business Assurance Services 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 activity.

RECOMMENDATIONS:

That the Audit Committee:

- 1. Notes the Counter Fraud Annual Report for 2018/19; 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

See attached report

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BUSINESS ASSURANCE

Counter Fraud Annual Report to Audit Committee: 2018/19

30th June 2019



Contents

The Counter Fraud key contacts in connection with this report are:

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT) supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.
- 1.1.2 As well as counter fraud activity, the BACFT also conducts a range of other types of investigative work which do not necessarily have a criminal element to them i.e. revenue inspections, disciplinary investigations, etc. There is also a range of preventative work that the team is responsible for carrying out, such as fraud awareness training and ensuring the Council have up-to-date and appropriate corporate investigation policies and procedures. The BACFT also leads on the Council's assessment of the risk of fraud and corruption across all council services.

1.2 The Purpose of the Counter Fraud Annual Report

- 1.2.1 The Counter Fraud Annual Report 2018/19 provides the Council's Corporate Management Team (CMT) and Audit Committee with information on the counter fraud work carried out during 2018/19. It summarises for CMT and the Audit Committee the key findings from the quarterly progress reports presented during the year. In addition, it provides an opportunity for the Deputy Director of Exchequer & Business Assurance Services [DDEBA] to highlight any significant issues arising from the counter fraud work in 2018/19.
- 1.2.2 The Annual 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 DDEBA to be held to account in this respect.

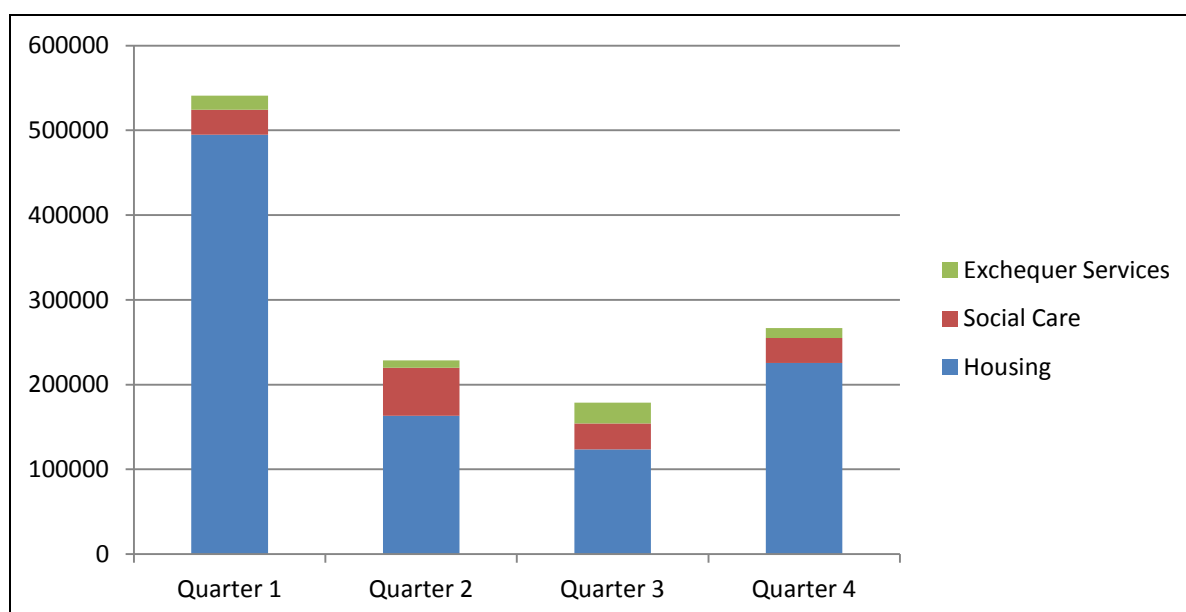
2. Executive Summary

- 2.1 In 2018/19 the BACFT achieved a number of successful outcomes against the backdrop of a number of major change and improvement initiatives within the team. This includes the **delivery of a total of £1.2m in loss prevention savings within Council services** and the introduction of new counter fraud work streams focusing on efficient, effective use of resource and a risk based approach to counter fraud work. This is a significant achievement in light of the challenge of delivering a **successful restructure of the BACFT**, started at the end of 2017/18 and the impact on resourcing this has had within Quarters 1 and 2.
- 2.2 In the area of Housing Services, the BACFT has focused significant counter fraud resource, carrying out successful proactive projects as well as ongoing investigations and verifications work. This has resulted in **£869k in loss prevention** and notional savings. As part of this work, the team has **recovered 19 council properties** and successfully **prosecuted two individuals for Right to Buy and non occupation fraud**. These results represent a key part of the work carried out by the team in 2018/19.
- 2.3 During 2018/19 the team has also carried out other counter fraud work, including proactive projects in the areas of Exchequer Services, Social Care and Blue Badges. This generated over **£111k in loss prevention savings** and **two prosecutions; one for a Blue Badge offence** and **one for Council Tax Reduction fraud**. The team has developed its collaborative approach with these service areas this year in an attempt to provide a more comprehensive counter fraud service across the whole of the council. The focus has continued to be on a risk based approach to tackling fraud and the 2018/19 results represent a solid base upon which to build more resilience against fraud in future years.

2.4 In 2018/19 the BACFT saw the successful introduction of a **Home Office Immigration Enforcement Officer (IEO)**. The IEO joined the team in April 2018 through a joint initiative with the Home Office to provide better access to Home Office data to assist local authority decision making where immigration status is an issue. Despite there being a cost to the Council for the IEO service, the prudent estimate of the return on this investment in terms of **loss prevention achieved for 2018/19 is three times the cost**. This loss prevention is made up of savings in a number of Council service areas, but mainly in Housing and Social Care. Due to this success, the BACFT has received agreement to continue with this initiative in 2019/20.

2.5 **Chart 1** below summarises the areas* in which the BACFT has achieved loss prevention savings in 2018/19 by quarter. This clearly shows the emphasis placed in the area of Housing Services and provides context for where savings have been achieved throughout the year. A full breakdown of loss prevention savings can be found at **Appendix A**.

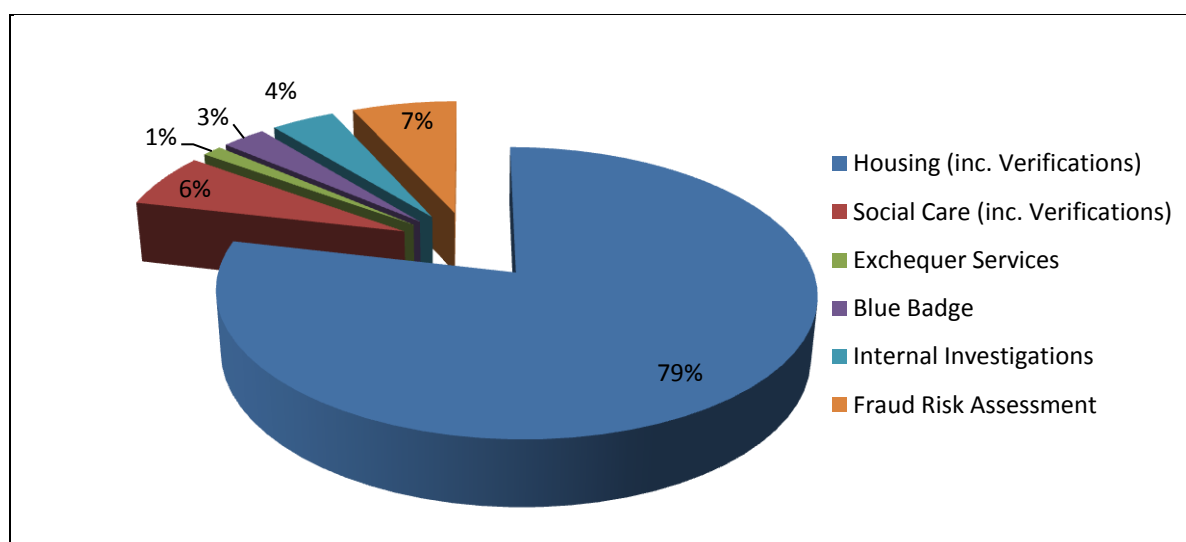
Chart 1 - BACFT Loss Prevention Savings Achieved in 2018/19



* This includes savings generated through the work of the IEO

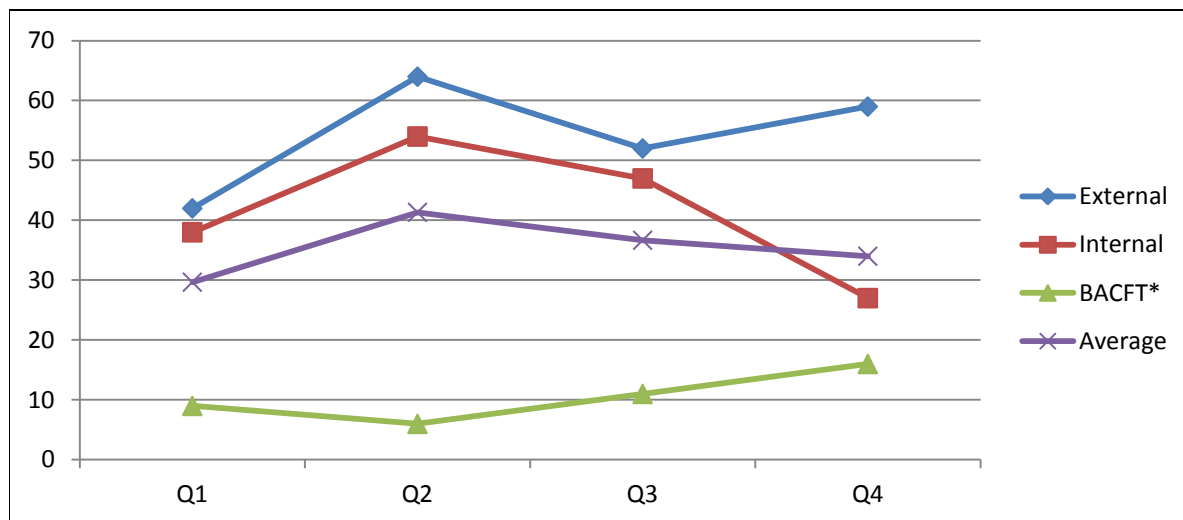
2.6 **Chart 2** below is a summary of the allocation of BACFT resource in 2018/19. This includes NFI data matching work within the allocation. This strongly correlates to the loss prevention savings outcomes, but also details the other areas in which resources have been allocated throughout the year. Note that outcomes for Exchequer Services are often a by-product of work primarily within Housing, which explains the lower resource allocation.

Chart 2 - BACFT Allocated Resource in 2018/19



- 2.7 In 2018/19 the BACFT received a total of **425 referrals for investigation** from both internal and external sources, including the fraud hotline and the online referral that was set up in year. In response to the numbers of referrals falling at the end of 2017/18 and into Quarter 1 of 2018/19, the team carried out a number of fraud awareness sessions with colleagues in key departments, such as Housing Services and Social Care. **Chart 3** below provides a summary of the trend of referrals over the year.

Chart 3 - Number of 2018/19 Referrals by Quarter



**Referrals generated through BACFT proactive projects or data matching exercises*

- 2.8 The DDEBA acknowledges that there are further improvements to be made in the number and quality of referrals received. Initiatives to address this, including a comprehensive fraud awareness campaign, are included in the 2019/20 Counter Fraud Strategic Plan.
- 2.9 During the year the team underwent a major restructure in order to achieve the right skills mix of resource to take forward the objectives of the Counter Fraud Strategic Plan 2019/20. This included a reorganisation of the management structure to create the strategic role of Head of Counter Fraud and to seek to increase the resource within the Intelligence and Verifications sub-teams and reduce the resource for criminal investigations. Despite this change, the team has **successfully prosecuted five cases of fraud in the criminal courts** during 2018/19.

3. Analysis of Counter Fraud Activity in 2018/19

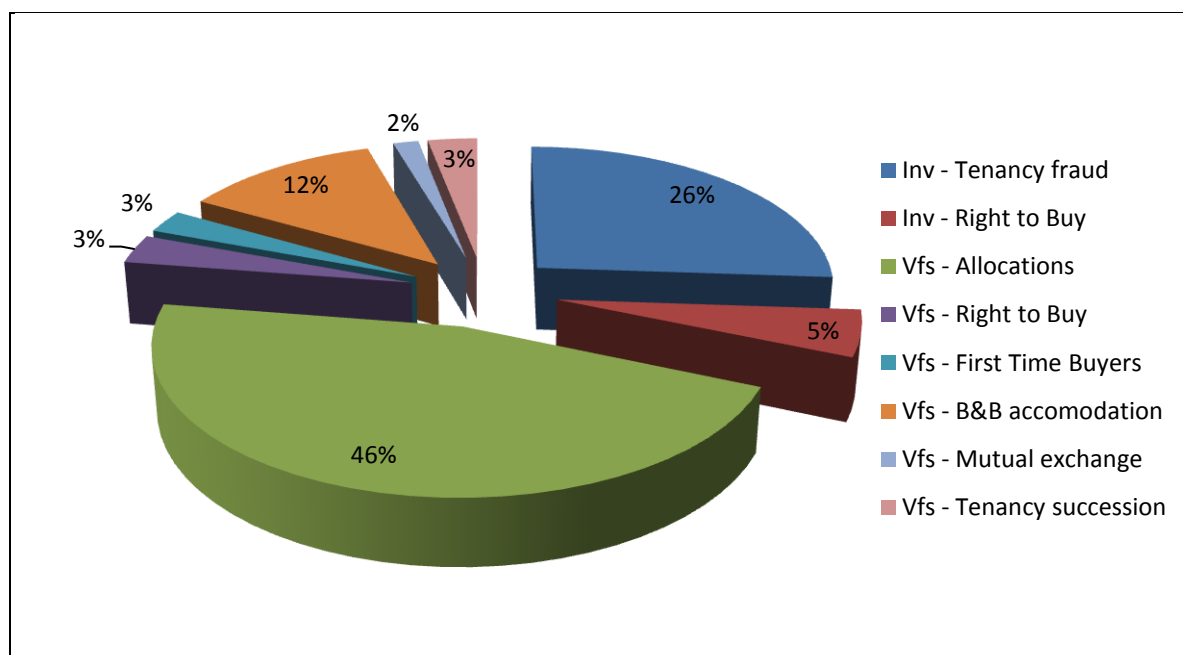
- 3.1 This section provides a more detailed analysis of the activities of the BACFT within 2018/19, detailing the specific work streams and the trends within each area for comparison and contrast. During the year the activities of the BACFT were predominantly focussed on four main fraud areas of work; **Housing, Social Care, Exchequer Services** and **Blue Badge**. The team also carried out several internal investigations during the year which at times includes investigations under the Council's Disciplinary Policy and Procedure, whilst ensuring full compliance with the Corporate Investigations Protocol.

3.2 Housing Fraud

- 3.2.1 Housing Fraud continued to be the main area for work for the BACFT in 2018/19. The objective of this work is the prevention and detection of housing tenancy fraud, and providing assurance to key stakeholders that applicants' eligibility for housing services is properly verified, prior to being offered a tenancy. This work is conducted using information gathered by the Intelligence Officers and Verifications Officers in close liaison with Housing Services. This involves the team carrying out confirmation checks, which often includes un-notified visits to properties. The team also work with a variety of social landlords and statutory agencies to help detect fraud where information sharing protocols are in place, to try and ensure that those people living in Council properties are properly entitled.

- 3.2.2 The Council is exposed to a number of housing fraud risks, as highlighted in the Counter Fraud Strategy 2018/19 and as a consequence significant BACFT resource was deployed on the prevention and detection of housing fraud in 2018/19. **Chart 4** below details the allocation of BACFT resources in 2018/19 within the fraud risk area of Housing Services.

Chart 4 - BACFT Work Within Housing Services in 2018/19



- 3.2.3 **Chart 4** sets out the proportion of resource used to carry out Verifications (Vfs), which has been mainly within tenancy pre-allocation checks. This also highlights the work carried out in new areas of verification brought in within the year, such as Mutual Exchange and Tenancy Succession. This was as part of the CFT strategy in 2018/19 to provide a more comprehensive counter fraud and verifications coverage of Housing Services. To accommodate this, the verifications service was changed to a risk based approach which enabled resources to be deployed more strategically in the areas of highest risk. In 2019/20 it is expected that proportion of resource allocated to pre-allocation checks will remain high, but more verifications will be carried out in the other areas.

- 3.2.4 Per **Table 1** below, in 2018/19 the BACFT directly recovered **19 Council properties**. The team also contributed to the wider number of properties recovered this year throughout Housing Services, as properties can be identified as abandoned or sub-let in a variety of ways, and not always by a direct counter fraud referral. The number of properties directly recovered by the BACFT has continued to reduce over the last three years. This is as a result of the success by the BACFT in tackling tenancy fraud and increasing fraud awareness. Specifically, as the BACFT's focus on this area has become more widely known across the borough, the number of properties being sub-let has significantly reduced, which is in line with Council's fraud prevention strategy.

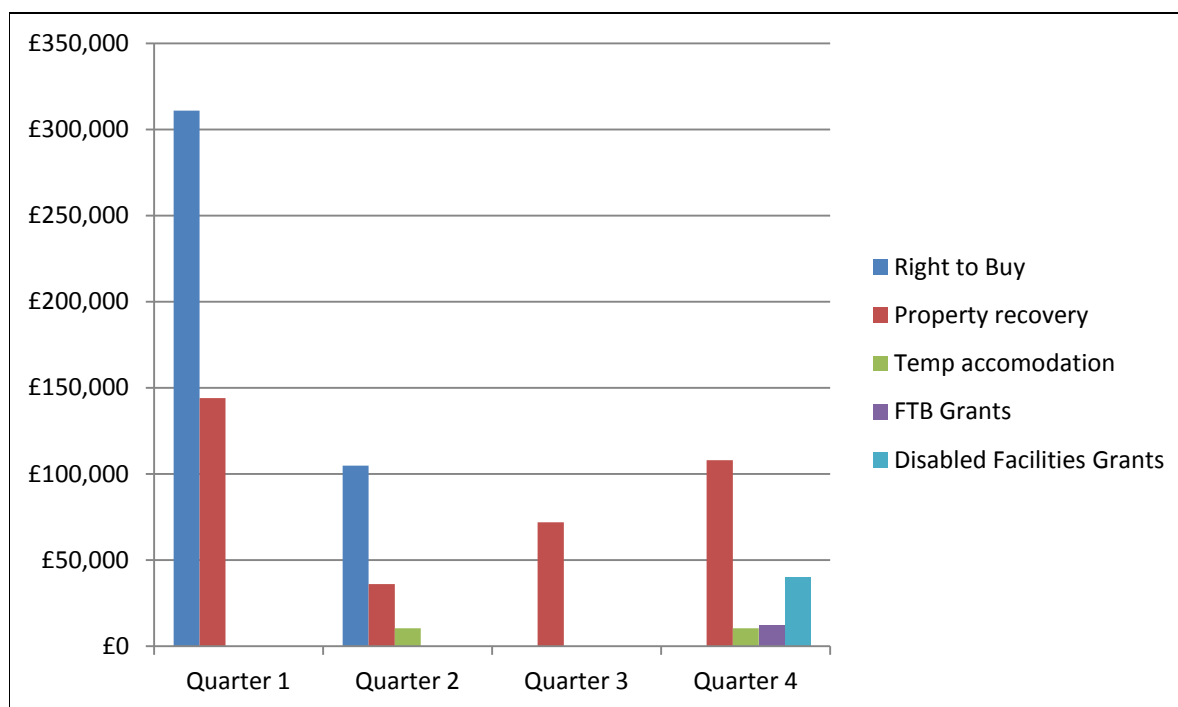
Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud	2018/19		2017/18		2016/17	
	Cases	£k/value**	Cases	£k/value	Cases	£k/value
Total number of recovered properties	19	£342k	43	£774k	64	£1,152k

** = 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.

3.2.5 The BACFT's work within Housing Services has made a major contribution to the loss prevention outcomes of the team and represents the single biggest allocation of counter fraud resource within the council. **Chart 5** below summaries the loss prevention outcomes of the team by area. Some of these outcomes are notional, such as the recovery of properties, as outlined in **Table 1** (on previous page). Others are a loss prevention outcome where the team has prevented expenditure, such as with accommodation that has been closed or 'Right to Buy' discounts, or a direct cashable saving where the Council has recovered, or will recover funds.

Chart 5 - BACFT Loss Prevention Outcomes in Housing 2018/19



3.2.6 Per **Table 2** below, in 2018/19 the BACFT has successfully identified **799** housing tenancy allocation cases for rejection. Performance in this area has been consistent in terms of the number of verifications that have been undertaken and the number of cases that have been rejected. Of the **799** cases that have been rejected, **38** applications have been completely closed down. Without these BACFT enhanced verification checks, these applications are likely to have been successful and the applicant would then have been housed in a Council property that they are not entitled to.

Table 2 ~ Housing Tenancy Verification Cases 2018/19

Housing Tenancy Verification Cases	Q1	Q2	Q3	Q4	Total
Total number of cases reviewed	351	396	690	472	1,909
Total number verified as accurate	238	224	377	271	1,110
Total number rejected	113	173	312	201	799
% identified by BACFT for rejection	32%	44%	45%	43%	42%

3.3 National Fraud Initiative

3.3.1 The National Fraud Initiative (NFI) is a data matching exercise co-ordinated by the Cabinet Office (CO) which is carried out every 2 years. It matches electronic data from 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.

3.3.2 NFI exercise data matches for Hillingdon were received for 2018/19 during the first week of February 2019. Since that point, data sets have been gradually being returned in a staggered approach through into 2019/20. The team has continued to work through the data matches identified for 2017 and 2019.

3.3.3 The results for the NFI **loss prevention work in 2018/19 were savings of £7,246**, including the recovery of a Council property. Moving forward, in line with the Counter Fraud Strategic Plan 2019/20 approved by CMT and the Audit Committee, the BACFT will place greater emphasis on the use of data matching and analytics. This will help to further prevent and detect fraud against local taxpayers' money and to identify increased loss prevention opportunities.

3.4 Blue Badge Fraud

3.4.1 The Council is committed to preventing and detecting Blue Badge Fraud through the work of the BACFT. 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.

3.4.2 In 2018/19 the approach in this area was to carry out proactive 'operations' targeting areas of highest risk for parking offences. BACFT officers in plain clothes checked the badges of all vehicles parking within a disabled bay, or on yellow lines and displaying a blue badge. This is to ensure that the badge holder is present or is being collected, but also to ensure that the badge is genuine.

3.4.3 In the 2018/19 year, the approach was to carry out one Blue Badge proactive operation per quarter. The results for the year were as follows:

- 5 proactive operations targeting high risk areas;
- 296 blue badges checked by BACFT officers;
- 12 criminal investigations resulting in a sanction imposed for misuse;
- 9 financial penalties issued following investigation; and
- 1 criminal prosecution for a more serious case with the offender being ordered to pay £3,500 in costs to the Council.

3.4.4 Since the BACFT commenced proactive Blue Badge operations in 2018, the recorded **instances of misuse of Blue Badges in the borough have been significantly falling in number**. This reflects positively on how the Council tackles blue badge fraud and provides reassurance to residents that fraud in this area will not be tolerated by the London Borough of Hillingdon. This initiative increases public awareness of the BACFT's work across the borough and also inspires community confidence. The BACFT will continue to carry out proactive work in this area in 2019/20.

3.5 Counter Fraud Proactive Projects in 2018/19

3.5.1 Part of the BACFT's approach to tackling fraud, is to carry out focused proactive projects within service areas where there is the highest risk of fraud and financial loss. This enables to BACFT to focus resource on where it is likely to have the biggest impact, and also gives assurance over areas of council expenditure that is at a high risk.

3.5.2 Per **Table 3** over the page, the BACFT carried out three main proactive counter fraud projects in 2018/19 (not including Blue Badge operations). Detailed within the table is the rationale behind each project and its outcomes. These projects represent a significant achievement for the BACFT in terms of implementing the risk based methodology and demonstrating the value in undertaking project work as a proactive measure to prevent financial loss and detect fraud. Further proactive project work is planned for 2019/20 as detailed in the Counter Fraud Strategic Plan.

Table 3 ~ Proactive Counter Fraud Projects 2018/19

Proactive Project & Rationale	Project Outcomes
Social Care - Section 17 Expenditure This is an area of high expenditure and high risk for the Council. Section 17 (S17) funding of accommodation is used in emergency situations where a person cannot be accommodated by other means. It is high risk because of the significant cost of emergency accommodation and the risk that it will be misused by the recipient.	<ul style="list-style-type: none"> Number of cases reviewed - 53 Number of cases validated - 50 Cases recommended to cease funding - 3 Loss prevention through stopping funding - £24,974
Social Care - Unaccompanied Asylum Seeking Children (UASC) As with S17, this area of expenditure within social care is high risk due to the likelihood of accommodation funded for UASC cases being misused. The cost of accommodation is high and assurance is needed that expenditure continues to be needed.	<ul style="list-style-type: none"> Number of cases reviewed - 85 Number of cases validated - 67 Cases recommended to cease funding - 18 Loss prevention through stopping funding - £134,316¹
Housing Services - Tenancy fraud The objective of this project was to verify that Council properties are lawfully occupied. This exercise helped identify fraud being committed through subletting or non-occupation. Our work in this area led to the recovery of Council properties and the identification of associated loss preventions e.g. Council Tax discounts.	<ul style="list-style-type: none"> Number of tenancies reviewed - 327 Tenant occupation verified - 304 Number unable to verify - 22 Number of investigations opened² - 12 Properties returned³ - 1 Other notable outcomes - £40k DFG loss prevention

¹ This figure was reported in the BACFT Progress Report for Q2 of 2018/19, but did not feature in the cumulative loss prevention savings figures reported for Q3 and Q4 2018/19.

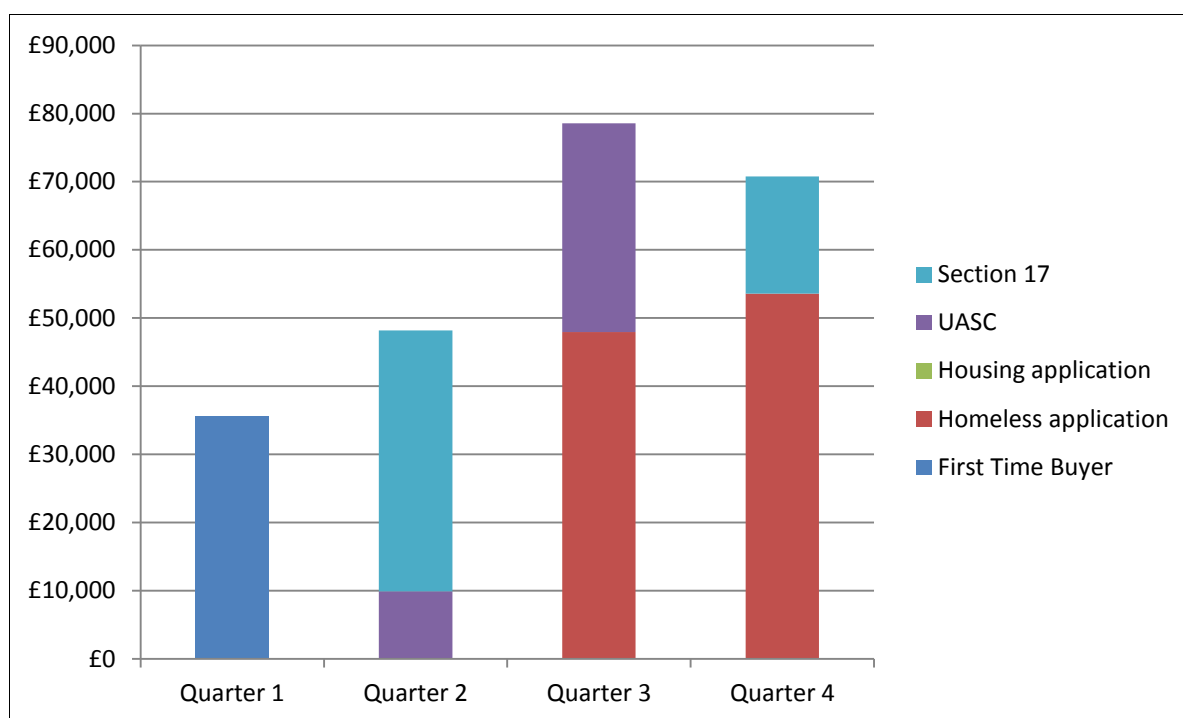
² These investigations are ongoing as at 31 March 2019.

³ Indications are that properties returned from the project will increase and be reported as part of 2019/20 progress.

3.6 Immigration Enforcement Officer (IEO)

3.6.1 Since 16th April 2018, the BACFT has had a Home Office IEO working as part of the team. The purpose is to provide enhanced access to Home Office data for the purpose of assessing cases involving immigration status and for assisting in counter fraud work. A number of challenges had to be overcome in the initial integration of the IEO into the BACFT and working together with other Council departments. A key part of this was ensuring the visibility of the IEO to the wider Council and enabling the capture of comprehensive management information about the value of the IEO's work. This has been successfully achieved through working closely with key departments to embed a process for working with the IEO and making sure that outcomes are accurately recorded.

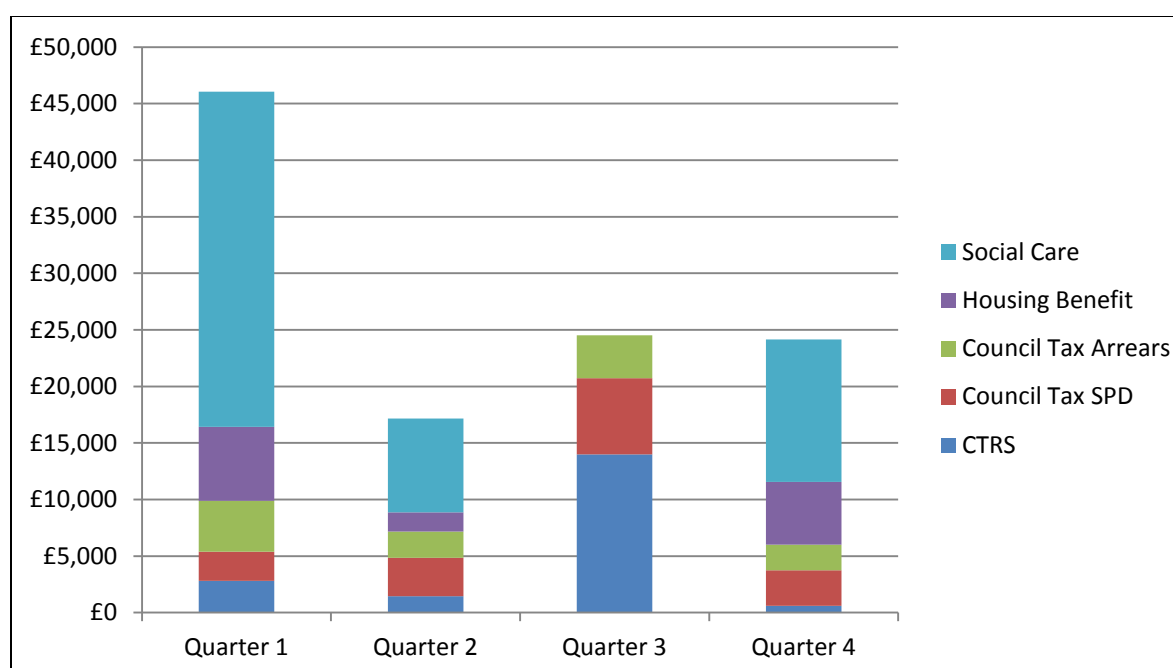
3.6.2 **Chart 6** over the page summarises the outcomes for the work of the IEO within 2018/19. This is based on prudent estimates of the costs of Council services that are linked to immigration issues where the IEO has been able to directly assist with by providing Home Office information. The total value of the IEO work for 2018/19 is prudently estimated at **£233,208** which represents a significant return on the investment by the Council. As a result, the IEO will remain working within the BACFT for 2019/20.

Chart 6 - IEO Loss Prevention Outcomes 2018/19

3.7 Other Counter Fraud Work in 2018/19

3.7.1 Throughout 2018/19, the BACFT was active in carrying out investigations and verifications work within Social Care and Exchequer Services. This included reactive investigations into allegations of fraud within social care funding as well as identification of savings within Council Tax and the Council Tax Reduction Scheme. As a consequence of the team's work in partnership with Exchequer Services, overpayments of Housing Benefit have been identified, as well as aiding the collection of Council Tax arrears.

3.7.2 **Chart 7** below provides detail on the year's results for loss prevention savings outcomes within Council services areas not already detailed within this report. The BACFT recognises that more work is needed to develop these work streams and intends to provide a comprehensive counter fraud coverage across all service areas in 2019/20 and beyond as detailed in the Counter Fraud Strategy.

Chart 1 - Other Loss Prevention Savings 2018/19

- 3.7.3 Other notable achievements for the BACFT in 2018/19 was the updating of all counter fraud related policies, including the **Prosecution & Sanctions Policy**, **Whistleblowing Policy**, **Anti-Money Laundering Policy**, **Anti-Bribery Policy**, **Surveillance Policy** and the **Corporate Investigations Protocol**. These were approved by CMT and Audit Committee during Quarter 4 and are in the process of being finalised and circulated to key stakeholders by the DDEBA.

4. Analysis of the Counter Fraud Team Performance 2018/19

- 4.1 The BACFT introduced KPIs for the first time at the beginning of the 2018/19 which were agreed and implemented in liaison with CMT and the Audit Committee. The KPIs allow effective measurement of performance and enable the team and the DDEBA to be better held to account by CMT and Audit Committee. Attached at **Appendix B** is **Table 5** which sets out the performance by the BACFT against the KPIs throughout 2018/19.
- 4.2 As can be seen from **Table 5**, it is acknowledged that there is more work that can and will be done to improve performance against targets. The team's performance is in the main on an upward trend throughout the year, but with specific areas to focus on early in the new financial year. Performance should also be considered against the context of recruitment/vacancies within the team which is ongoing and the fact that overall performance for the year was noted by CMT and the Audit Committee as very good. Further, **Table 4** at **Appendix A** provides a summary overview of the loss prevention performance of the team in 2018/19 in relation to the different areas of counter fraud activity.
- 4.3 During 2018/19 the BACFT has sought to obtain data from each London Borough relating to counter fraud activity and produced benchmarking information which is set out at **Table 6** (see **Appendix C**). This data relates to reported figures in counter fraud reports to oversight committees for 2017/18. It is worth readers of this report noting the significant inconsistency between authorities in terms of what they each report to their oversight committees and the variation in values they each place on individual activities. As a result, this makes comparison between authorities in terms of individual counter fraud work areas more challenging. Nevertheless, there are several areas of generally commonality (as set out in **Table 6**), including the performance on housing fraud and blue badge which are present across most London Boroughs.

5. Forward Look

- 5.1 Looking ahead to 2019/20, the BACFT, as part of the Council's Counter Fraud strategy, will continue to focus on the areas of highest fraud risk to the authority. This will be done by identifying new and ongoing fraud risks through continued engagement with service areas on fraud issues, and facilitating fraud risk analysis for the Council through the 'Fraud Universe' and fraud risk workshops. The BACFT's main objective is to seek the most beneficial counter fraud outcomes for the Council through intelligent use of data and fraud analysis, and the strategic use of counter fraud resource.
- 5.2 Moving ahead, there are a number of key priorities for the BACFT. These include:
- Lead on the Council joining the **London Counter Fraud Hub** ensuring that the Council is fully prepared to take advantage of all opportunities presented;
 - Complete the reintegration of the Exchequer Services **Revenues Inspections function** into the counter fraud verification work streams;
 - Continue to review current **counter fraud work-streams** to ensure the effective use of resources, seeking opportunities to **maximise loss prevention opportunities** for the Council through targeting the areas of highest fraud risk;
 - Continue **engagement with key stakeholders through fraud awareness and fraud risk workshops, and an organisation wide fraud awareness campaign** to further promote the counter fraud culture within the Council;

- Carry out **internal data matching processes** to assist in the prevention and detection of fraud and continue work on **external data matching exercises through the NFI**;
- Complete recruitment to the remaining vacancies; the two **Senior Verifications Officers** and two **Intelligence Officers** within the team; and
- Progress **joint working with the Department for Work and Pensions** on matters involving both Housing Benefit and Council Tax Reduction fraud in order to maximise loss prevention in this area.

5.3 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 2018/19.

Muir Laurie FCCA CMIIA

Deputy Director of Exchequer & Business Assurance Services

30th June 2019

APPENDIX A**Table 4 ~ BACFT Loss Prevention Performance 2018/19**

Work area	Description	Q1	Q2	Q3	Q4	Total
Housing	Right to Buy discounts	£310,800	£104,900	£0	£0	£415,700
	Property Recovery (notional)	£126,000	£36,000	£72,000	£108,000	£342,000
	Other loss prevention	£22,320	£12,042	£2,547	£63,808	£100,716
	Prosecution costs	£0	£10,353	£1,000	£0	£11,353
Social Services	Loss Prevention	£29,610	£8,308	£0	£12,603	£50,520
Revenues	Council Tax Reduction	£2,803	£1,459	£14,000	£596	£18,861
	Single Person Discount	£2,597	£3,386	£6,712	£3,053	£15,748
	Council Tax Arrears	£4,483	£2,312	£3,793	£2,277	£12,865
	Housing Benefit Overpayments	£6,547	£1,698	£0	£5,534	£13,778
Blue Badge	Simple Caution & Financial Penalty	£0	£100	£700	£100	£900
	Prosecution Costs Received	£0	£0	£3,500	£0	£3,500
Immigration Enforcement Officer	Housing First Time Buyer scheme*	£35,646	£0	£0	£0	£35,646
	Housing Homelessness Applications**	£0	£0	£47,978	£53,581	£101,559
	Asylum Seeking Children Expense ***	£0	£9,933	£30,604	£0	£40,537
	Social Services Section 17 Expense **	£0	£38,271	£0	£17,195	£55,466
	IEO Sub Total	£35,646	£48,204	£78,582	£70,776	£233,207
Totals	Loss Prevention	£376,056	£161,412	£78,582	£123,379	£739,427
	Notional Savings	£150,547	£37,698	£72,000	£113,534	£373,778
	Cashable Savings	£14,203	£19,198	£27,052	£29,734	£90,191
	Costs awarded/ penalties	£0	£10,453	£5,200	£100	£15,753
	Total	£540,806	£228,762	£182,834	£266,747	£1,219,149

* First time buyers - Average grant given per person based on 2016/17.

** Average weekly cost against average length of support. This figure fluctuates but has been provided by the Council's business performance team.

*** Cost of accommodation and subsistence per week for one year. This figure is a prudent estimate as the Council can and does often support asylum seeking children until they are 25 years old.

APPENDIX B**Table 5 ~ BACFT KPIs and Actual Performance 2018/19**

BACFT KPIs	Target	Q1	Q2	Q3	Q4	Year
1. Percentage of fraud referrals risk assessed within 3 working days	95%	36%	51%	89%	86%	66%
2. Verification work timescales for completion:						
a. Housing Allocations completion within 3 working days	95%	88%	89%	92%	91%	90%
b. First Time Buyer completion within 5 working days	95%	N/A	71%	100%	100%	90%
c. Right to Buy completion within 28 working days	95%	N/A	N/A	58%	50%	54%
3. Housing Bed and Breakfast clients verified every 40 working days	95%	N/A	N/A	97%	N/A ¹	97%
4. Investigation plan completion within 5 working days of case allocation	95%	N/A	25%	87%	90%	67%
5. Tenancy fraud referrals received resulting in property recovery	20%	33%	8.6%	16%	16%	18%
6. Investigations resulting in sanction (prosecution/penalty/caution)	10%	1%	4.5%	14%	4%	6%
7. Investigations resulting in loss prevention/financial saving outcome	25%	16%	16%	33%	24%	22%

¹ BACFT are no longer visiting B&B accommodation on a rolling programme and will instead be conducting two proactive visit projects during the financial year.

APPENDIX C**Table 6 ~ Counter Fraud Benchmarking 2017/18**

London Borough	Social Housing Properties Returned	RTB Cancelled	Housing Applications Closed	Council Tax Savings (Exemptions, Discounts & Council Tax Reduction)	Blue Badge Successful Outcomes
Barking & Dagenham	12	0	N/Av	N/Av	N/Av
Barnet	61	45	N/Av	N/Av	N/Av
Bexley	9	0	95	N/Av	17
Brent	38	1	N/Av	£8,206	N/Av
Bromley	1	0	1	N/Av	66
Camden	105	12	N/Av	N/Av	25
City of London	16	7	5	N/Av	1
Croydon	19	4	49	N/Av	22
Ealing	18	2	1	N/Av	N/Av
Enfield	59	16	N/Av	£18,800	N/Av
Greenwich	39	0	1	N/Av	N/Av
Hackney	66	14	40	N/Av	28
Hammersmith & Fulham	25	52	25	N/Av	229
Haringey	55	0	N/Av	N/Av	N/Av
Harrow	13	12	5	£8,150	N/Av
Havering	31	23	N/A	N/A	N/Av
Hillingdon	43	7	56	£150,452	2**
Hounslow	2	8	1	£24,753	19
Islington	N/Av	N/Av	N/Av	N/Av	N/Av
K&C	20	31	31	N/Av	65
Lambeth	60	1	N/Av	£48,370	24
Lewisham	14	0	155	N/Av	N/Av
Newham	5	16	1	N/Av	N/Av
Redbridge	5	2	N/Av	£41,000	N/Av
Southwark	0	1	N/Av	N/Av	N/Av
SRKMW (SWLFP)	8	8	19	£4,800	24
Waltham Forest	39	86	N/Av	N/Av	N/Av
Westminster (CWH)	21	57	29	N/Av	23

N/Av = Data Not Available for 2017/18

** = Successful Outcomes for Blue Badges are defined as Fines and/or Prosecutions, but excluding seized badges. The BACFT did not introduce fines until Quarter 2 of 2018/19

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AUDIT COMMITTEE - 2019/20 Quarter 1 Counter Fraud Progress Report

Committee name	Audit Committee
Officer reporting	Muir Laurie, Deputy Director of Exchequer & Business Assurance Services
Papers with report	2019/20 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 2019/20 Quarter 1 and assurance in this respect. It also provides an opportunity for the Deputy Director of Exchequer & Business Assurance Services 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 Deputy Director of Exchequer & Business Assurance Services 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 activity.

RECOMMENDATIONS:

That the Audit Committee:

1. Notes the Counter Fraud Progress Report for 2019/20 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.

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BUSINESS ASSURANCE

Counter Fraud Progress Report to Audit Committee: 2019/20 Quarter 1

30th June 2019



Contents

The Counter Fraud key contacts in connection with this report are:

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT) supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.
- 1.1.2 As well as counter fraud activity, there is also a range of preventative work that the team is responsible for carrying out. This includes fraud awareness training and ensuring the Council have 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 (1st April to 30th June 2019). In addition, it provides an opportunity for the Head of Counter Fraud and the Deputy Director of Exchequer & Business Assurance Services (DDEBA) 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 DDEBA to be held to account in this respect.

2. Executive Summary

- 2.1 For Quarter 1 of 2019/20 the BACFT has achieved loss prevention outcomes totalling a prudent estimate of **£412,752**. This represents a significant achievement for the team in light of the ongoing team restructure and current vacancies within the Verifications and Intelligence sub-teams. These outcomes have been achieved through counter fraud work conducted within Housing Services, Social Services, NFI data matching and planned proactive projects. A total of **four council properties have been recovered** this Quarter and as a result of a proactive project **two B&B non occupations were identified**. Further to this, **two cases of suspected tenancy fraud** have been passed to our Legal Team for **instigating criminal proceedings** following investigation.
- 2.2 The initiative of having a Home Office Immigration Officer (IEO) placed within the team continues to assist in preventing fraud against the taxpayers of Hillingdon. This Quarter, the IEO has directly contributed **£142,255** in loss prevention savings through working with Council departments on matters involving immigration status. This is a positive start to the 2019/20 year and represents a marked increase in comparison to previous quarters. A detailed breakdown is included in section 3 of this report.
- 2.3 As part of the planned restructure, the BACFT is currently in the process of recruiting two Senior Verifications Officers and two Intelligence Officers. Once in place, this additional verifications resource will facilitate the return of the **Revenues Inspections** function to the BACFT, as well an increased volume of verifications work in Housing and Social care work streams. The increase in resources will also allow the BACFT to focus greater resource on **data matching** exercises including investigating referrals that will be generated by the **London Counter Fraud Hub**.
- 2.4 The proposal for the Council to join the London Counter Fraud Hub has received Cabinet Member approval and is now awaiting communication from the lead authority before the contract paperwork is signed.

- 2.5 The team is now in the process of transitioning the inspections operational processes to ensure continuity of service. This is **expected to be completed early in Quarter 2** with progress already made and Verifications Officers now undertaking some revenue inspections. All relevant BACFT staff have had, or are in the process of undertaking, training from external providers and/or by key Exchequer Services staff. The Counter Fraud Manager (Verifications) is also leading on developing a new paperless inspection process and ensuring the approach is aligned to the risk based methodology used across the rest of the BACFT operations.
- 2.6 The BACFT has conducted a number of data matching exercises during this Quarter. This has been a mix of **NFI data matching** and **internal data matching** using our in house data matching software - IDIS. Results from the internal exercise are currently being analysed for efficacy and will be reported when available. The NFI has yielded positive results with **cashable savings of approximately £23k** identified this quarter. The BACFT are currently working with colleagues in a range of Council service areas to design data reports for planned internal matching exercises, details of which will be reported in subsequent quarters.

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 the prevention and detection of housing fraud. The Council is exposed to a number of housing fraud risks, as detailed in the Counter Fraud Strategy for 2019/20. The BACFT deploys a significant amount of resource in the prevention and detection of housing fraud.
- 3.1.2 Per **Table 1**, in Quarter 1, the BACFT has successfully recovered **4** Council properties and are actively pursuing **1** other case for eviction. There are **45** ongoing investigations into suspected tenancy fraud.

Table 1 ~ Housing Tenancy Fraud Cases

Housing Tenancy Fraud Cases	2019/20 (to date)*		2018/19		2017/18	
	Cases	£k/value**	Cases	£k/value	Cases	£k/value
Total number of properties recovered	4	£72k	19	£342k	43	£774K
Total number of ongoing cases	46	£828k	-	-	-	-

* as at 20th June 2019

** = 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.

- 3.1.3 The BACFT Key Performance Indicator (KPI) 5 (refer **Table 3** in **Appendix A**) targets an outcome of a Council property to be recovered for 20% of tenancy fraud referrals received. In Quarter 1 the team achieved an outcome of 23%.
- 3.1.4 In addition to work on tenancy fraud, the BACFT carries out investigations into suspected **fraudulent Right to Buy (RTB)** applications. This is a process where a tenant(s) can apply to buy their council property under the statutory scheme, at a significant discount from its market value. The scheme operates under strict conditions that must be met by the applicant, if they are to qualify for the discount.

- 3.1.5 To date the team has identified **1** case of a fraudulent RTB application that has been stopped. This equates to a loss prevention saving of **£110,500** in RTB discount. Currently there are **6 ongoing RTB fraud** cases being investigated by the BACFT.
- 3.1.6 As part of the BACFT's **fraud prevention coverage** it proactively carries out verifications work on existing Council tenancies and other housing service areas. The BACFT uses the information gathered by the Intelligence Officers to conduct necessary checks sometimes including unannounced/unannounced visits to properties by the Verification Officers. The team also work with a variety of social landlords and statutory agencies to help detect fraud where information sharing protocols are in place. This is to ensure that the people residing in Council properties are genuinely entitled to do so.
- 3.1.7 Per **Table 2** below, in the 2019/20 year to date, the BACFT has successfully identified **119** housing register applications that should be rejected for a variety of different reasons.

Table 2 ~ Housing Tenancy Verification Cases

Housing Tenancy Verification Cases	2019/20 (to date)*	2018/19
Total number of cases reviewed	358	1,909
Total number verified as accurate	239	1,110
Total number rejected	119	799
% identified by BACFT for rejection	33%	42%

* as at 20th June 2019

- 3.1.8 Of the **119** cases that have been rejected, **7** applications have been completely closed down. This was due to a range 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. Without the BACFT enhanced verifications checks, these applications may have been successful in obtaining a Council property that they are not entitled to.
- 3.1.9 During Quarter 1 the BACFT and the Housing Register, Allocations and Lettings Team (HRALT) have been working closely and trialling a risk based tenancy verifications pilot. The pilot has been successful in reducing the time required to complete housing verifications checks. As a result, it has been agreed to implement the risk based approach on a permanent basis, with some checks such as for 10 years of residency being carried out by the HRALT.
- 3.1.10 The BACFT now cover a wide range of work streams, providing assurance over expenditure of residents' grants for property purchasing and high value expenditure on temporary accommodation. The main areas of verification are:
- **First Time Buyer Scheme** - eligibility based grant scheme helping residents who aspire to property ownership to buy their first home;
 - **Right to Buy** - formal verification of every RTB application to identify suspected fraud and ineligibility;
 - **Bed & Breakfast Accommodation** - residency check of all Bed & Breakfast accommodation as part of a proactive project;
 - **Section 17 Applications** - Initial eligibility checks on applicants who approach the Council's Social Care team for assistance with accommodation;
 - **Section 17 Accommodation** - residency check of all Section 17 accommodation as part of a proactive project;
 - **Social Housing Allocations** - formal verification of all social housing applicants that are actively seeking accommodation to identify suspected fraud or ineligibility;

- **Mutual Exchange** - Desk checks and unannounced visits to ensure tenants meet the criteria required to exchange; and
- **Succession & Assignment** - Desk checks and unannounced visits, where appropriate, to ensure the applicants meet the relevant eligibility criteria.

3.1.11 During Quarter 1 the team also achieved positive outcomes in other areas of Housing Services. This included **1 First Time Buyer** application being closed due to the applicant having undeclared capital above the threshold for eligibility. This resulted in grant loss **prevention of £19,560** being provided. Currently there are a further 4 First Time Buyer cases under investigation.

3.2 National Fraud Initiative - Quarter 1 Update

3.2.1 The National Fraud Initiative (NFI) is a data matching exercise co-ordinated by the Cabinet Office (CO), which is conducted every 2 years. The NFI matches data from 1,300 organisations, including councils, the police, hospitals and almost 100 private companies to identify potential fraud and error.

3.2.2 There is now a greater emphasis on utilising data matching in the public sector as a means of preventing and detecting fraud. In addition to the NFI, the **London Counter Fraud Hub (LCFH)** is a new initiative that brings together London Boroughs with counter fraud specialists and the latest technologies, to help local authorities tackle fraud and corruption. At the centre of the LCFH is an analytics solution that helps prevent, detect and recover losses from fraud. As mentioned earlier, Cabinet Member approval has been obtained and the BACFT are now awaiting further information from the lead London Borough before formally entering into the LCFH.

3.2.3 NFI data matches for Hillingdon were received during the first week of February 2019 and the team has achieved **loss prevention savings of £23,674** in Quarter 1, with **a further 8 cases awaiting a decision**. This is a significant increase on the previous quarter and is line with the Counter Fraud Strategic Plan. Moving forward we intend to place greater emphasis on the use of data matching and analytics to help prevent and detect fraud against local taxpayers' money. It will also be used to identify further loss prevention opportunities and to support upcoming planned projects.

3.3 Blue Badge Fraud - Work in Quarter 1

3.3.1 Blue Badge permits provide parking concessions for people with severe mobility problems. Historically the scheme was restricted to people with physical disabilities so they can park closer to their destination, as they are less able to take public transport or walk longer distances. However, in the biggest overhaul to the scheme since the 1970s, the new criterion has extended eligibility to people with less visible conditions. In particular, residents that have been diagnosed with autism and/or mental health conditions are now able to apply for a Blue Badge.

3.3.2 The direct monetary value of Blue Badge Fraud is relatively low compared to other types of fraud such as housing or social care. Nevertheless, the reputational risk in relation to this area is significant for the Council and residents. As a result, Blue Badge Fraud continues to feature in the BACFT's work plan with a planned approach to conduct Blue Badge proactive 'operations' with a risk based approach.

3.3.3 In Quarter 1, a proactive Blue Badge misuse operation was carried out in Uxbridge High Street. The results of that exercise were as follows:

- **71 badges checked** by BACFT officers;
- **2 Financial penalties issued** following badge seizure; and
- **2 Expired badges seized** and returned to the Council's Blue Badge team.

3.3.4 It is important to highlight that since the BACFT introduced proactive Blue Badge operations, the **instances of misuse have been gradually reducing**. This indicates a positive impact within the borough and greater public awareness of this issue. This reflects 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. The BACFT will continue to carry out proactive work in this area in 2019/20 based on an assessment of high risk areas for blue badge misuse.

3.4 Bed & Breakfast Residency Project - Work in Quarter 1

3.4.1 During Quarter 1 the BACFT carried out a risk based proactive project conducting residency checks of emergency accommodation provided to Housing and Social Care service users. The objective of this project was to verify that the emergency accommodation was being lawfully occupied. This exercise helped to identify any fraud being committed through subletting or non-occupation.

3.4.2 Our work in this area led to the cancellation of emergency accommodation and the identification of associated loss prevention e.g. Council Tax discounts. Specifically, the results to date are as follows:

- **178 properties visited** (over 275 visits in total, accounting for multiple visits where needed);
- **170 properties verified** as lawfully occupied (including **3 Single Person Discounts ended** at a saving of £608);
- **6 properties yet to be verified** - these are cases where the tenant has not been found at the property, despite multiple visits at different times of the day on different days of the week including weekends; and
- **2 emergency accommodations cancelled** preventing a loss of over £18k.

3.4.3 Regarding the 6 cases still to be verified, our intelligence gathering work has been completed and all of these cases are subject to ongoing investigative work. An update on these 6 cases will be included in the Quarter 2 progress report.

3.4.4 At the end of Quarter 4 2018/19 the BACFT started a **proactive project conducting residency checks for temporary accommodation**. The project was introduced to ensure that all the expected tenants are in occupation, to identify any unlawfully sublet properties and to establish non-occupation with the intention to recover the property. The results to date are as follows:

- **218 Properties visited** - over 300 visits in total accounting for multiple visits;
- **214 properties verified as lawfully occupied** - including **2 referrals made to Social Care** regarding safeguarding issues; and
- **4 properties subject to ongoing investigation** for suspected non-occupation or illegal sub-let.

3.5 Immigration Enforcement Officer - Work in Quarter 1

3.5.1 Since 16th April 2018, the BACFT has had a Home Office Immigration Enforcement Officer (IEO) working as part of the team. The purpose is to provide enhanced access to Home Office data for the purpose of assessing cases involving immigration issues and for assisting in a range of counter fraud work.

3.5.2 The IEO has so far provided invaluable assistance in counter fraud work and many other Council service areas such as Social Care and Housing. As a result, financial loss prevention across the Council in Quarter 1 is prudently estimated at **£142,255**. Refer to **Table 4** in **Appendix B** for a detailed breakdown of the identified loss prevention savings to date.

3.5.3 This Quarter the IEO conducted a compliance review into Unaccompanied Asylum Seeker Children (UASC) who are being supported by the Local Authority. This involved confirming their current immigration status of child. The results of this review were **10** UASC cases were found to have recourse to public funds and no longer needed financial assistance from the Council. These cases have been passed to the finance team for review and the associated saving to the Council is estimated to be **£99,330**.

3.6 Other Counter Fraud Work in Quarter 1

3.6.1 With the drive to further improve the efficiency and quality of investigations, all BACFT referrals are now robustly risk assessed and intelligence checked before being considered for escalation to the formal investigation stage. In Quarter 1, there were **112 referrals for investigation** from internal and external sources. At 20th June 2019, there are **62** ongoing investigations. **94%** of these (**58**) relate to different aspects of housing and tenancy fraud.

4. Analysis of the Counter Fraud Team Performance in Quarter 1

- 4.1 In 2018/19 the BACFT agreed and implemented **7 KPIs** for to allow effective measurement of BACFT performance and enable the team and the DDEBA to be better held to account by CMT and Audit Committee. Attached at **Appendix A** is **Table 3** which sets out the performance by the BACFT against 6 KPIs in Quarter 1. As the team are no longer visiting B&B accommodation on a rolling programme, what was **KPI 3** (Housing Bed and Breakfast clients verified every 40 working days) **has been retired** and the remaining KPIs renumbered accordingly.
- 4.2 The Team's performance has seen some improvement, but there are areas requiring greater focus in Quarter 2 which has been communicated to all relevant staff. This performance is in the context of four vacancies within the Intelligence and Verifications sub-teams and the fact that there has been no significant drop in overall performance.
- 4.3 **Table 4** at **Appendix B** provides an overview of the financial performance of the team in 2019/20 within each of the main areas of counter fraud activity.

5. Forward Look

- 5.1 Looking ahead to Quarter 2 of 2019/20, there are a number of key priorities for the BACFT. These include:
- Progress joining the **London Counter Fraud Hub** to ensure that the Council is fully prepared to take advantage of all opportunities presented;
 - Carry out **internal data matching exercises** to assist in the prevention and detection of fraud and continue to work on **external data matching exercises through the NFI**;
 - Carry out proactive counter fraud exercises within the high risk areas of '**Beds in Sheds**' and '**Empty Properties**' for Council Tax purposes;
 - Complete the **Recruitment to the four vacancies** within the team;
 - **Increase fraud awareness** by conducting fraud awareness sessions with key teams across the Council;
 - Continued **engagement with key stakeholders on fraud risks** and the facilitation of fraud risk workshops;
 - Continue to review current **counter fraud work streams** to ensure the effective use of resources and seek opportunities to **maximise loss prevention** in the areas of the highest fraud risk;
 - Ensure the smooth transition of the **Revenues Inspection** function into the BACFT operations and continue to review and improve processes in this area; and

- Progress **joint working with the Department for Work and Pensions** on matters involving both Housing Benefit and Council Tax Reduction fraud in order to maximise loss prevention in this area.

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 DDEBA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA CMIIA

Deputy Director of Exchequer & Business Assurance Services

30th June 2019

APPENDIX A**Table 3 ~ BACFT Quarter 1 KPIs and Actual Performance**

BACFT KPIs ¹	Target	Q1	18/19
1. Percentage of fraud referrals risk assessed within 3 working days	95%	94%	66%
2. Verification work timescales for completion:			
a. Housing Allocations completion within 3 working days	95%	90%	90%
b. First Time Buyer completion within 5 working days	95%	100%	90%
c. Right to Buy completion within 28 working days	95%	64%	54%
3. Investigation plan completion within 5 working days of case allocation	95%	100%	67%
4. Tenancy fraud referrals received resulting in property recovery	20%	23%	18%
5. Investigations resulting in sanction (<i>prosecution/penalty/caution</i>)	10%	8%	6%
6. Investigations resulting in loss prevention/financial saving outcome	25%	23%	22%

As per para 4.1 the BACFT are no longer visiting B&B accommodation on a rolling programme and instead are conducting proactive visit projects during the financial year, hence what was KPI 3 (Housing Bed and Breakfast clients verified every 40 working days) has been retired and the remaining KPIs renumbered accordingly.

APPENDIX B**Table 4 ~ BACFT Quarter 1 Financial Performance**

Work Area	Description	Q1
Housing	Right to Buy discounts	£110,500
	Property Recovery (notional savings)	£72,000
	Other savings/loss prevention	£49,096
	Prosecution costs	£0
Social Services	Loss Prevention	£0
Revenues	Council Tax Reduction	£397
	Single Person Discount	£30,984
	Council Tax Arrears	£2,600
	Council Tax Exemptions	£1,005
	Housing Benefit Overpayments	£3,715
Blue Badge	Simple Caution & Financial Penalty	£200
	Prosecution Costs Received	£0
Immigration Officer	Housing First Time Buyer scheme*	£0
	Housing Homelessness Applications**	£18,869
	Asylum Seeking Children Expense***	£109,263
	Social Services Section 17 Expense**	£14,123
	IEO Sub Total	£142,255
Totals	Loss Prevention	£252,755
	Notional Savings	£75,715
	Cashable Savings	£84,082
	Costs awarded and penalties	£200
	Total	£412,752

* First time buyers - Average grant given per person based on 2016/17.

** Average weekly cost against average length of support. This figure fluctuates but has been provided by the Council's business performance team.

*** Cost of accommodation and subsistence per week for one year. This figure is a prudent estimate as the Council can and does often support asylum seeking children until they are 25 years old.

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AUDIT COMMITTEE FORWARD PROGRAMME 2019/20

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

The meeting on 22 July 2019 will start at 5.40pm.

There will be a short training session for Members at 5.00pm and a pre meeting with officers and the Committee at 5.30pm.

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
22 July 2019	CR 4
21 October 2019	CR 5
3 February 2020	CR 4
23 April 2020	CR 5

Meeting Date	Item	Lead Officer
21 October 2019	*Private meeting with External Audit (Ernst & Young) to take place before the meeting	
	Internal Audit Progress Report Quarter 2 2019/20 (incl the Quarter 3 2019/20 Internal Audit Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 2 2019/20	Deputy Director of Exchequer & Business Assurance Services
	Audit Committee Annual Report	Deputy Director of Exchequer & Business Assurance Services
	2019/20 Q1 Corporate Risk Register - Part II.	Deputy Director of Exchequer & Business Assurance Services
	Annual Risk Management Report 2018/19	Deputy Director of Exchequer & Business Assurance Services
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
3 February 2020	*Private meeting with Director of Exchequer & Business Assurance Services to take place before the meeting	
	Internal Audit Progress Report Quarter 3 2019/20 & Internal Audit Plan Quarter 4	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 3 2019/20	Deputy Director of Exchequer & Business Assurance Services
	2019/20 Q2 Corporate Risk Register - Part II	Deputy Director of Exchequer & Business Assurance Services
	Audit Committee Forward Programme	Democratic Services

Meeting Date	Item	Lead Officer
23 April 2020	*Private meeting with the Corporate Director of Finance to take place before the meeting	
	EY 2019/19 Annual Audit Plan; 2018/19 Pension Fund Audit plan	Corporate Director of Finance /Ernst & Young
	EY - Annual Grant Audit Letter	Corporate Director of Finance /Ernst & Young
	Draft Internal Audit Plan	Head of Internal Audit and Risk Assurance
	Internal Audit Progress Report 2019/20 Quarter 4 (including the 2020/21 Quarter 1 IA Plan)	Head of Internal Audit and Risk Assurance
	Counter Fraud Progress Report Quarter 4 2019/20	Deputy Director of Exchequer & Business Assurance Services
	2019/20 Q3 Corporate Risk Register - Part II	Deputy Director of Exchequer & Business Assurance Services
	Audit Committee Forward Programme	Democratic Services

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