

# Making a difference

## Hillingdon Council's Statement of Accounts 2004/05



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# Statement of accounts 2004/05



Welcome to the London Borough of Hillingdon's Statement of Accounts for the financial year 2004/05. The statement sets out the financial position of the council and details how we spent your money.

Establishing robust financial management has been a top priority of mine since taking office. I'm pleased to report that this has been another year of improvement and progress in our financial management. The council's improving financial position has been recognised by external inspectors and auditors. Balances now stand at almost £8m, the Insurance Fund has £2m provision to cover uninsured insurance liabilities and the 2005/06 budget includes a further £2m as a contingency to cover potential financial risks.

There have also been real improvements in the services we provide. Highlights include the expansion of our waste recycling service to all households, a 96% satisfaction rating from users of our customer contact centre and the launch of a mobile CCTV unit and mobile youth centre.

The local tax increase for 2005/06 is under 4% but we have still been able to invest almost £5m in service improvements and plan to save £5m through service efficiencies. The investment in service improvements include the following:

- £2.195m into schools above the passporting target set for us by central government
- £0.5m in the youth service, completing an investment programme totalling £0.8m over the past two years

- £0.175m in a multi-agency anti-social behaviour team
- £0.14m for additional parks patrol staff
- £0.15m for graffiti removal
- £0.115m to extend the youth inclusion and support project to undertake remedial work with 14 to 17 year olds

The Hillingdon Improvement Programme now enters its third year. Our fundamental change programme is improving our business processes and making them ever more efficient, freeing up the capacity and resources to provide better services. Financial savings of £2.5m have been made in the first two years of its operation together with substantial headroom savings. The Council Plan 2005/06 as reported to the council's Annual General Meeting in May 2005 provides details of a wide range of service improvements planned for the short, medium and the long term.

Robust financial management continues to provide the bedrock for the future development of the council. I am pleased, but not complacent, about the progress we have made to date in delivering sound finance in Hillingdon. Maintaining improvement in this area will continue to be a priority.

*Cllr Ray Puddifoot  
Leader of the Council*

# Summary of the authority's financial position

This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31st March 2005. The various statements include, where relevant, comparative figures relating to the previous financial year and supporting notes.

## Summary of the authority's financial performance in 2004/05

### Revenue Budget

Hillingdon's net expenditure budget for 2004/05 was set at £285.667m which was a 5.88% increase on the previous year. The budget included a contingency provision of £2.4m and use of £0.4m in reserves.

The increased expenditure was financed through additional central government support of 7.58% and an increase in council tax of 4.82%, the second lowest increase in council tax of all outer London boroughs. Due to the application of a 7.58% ceiling on increases in central government support the London Borough of Hillingdon lost £1.3m from the distribution of revenue support grant for 2004/05.

The 2004/05 budget contains growth of £13.3m and savings of £3.9m. Major items of additional expenditure agreed in the 2004/05 budget were:

- Passporting of the central government increase in funding to schools: £9.4m
- Performance improvements and modernisation in social services: £1.2m
- Growth in youth and library services: £0.5m
- Additional financing costs of increased capital programme expenditure: £0.3m

During 2004/05 Cabinet received regular financial monitoring reports to enable it to ensure spending was being kept within approved budgets. The

actual outturn for the year was £284.2m, which when compared to the budget showed an under spend of £1.5m (0.5%).

The main variances were as follows:

### Social Services & Housing

- Pressures on children's residential placements and fostering costs: + £1,971k
- Recognition of asylum seeker special circumstances grant: - £500k
- Settlement of continuing care income from PCT: - £310k
- Savings on learning disabilities and supported employment: - £233k

### Education

- Rate refunds on Highgrove and Hayes pools: - £445k
- Additional costs on adult education: + £440k
- Savings on out-borough independent school placements due to inclusion strategy: - £577k
- Additional expenditure on the school improvement service: + £420k

### Corporate budgets

- Underspend on inflation provision: - £375k
- Unallocated development contingency: - £997k
- Capitalised expenditure: - £469k
- Underspend on debt financing costs: - £441k

Details of revenue expenditure across departments plus the sources of council's revenue income are shown below.

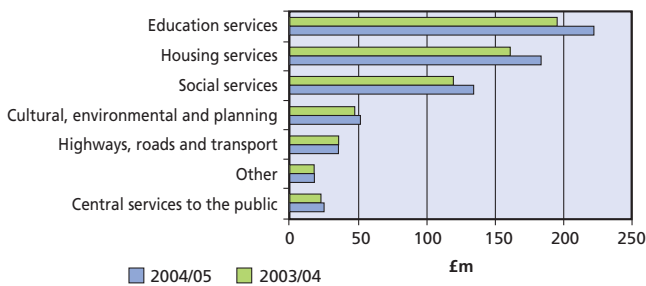


Chart 1 shows the distribution of 2004/05 net expenditure between different services of the council.

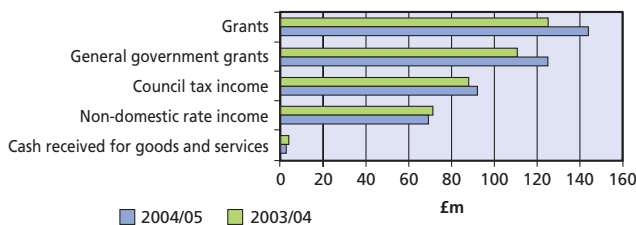


Chart 2 shows the source of the council's revenue income

**Balances**

The council needs to retain adequate reserves to cover unexpected expenditure and avoid costly short-term borrowing. Equally the council wishes to utilise the maximum resources available to achieve its objectives, therefore it plans to maintain reserves at the lowest prudent level. The council has been actively trying to increase balances and general

fund balances at 31 March 2005 now total £7.6m, an increase of £1.1m on the previous year.

A further £8.9m balances are earmarked as schools delegated funds. The statutory parking earmarked balance is now £1.08m an increase of £0.17m on last year. A new statutory earmarked reserve has been set up for the New Roads and Street Works Act income. The council is allowed to fine utility companies that commit offences related to their street works, such as failing to reinstate the road to the prescribed standard. The balance on this reserve at 31 March 2005 was £0.2m, which has to be spent on transport improvements as defined by statute.

**Capital budget**

The Local Government Act 2003 introduced a new system of capital finance through the introduction of the prudential code. Under the prudential code the council is responsible for deciding its own level of affordable borrowing. In doing so capital investment plans have to be affordable, prudent and sustainable. To demonstrate that the council has fulfilled these objectives a range of prudential indicators are set annually and performance against these indicators is monitored regularly. During 2004/05 in addition to supported borrowing of £24.5m the council undertook unsupported borrowing of £5.3m.

Capital investment for the year totalled £69.6m compared to £39.1m in 2003/04. This increase reflects an expansion of the capital programme following the introduction of the prudential code and includes additional expenditure on housing £14m, schools £4m and leisure £2m. Capital receipts in the year amounted to £16.031m (Note 3, page 56). Of this £8.931m was paid into the national

housing pool, which is a new statutory requirement for 2004/05 and £8.2m was applied to funding in the year, which has reduced the balance on the useable capital receipt reserve by £1.1m. Further details on the treatment of capital receipts are provided in the statement of accounting policies (page 19).

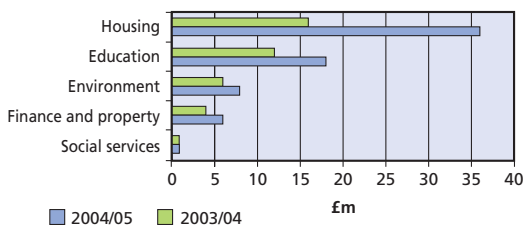


Chart 3 shows the breakdown of the total capital expenditure of £69.6m for 2004/05 split between service areas

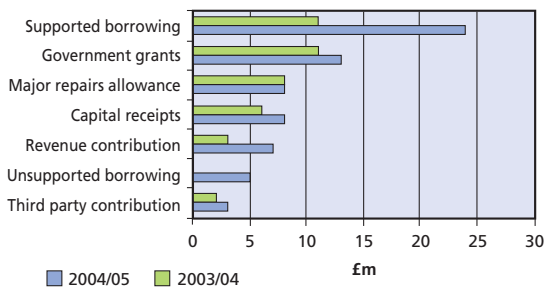


Chart 4 shows the major sources of financing capital expenditure

## Treasury management

External debt has increased by £13m in order to support capital investment during 2004/05, while the average rate of interest on the loans portfolio reduced by £0.71m from 6.22% to 5.83%. In spite of the increase in external debt, the lower average rate caused external interest paid to fall from £5.16m in 2003/04 to £4.45m in 2004/05. The main source of borrowing is the Public Works Loan Board

(£63.5m). The steady reduction in the average rate is as a consequence of actions in the previous year continuing the strategy of repaying higher rated debt before maturity and also the policy of controlling the amount of debt that has to be refinanced each year.

Investments as 31 March 2005 stood at £14.5m (£6.6m at 31 March 2004) whilst the average for the year was £30.3m (£21.42m in 2003/04). The fall in average investments reflects the policy to use internal funds for new expenditure. Total interest earned on council funds in 2004/05 was £1.6m. The average rate of return was 4.65%, 0.15% higher than the benchmark 7-day LIBID return.

£2m debt was repaid in the year at an average rate of 9.5% and £15m borrowed for 25-30 years at an average fixed rate of 4.5% for 2004/05. The replacement in prior years of higher rated loans with significantly lower rated loans has reduced interest costs for 2004/05 and for future years.

## Accounting for pensions

The council is required fully to adopt FRS17 on retirement benefits. The council participates in two local government pension schemes, one administered by the London Borough of Hillingdon and the other run by the London Pension Fund Authority. In line with revised Statement of Recommended Practice (SORP) requirements the FRS17 disclosures have been calculated using the AA-rated corporate bond yield applicable at 31 March 2004. This rate is lower than the long-term yield on index-linked government securities previously used and this change has led to a significant increase in scheme liabilities and a higher service cost. The total liability at 31 March 2005 of £134.3m has been recognised, compared to £84.5m at 31 March 2004. Details of the FRS17 disclosures are shown in the Statement of Accounting Policies

(page 22), Revenue Account (Note 7, page 29) and in the Balance Sheet (Note 22, page 49).

The Fund's actuary, Hymans Robertson, carried out an actuarial valuation of the fund as at 31 March 2004. The valuation estimated a deficiency at 31 March 2004 of £53m which has resulted in an increase in employer's contribution rates effective from 1 April 2005. The total common contribution rate is 14.45%, an increase from 9% in 2001, and will be phased in over a 4-year period. It should be noted that account was taken in calculating the employers' rate of the removal of the Rule of 85 for service after 1st April 2005, as introduced in the 2004 amendment regulations. However, the Office of the Deputy Prime Minister (ODPM) has announced that these regulations will be revoked on 3 August 2005. This will require an interim valuation to be done before the next due date of 31st March 2007, which could increase the total common contribution rate.

The latest annual performance review of the council's pension fund, carried out independently by Russell/Mellon CAPS (Combined Actuarial Performance Services) Ltd, shows that for the year ended 31 March 2005 the fund's return was 11.90%. This fell short of the benchmark return of 12.70% by 0.80%. The main contributing factors were poor returns in both UK and overseas equities by all managers. Out of the 100 UK local authority pension schemes included in the review Hillingdon was ranked 28, compared to three at 31 March 2004. Further information on London Borough of Hillingdon's pension fund is shown in the pension fund (pages 84 to 91).

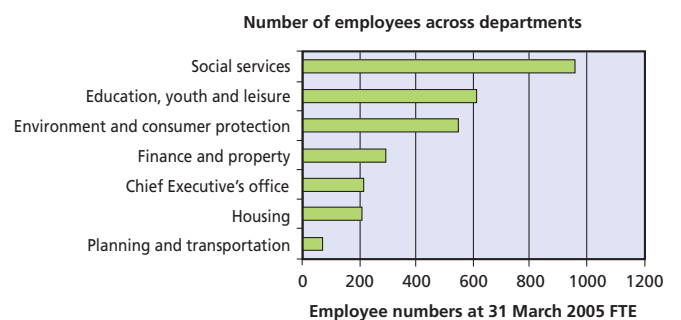
**Collection fund**

Income from taxpayers amounted to £359m, which includes £15.9m in respect of council tax benefits. Business rate income collectable to be paid over to

the national pool amounted to £243.4m. At the end of the year the collection fund had a deficit of £398k in respect of council tax. This will be distributed in future financial years to the council and the Greater London Authority, in proportion to the value of the respective demands on the collection fund. The fund also had a deficit of £2k relating to prior year community charges that will be transferred to the general fund in future years. The council tax collection rate for 2004/05 was 95.3% compared to 95.5% in 2003/04.

**Review of staffing 2004/05**

Recruiting and retaining high calibre employees is essential if the council is to achieve its performance objectives. At 31 March 2005 the number of council employees, excluding schools, totalled 2,884 full time equivalents (FTE) an increase of 69 FTE (2.5%) on 31 March 2004. The following chart shows the breakdown by Department.



Overall labour turnover fell from 11.76% in 2003/04 to 10.14% in 2004/05. This is extremely favourable when compared to the latest information from other London boroughs where the average turnover figure was 14% in 2003/04.

The council continues to perform above average on a range of employee related best value performance indicators in particular regarding sickness absence.



	London Borough of Hillingdon	Council average*
Working days lost to sickness absence 2004-2005	10.11 days	11.5 days
Top 5% of earners that are women	43.65%	40.92%
Top 5% earners from ethnic minorities	14.4%	2.75%
Percentage of employees with a disability	2.03%	2.04%
Ethnic minority representatives in the workforce	16.20%	14.28%

\* Council average figures provided by the Audit Commission.

## Future performance

Hillingdon's budget requirement for 2005/06, as agreed at council on 22 February 2005, is £305.2m. This includes a contingency provision of £2.0m and use of £0.6m in reserves. This represents an increase of 6.8% on the budget requirement for 2004/05.

The increased expenditure was proposed to be financed through additional central government support of 8.1% and an increase in the local council tax of 3.9%. Due to the removal of the ceiling on central government support the increase in government support was the highest percentage increase of any London borough. The council's increase in council tax was in line with the average of increases in council tax across England.

The improved funding environment for the 2005/06 budget allowed the allocation of growth items totalling £8.7m, in part achieved by the reallocation of resources from budget reductions of £7.2m. Major items of additional expenditure agreed as part of the budget for 2005/06 included:

- Increased schools budgets of £12.2m including an extra £2.2m of funding above the government's 'passporting' increase to take the level to £0.15m above that determined by central government through the Formula Spending Share (FSS).
- Increased funding for projected growth in social care client numbers of £1.2m;
- Further growth of £0.5m for the implementation of the youth service development plan;
- Additional financing costs of increased capital programme expenditure of £0.7m.

The budget approved by council included medium-term projections for the 3 years to 2007/08. These indicate that the council is on course to limit council tax increases to 4% on average, provided that new savings can be generated year on year in line with the agenda of the Gershon review of efficiency in public services. This is based on the continuation of the current local government finance regime. However, major changes are due to be introduced through the ring fencing of schools budgets, and the introduction of the three-year settlements, which could introduce further challenges into the authority's funding environment.

# Statement of responsibilities for the statement of accounts

## Authority's responsibilities

The authority 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 authority that officer is the Director of Finance
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the statement of accounts.

## Director of Finance's responsibilities

The Director of Finance is responsible for the preparation of the council's statement of accounts that present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2005.

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

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the code of practice.

The Director of Finance has also:

- kept proper accounting records that were up to date

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Director of Finance's approval of accounts

I certify these accounts present fairly the financial position of the London Borough of Hillingdon, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), as at the 31st March 2005 and its income and expenditure for the year then ended.

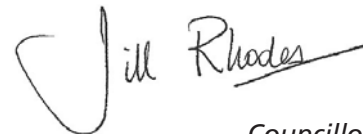


*Christopher Neale, Director of Finance*  
21 July 2005

## Council certificate for the approval of the accounts

I confirm that these accounts were approved by the council at the meeting held on 21 July 2005.

Signed on behalf of London Borough of Hillingdon



*Councillor Jill Rhodes*  
*Mayor of Hillingdon*  
21 July 2005

# Statement on internal control

## 1. Scope of responsibility

The London Borough of Hillingdon is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently, and effectively. The 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 its functions and which includes arrangements for the management of risk.

## 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims, and objectives; it 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 Hillingdon's policies, aims, and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically.

The system of internal control has been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and, except for the details of the main internal control issues at section 6, accords with proper practice.

## 3. The internal control environment

The system of internal control is based on the following key elements:

### i) Establishing Hillingdon's objectives and monitoring performance of these objectives

Hillingdon's priorities are set out in the Council Plan for 2005/6 and beyond ('Making a Difference' formally published in May 2005). This is closely linked with the Community Strategy 2005-2006, which has been drawn up with our partners to reflect the hopes and aspirations of the borough. These aims and objectives flow through to departments' individual service plans to ensure that all service plans reflect corporate priorities. This formalises the existing processes which have been in place for some time with a leader's statement based on outputs of the community conference, with short and medium term objectives linked to the budgetary process. The aim for future years will be to produce the Council Plan earlier to ensure that it drives all other plans more effectively.

### ii) Facilitation of policy and decision-making

The council adopted a Code of Corporate Governance in October 2002 based on a CIPFA/SOLACE framework. The council's adherence to this Code was reviewed by senior management and internal audit and their findings were reported to Cabinet in both 2003 and 2004. All key improvements have now been implemented.

### iii) Ensuring compliance with established policies, procedures, laws and regulations.

Procedures are covered not only by local government legislation but also by the council's

constitution, backed up and supported by standing orders, the financial framework and procurement guidelines. The Borough Solicitor and Monitoring Officer carries overall responsibility for legal and probity issues. The Director of Finance & Property carries overall responsibility for financial issues. Staff in both departments work closely with other departments – including a requirement for all reports to be cleared for legal and financial implications prior to submission to the Cabinet or any other Member forum.

#### **iv) Effective risk management**

The risk management policy has been further developed during the year with key managers having a clearer understanding of links between risk management and performance delivery.

Considerable work has been done in 2004/05 to embed risk management into the culture of all departments. More work will be carried out in 2005/6 to clearly identify the key strategic risks that could affect the council's key aims and priorities. Further work also needs to be carried out to support schools and more clearly identify partnership risks.

#### **v) Ensuring economical, effective and efficient use of resources.**

In order to achieve its objectives and to ensure the most effective use of resources Hillingdon is committed to capacity building through the Hillingdon Improvement Programme (HIP). This identifies areas for improvement and commits management resources to identify and implement improvements. These are now more clearly linked with the Council Plan.

#### **vi) Financial management**

Hillingdon has a framework of standing orders, financial regulations, administrative procedures (including segregation of duties) and management supervision to ensure adequate financial control.

In 2004/05 this included a comprehensive budget-setting framework for both revenue budgets and the capital programme, as well as revised on-line financial management guidelines for budget managers ('The Budget Manager's Toolkit'), designed to allow them to fulfil their financial management responsibilities more effectively.

New project management procedures were introduced to ensure more effective management of the capital programme, and these were successful in reducing the level of slippage within the programme. This followed the introduction of a more sophisticated process for monitoring progress against individual schemes in the capital programme. A further improvement is expected through 2005/06.

Hillingdon now has a single integrated service and financial planning process that begins and ends with the Council Plan. The medium term objectives within the plan act as the starting point for planning work undertaken, and the results of the process are captured in the following year's plan.

The council has undertaken an assessment of strategic, operational and financial risks in order to ascertain a recommended level of reserves. This took account of key criteria, for example the robustness of the financial planning process, major capital projects and partnership arrangements, the strength of the financial monitoring and reporting arrangements. The resulting recommended range

for general reserves is £8m to £12m, and this was agreed at Council on 23 February 2005. Although the level of general reserves at 31 March 2005 was slightly short of this level at £7.6m, a contribution to reserves of £0.64m was budgeted for in 2005/06, which would bring reserves within the recommended range.

### vii) Performance management

Performance against council objectives and targets is reported to all management teams and to the Management Board. The quarterly reporting of progress to the Cabinet and the HIP Steering Group, which is the driving force ensuring achievement against the Council Plan. In 2005/06 the Council Plan will be the catalyst against which performance will be measured. Hillingdon is also subject to external reviews, including audits of the best value performance indicators, the Social Services Inspectorate and the annual comprehensive performance assessment (CPA). Although 95% of the council's service plans were met in 2004/05 there was not a commensurate increase in service performance as measured by BVPI's. Further work has been carried out to achieve greater alignment between the council's aims, as set out in detailed service plans, and the requirements of the CPA process. Benefits from this should ensue into 2005/06 and future years. Officers and Members are working towards greater delegation as performance improves.

## 4. Review of effectiveness

Hillingdon has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of control is formed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made

by the external auditors and other review agencies and inspectorates.

The council has used the CIPFA Framework matrix for gathering evidence to support the statement. Additionally, a detailed exercise has been undertaken with chief officers and their management teams to review the effectiveness of the internal control environment and identify areas for improvements. Any such areas have been built into group service plans for 2005/06 and progress will be monitored as part of the established process of review set out below at (i).

The council has been advised on the implications of the outcome of the review of the internal control system's effectiveness by officers. The Statement of Internal Control has been presented to the Corporate Services Overview & Scrutiny Committee and Cabinet for their information and comments and to the council as part of the statement of accounts.

### i) The Authority and the Executive

Performance against council objectives and targets is regularly reviewed by management teams, management board and the executive. Decision making is carried out in accordance with the council's constitution. A forward plan lists all the decisions proposed to be taken by the executive of the council, which ensures that all key decisions are identified.

The risk register is subject to quarterly review by the council's management board and departmental risks have been reviewed by cabinet portfolio holders and the executive. The key risks are reported to Corporate Services Overview & Scrutiny Committee on a quarterly basis. These reviews require management board and group management teams to continually agree the top risks faced by the council and ensure that controls are developed to

manage these risks. The risk management policy is backed up by a training programme and a risk management manual. The council is seeking to continuously improve its risk management arrangements to ensure they are fully embedded across the council. An updated strategy will be considered by Cabinet in September 2005. An audit of risk management has been carried out which identifies some weaknesses that are set out under section 6.

To review financial management a monthly financial report is presented to both management board and cabinet that indicates actual expenditure against budgets and detailed reasons for variances and any correcting action being undertaken. A monthly financial digest is also produced, that reports on the reconciliation of control, suspense and personal accounts across the council.

## ii) Overview & Scrutiny group

The Overview & Scrutiny role falls into two main areas. Firstly to carry out major evidence based policy reviews that will affect long-term policy issues, for the Cabinet to consider. Secondly to scrutinise decision-making and service delivery and holding the executive to account. The functions cover both the council and the health provision in the local area.

The work is carried out through six service area committees and the co-ordinating committee, which is made up of the chairs of the other committees.

The Audit Commission carried out a review of scrutiny arrangements in 2003, the recommendations of which have now been fully implemented. The council is in the process of further strengthening this section during 2005/06.

## iii) Internal audit

The internal audit service reports to the Director of Finance. It operates to the code of practice issued by CIPFA and adopts recommended practices promoted by the Institute of Internal Auditors and other relevant bodies. One of the roles of the internal audit service is to review, appraise and report on the soundness, adequacy and application of internal controls. All the "business critical" audits within their plan were completed in-year and audit's conclusions, based on findings arising from analysis and testing, are included in internal audit reports presented to management.

The Head of Internal Audit provides an annual independent view on the adequacy and effectiveness of the internal control systems. The 2004/05 internal audit annual report, reported to Corporate Services Overview & Scrutiny Committee and the cabinet member for Finance & Corporate Services in July 2005 and subsequently to Cabinet, states that, in general, systems of internal control were operating satisfactorily. Although areas of weak control do exist they were not considered to be significant and in these areas recommendations have been made to strengthen the control environment. Further details of the areas of weak control are provided in section 6 below.

The section has been reorganised and strengthened with a new post of Head of Internal Audit and an additional Audit Manager. There are now two teams within Internal Audit with one focusing more attention on contract related matters and computer audit.

#### iv) Other reviews

**Audit Commission** - External audit has carried out a number of reviews as follows:

**Ethical governance** - It was identified that the role of the Standards Committee needed to be strengthened further and that the profile of ethical behaviour raised within the council. The Borough Solicitor and the Head of Democratic Services, who have primary responsibility, have implemented a number of the proposals and are taking steps to implement the remaining recommendations during 2005/06. As part of this process an independent member and Chair of the Standards Committee has now been appointed.

**Probity and partnership** - This report identified the need to have a more coherent strategy to partnership working with better links with the council's overall objectives. It highlighted that there was a stated commitment within the borough with a number of achievements notably: community safety, voluntary compacts, connecting communities, s31 health act agreements and the Groundwork Trust. There needs to be a more coherent strategy to partnership working with better links with the council's overall objectives. Work has started on addressing this.

**Information governance** - In particular this area provides the corporate response to the requirements of the Freedom of Information and the Data Protection acts. It highlighted the importance of bringing knowledge and information management together corporately and in developing a cohesive approach. The council has set up a new information management function to champion corporate responsibilities for information governance. It is now essential to embed these requirements in the operational management of the council.

#### v) IDeA Peer Review

A peer review was carried out by the IDeA in July 2004 and reported to Cabinet. The review provided recommendations to improve the council's performance and its capacity building. The Corporate Assessment Improvement Group, led by the Chief Executive, was tasked with driving the council's improvement work in light of the recommendations and the progress of this was monitored by Cabinet. This work was completed and reported to Cabinet in April 2005.

### 5. Key risks

From the exercise the key risks identified that could undermine achieving the council's key aims and objectives are:

#### **Transfer of Children's Social Care to a new Directorate of Education and Children's Services**

A Children's Services Strategic Development Officer has been appointed reporting to the Director of Social Services & Housing and the Director of Education (who is the Director of Children's Services Designate) with a team to work to implement the change process. These arrangements are set in the context of the continuous funding pressures of the volatile budgets of looked after children, which, in common with other authorities, the council is experiencing, as well as being exacerbated by Heathrow being in the borough.

#### **Lack of resilience in the event of terrorist attack**

With Heathrow within the boundary of the borough, as well as a number of military establishments, there is an inherent threat. The council is part of the London wide working group that maintains close liaison with the Borough Commander, whilst raising awareness generally.

**Recruitment and retention of key staff**

Three pilots have commenced to identify ways to improve the supply of people and make packages more attractive and in addition improve and speed up the recruitment procedures. Further initiatives, now in place, include staff recognition awards and payment of professional fees and there are proposals for team bonuses and private health care on achievement of reductions in sickness absence levels.

**More cohesive partnership working and their links with Public Service Agreement targets**

There is a need for a more coherent strategy to partnership working which is being addressed in 2005/06, although the report recognised significant achievements already in place (see Other Reviews section in iv) above). The PSA targets are being regularly monitored by the Chief Executive and Cabinet.

Management Board will review the above key strategic risks in July 2005.

**6. Significant internal control issues**

The review of the internal control system's effectiveness, following the issue of internal audit reports to management, raised the following issues that are being addressed. Significant findings that could affect internal control were:

- **Contracts** - Reviews of design maintenance and energy, golf courses and highways found poor practices in letting contracts and inadequate performance monitoring. Although these weaknesses could be confined to particular areas under review and not across the council a major Hillingdon Improvement Programme review is being carried out in 2005/06. In addition there were inadequate procedures in some schools for managing capital projects. Proposals are being put together to resolve this.
- **Risk management** - Weaknesses included a lack of integration of health and safety and the risk management systems, analysis of long-term threats, and review of risks relating to partnerships. Actions are in progress resolving these matters.
- **Health and Safety** – The main areas were the absence of a Lead Member and annual reporting, inadequate training and resources of group safety co-ordinators and permanent staff, and health and safety not embedded in the decision making process. A plan of action has been agreed by management board to address these.
- **Schools** – The scope of school audits has broadened over the last two years and some schools have weaknesses in their arrangements for financial management. This could have a major effect on expenditure/income particularly in respect of secondary schools that have significant budgets. The number of schools audited has been limited in recent years and therefore, in 2005/06, it is intended to extend the number of school audits.
- **Planning** - A review of the development control performance indicator identified improvements needed to fulfill government requirements. The changes that were necessary to computer programmes have been implemented, and procedures strengthened to ensure compliance in future.

Other issues identified by the Internal Control review are:

- **Council Plan** – The necessity to produce the Council Plan earlier so that it drives all other plans more effectively. This is planned to be done for 2006/07.



- **Risk management** – Further work to support schools in drawing up risk registers, carrying out some form of self assessment of financial controls (to support the work of internal audit), and identifying partnership risks. This will be implemented in the autumn.
- **Financial management** – The devolved financial support within Education Youth & Leisure needs to be strengthened to ensure key budgets are more robust, that budgetary control is more effective and greater support is given to budget managers. In addition its grant claims need to be submitted in a timely fashion and reconciliations kept up to date. This is under consideration at present. Furthermore an historical discrepancy has been identified between the schools' balances and the general ledger. This is currently being reviewed by Education to resolve the position for the 2005/06 accounts
- **Performance management** – There is a need for Members to receive a more focused summary of key targets and risks to monitor and control. Officers and Members are working towards greater delegation as performance improves.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Corporate Services Overview & Scrutiny Committee and Cabinet and, having appropriate regard to internal and external sources of assurance, plan to address weaknesses and ensure continuous improvement of the system is in place.



*Cllr Ray Puddifoot  
Leader of the Council*



*Dorian Leatham  
Chief Executive*

# Audit certificate and opinion

## Independent Auditors' Report to the London Borough of Hillingdon

We have audited the statement of accounts on pages 18 to 83 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 18 to 23 and the Pension Fund accounts on pages 84 to 91, which have been reported in accordance with the accounting policies applicable to pension funds set out on page 87.

This report is made solely to the London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

## Respective responsibilities of the Director of Finance and Auditors

As described on page 8 the Director of Finance is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as independent auditors are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts presents fairly:

- the financial position of the council and its income and expenditure for the year,

- the financial transactions of its Pension Fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

We review whether the statement on internal control on pages 9 to 15 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We are not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the council's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

## Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

## Opinion

In our opinion the statement of accounts presents fairly the financial position of the London Borough of Hillingdon as at 31 March 2005 and its income and expenditure for the year then ended.

In our opinion the financial statement present fairly the financial transactions of the London Borough of Hillingdon Pension Fund during the year ended 31 March 2005, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

## Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



*M D Searle*  
Audit Manager

*Audit Commission, 1st Floor, Millbank Tower,  
Millbank, London, SW1P 4HQ.  
31 October 2005*

# Statement of accounting policies

The Accounts have been prepared in accordance with the 2004 Code of Practice on Local Authority Accounting and Statement of Recommended Practice, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), Statements of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRS). Any departures from recommended practices are stated within this section and/or within the notes to the accounts.

## 1. Fixed assets

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the authority for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets that is charged direct to service revenue accounts.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and guidance notes issued by the Royal Institute of Chartered Surveyors (RICS). Fixed assets are included in the balance sheet on the following basis:

- land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.
- non-operational assets, including investment properties and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost or net realisable value. In the case of investment properties this is normally open market value. In some cases where a Depreciated Replacement Cost (DRC) figure has been used, an additional opinion has been sought as to the Open Market Valuation (allowing for alternative uses) if it was at a figure significantly higher or lower than the DRC figure.

- infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation.

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 historic costs as a proxy for current value.

For expediency, a de minimis value of £10,000 was generally adopted for the valuations. Sources of information and assumptions made in producing the various valuations are set out in the valuation report.

Revaluations of fixed assets are planned at five yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as they occur. Any surpluses arising on the revaluation of fixed assets are credited to the Fixed Asset Restatement Account.

An impairment review of all assets is undertaken at the end of each financial year. Losses arising from the clear consumption of economic benefits would be recognised in the asset management account and the service revenue account. Impairments resulting from a general fall in prices are recognised in the Fixed Asset Restatement Account.

The SORP requires council dwelling disposals to be written out of the balance sheet at net book value (NBV). The value of council dwellings is prepared using beacon properties and consequently additions and revaluations are not applied to individual properties. As the actual net book value for individual council dwellings is not known disposals are written out using the sale price as the best estimate of the NBV. Council dwellings transferred as part of the 'trickle transfer' arrangements have been written out using the beacon property value at the last full valuation. By using an estimate the council is not fully compliant with the SORP.

The council is confident that the estimate is materially correct and an exercise to verify the values suggests a maximum margin of error of £2m (less than 0.25% of the council dwelling NBV).

Following the full revaluation of the council dwelling stock as at 1 April 2005 the council plans to record values for individual properties. This will enable disposals to be written out at actual NBV in full compliance with the SORP.

## 2. Intangible assets

Intangible assets, such as software licences, are only recognised on the balance sheet when they are purchased or where internally developed and they have a readily ascertainable market value. Intangible assets are included at historic cost and only revalued in line with FRS10. Intangible assets are amortised over their economic life, which is reviewed annually.

## 3. Capital receipts

Receipts from the disposal of fixed assets are accounted on an accruals basis. Capital receipts are available to finance capital expenditure and any receipts that have not been used to finance capital expenditure are included in the balance sheet as usable capital receipts.

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 requires the council to pay a specified amount of capital receipts from the disposal of housing land and dwellings to the Secretary of State as a contribution to the housing pool. The rate is currently 75% of the capital receipt from the sale of council dwellings and 50% of any other interest in housing land although there are reductions for certain qualifying disposals. This expenditure is recorded in the consolidated revenue account but is financed from a contribution from the usable capital receipt reserve.

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), otherwise all other assets are sold at market value.

Deferred credits 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.

## 4. Depreciation

Depreciation is provided in accordance with the Financial Reporting Standard (FRS) 15 and CIPFA guidelines. FRS 15 states that depreciation is to be provided on all fixed assets other than non-depreciable land and non-operational investment properties according to the following policy:

- newly acquired assets are not depreciated in the year of acquisition and assets in the course of construction are not depreciated until they are brought into use
- depreciation is calculated using the straight-line method.

Depreciation is calculated using the straight line method based on the following useful lives:

- Infrastructure - 40 years
- Vehicles plant & equipment - 5 to 7 years
- Other land & buildings - useful life varies depending on the condition, type and usage of the asset.
- Surplus assets - useful life varies depending on the condition, type and usage of the asset.

## 5. Capital charges to revenue

Services' revenue accounts, central support services and statutory trading accounts are charged with a capital charge for all fixed assets used in the provision of services to demonstrate to a greater extent their total cost. The total capital charge comprises depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. For 2004/05 the notional rates of interest set by CIPFA were 3.5% for assets at current value and 4.8% for assets at historic costs. The aggregate charge to individual services is determined on the basis of the capital employed in each service. Capital charges are calculated on the opening value of the asset as at 1st April 2004. No adjustment to the capital charge is made for disposals and additions of assets made during the year. The capital financing charge to services is credited to the asset management revenue account and the depreciation credited to the contribution to capital financing account. This ensures that capital charges have no impact on the amounts required to be raised from local taxation.

Amounts are set aside from revenue for the repayment of external loans, to finance capital expenditure, or as transfers to other earmarked reserves. These are disclosed separately as appropriations on the face of the consolidated revenue account, below net operating expenditure. These do have an impact on the amount required to be raised for local taxation.

## 6. Deferred charges

Deferred charges represent expenditure that may properly be capitalised, but which does not represent tangible fixed assets, for example housing association grants, capital expenditure on foundation schools and housing improvement grants. The 2004 SORP withdrew deferred charges as a balance sheet item as CIPFA is aiming for greater convergence with UK Generally Accepted Accounting Practice (UKGAAP). A prior period

adjustment was undertaken to write out the deferred charges balance of £22.015m as at 31 March 2004 to the capital finance account in line with the SORP. This reduced the opening balance on the capital finance account from £216.4m to £194.4m. From 2004/05 deferred charges will be amortised to revenue in the year in which the expenditure is incurred.

## 7. Leasing

Where assets are acquired under finance leases, these assets are recognised in the council's balance sheet together with the liability to pay future rentals. Under the prudential framework these long term liabilities are included in the Capital Financing Requirement (CFR), which triggers Minimum Revenue Provision (MRP) charges in future years on a 4% reducing balance of the liabilities first recognised. When entering into finance leases the council has decided to make additional MRP contributions so the charge to the Consolidated Revenue Account is in line with the payments of principal over the lease term. This charge is made as an appropriation to the Capital Financing Account after Net Operating Expenditure, as part of the item reconciling depreciation charges to revenue provision.

The council has 3 finance leases with the Ealing Family Housing Association for 102 dwellings. Following a review of leases undertaken in 2004/05 a number of leases for vehicles and plant have been classified as finance leases under SSAP21. Further details are provided in Note 9 to the Consolidated Revenue Account. The council also has acquired vehicles and plant under operating leases.

## 8. Long term contracts

The council has entered into two long-term contracts for the provision of older peoples' residential and nursing care. In addition the council has one Private Finance Initiative contract to build and facilities manage the Barnhill Community High School. It has emerged that there was an error in

the accounting treatment of this PFI scheme when the asset was initially recognised in the council's accounts in 1999/2000. This resulted in the liability being recognised in the capital finance account rather than deferred liabilities. A prior period adjustment has been undertaken to correct this error. The effect of this prior period adjustment is to increase deferred liabilities by £4.567m and creditors by £288k, and reduce the capital financing account by £5.084m as at 31 March 2004. Additional depreciation charged against the asset reduces the fixed asset by £228k. Further details of these contracts are provided in Note 14 (page 34) to the Consolidated Revenue Account.

## 9. Debtors and creditors

The revenue accounts of the council are maintained on an accruals basis in accordance with the code of accounting practice and FRS18. Sums due to or from the council during the year are included in the revenue account whether or not the cash has actually been received or paid in the year.

## 10. Grants

Grants and subsidies have been credited to the appropriate revenue and capital accounts. Accruals have been made for sums known to be receivable for the year, where the receipt was outstanding at 31st March 2005. The final claims for grants included in the accounts are subject to audit. The audit of the grant claims is currently ongoing.

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the government grants-deferred account. Amounts are released to the asset management revenue account over the useful economic life of the asset to match the depreciation charged on the asset to which it relates.

## 11. Stocks and work in progress

Stocks 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.

## 12. Costs of support services

In line with CIPFA recommended practice and complying with the Best Value Accounting Code of Practice, a full recharge of support service costs is made to front line services. The basis of allocation is as follows:

- Central department costs (Finance, Chief Executive, Solicitors, Property Services) are apportioned on the basis of time spent by staff in support of services.
- Administrative buildings are apportioned on the basis of area occupied.
- Computer services are apportioned on the basis of the estimated use by services of these facilities.

## 13. 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 will cover events likely to occur but uncertain as to the actual sums involved or the event date whilst reserves cover sums set aside for other purposes falling outside this definition.

The Fixed Asset Restatement Account represents principally the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets.

The Capital Financing Account represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

The Usable Capital Receipts Reserve includes capital receipts that have not yet been used to finance capital expenditure or to repay debt.

The Pension Reserve represents the surplus or deficit arising from the valuation of pension assets and liabilities of Hillingdon's interests in the London Borough of Hillingdon pension scheme and the London Pension Fund Authority pension scheme.

The Major Repairs Reserve is a requirement of the HRA resource accounting and holds depreciation charged to the HRA in excess of the major repairs allowance.

## 14. Pensions

The council participates in 2 defined benefit pension schemes, the London Borough of Hillingdon pension fund and the London Pension Fund Authority pension fund.

The assets of each scheme have been measured at their fair value as at 31 March 2005. In line with 2004 SORP requirements FRS17 retirement benefit disclosures are now calculated using the AA rated corporate bond yield. The attributable scheme liabilities have been measured on an actuarial basis using the projected unit method. This was undertaken by the council's external actuaries, Hyman Robertson. The deficit in the scheme is the shortfall of the value of the assets in the scheme below the present value of the scheme liabilities.

The current service costs and gains and losses on settlements and curtailments have been included within net cost of services (page 26). The net of the interest cost and the expected return on assets has been included within net operating expenditure (page 26). All pension contributions are accounted for on an accruals basis.

Actuarial gains and losses arising from updating the latest actuarial valuation to reflect conditions as at 31st March 2005 have been recognised in the movement to the pension reserve (page 56). The annual report and accounts of the pension fund are shown on pages 84 to 91.

Pensions for teachers are provided through a separate scheme operated by central government. Although the scheme is a defined benefit scheme the employer's contributions are set in relation to the current service period and are not affected by any surplus or deficit in the scheme relating to past service. The SORP permits this scheme to be accounted for as a defined contribution scheme. The pension costs reported for a year are equal to the contributions payable to the scheme and these costs are shown within net cost of services (page 26).

## 15. Investments

Investments are shown in the consolidated balance sheet at cost, but market values are shown in the supporting notes.

## 16. Redemption of debt

The policy on debt redemption is to maintain fairly stable fall out of debt required to be refinanced each year. To achieve this a target has been set that the maximum debt to fall-out naturally in any year is around 10%. This spreads the risk of interest rate exposure so all debt is not subject to renewal at the same time.

The majority of the debt held by the authority is distinguishable into two types:

- (a) Maturity loans where the principal is repaid in full on the date the loan matures. In the interim, interest payments are made every six months.
- (b) 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 the principal is repaid in full before the maturity date. 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.

In addition to the debt that falls out naturally in any one year, the authority can choose to redeem debt early as part of its overall debt management policy. This assists in the restructuring of the authority's debt portfolio and although in the short term a premium charge may occur, in the long term finance costs can be significantly reduced.

## **17. Group accounts**

As from 2006/07 the Treasury is planning to produce audited whole of government accounts (WGA) for the public sector, including central government departments, NHS, local authorities and government agencies. To prepare for this 2004/05 and 2005/06 will be dry runs.

To ensure that all material public sector entities are consolidated the 2004 SORP sets out comprehensive new requirements for the preparation of group accounts. The council have to include within their statement of accounts interests in subsidiaries, associates and joint ventures in a set of group accounts. The council has one subsidiary, Hillingdon Homes Ltd, which is responsible for the management of its housing stock. The council's group accounts are shown on pages 72 to 83. Hillingdon Homes' income and expenditure, assets and liabilities have been consolidated on a line by line basis in accordance with FRS2. The operating income and expenditure of Hillingdon Homes has been included in the Housing service line of the Net Cost of services.

Any departures from the accounting policies applicable to the group accounts are detailed on pages 72 to 83.

# 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 the Code of Practice on Local Authority Accounting in Great Britain. Further details of these requirements are detailed in the Statement of Accounting Policies.

They summarise the overall financial position of the council and in particular include the following:

## **Consolidated revenue account (page 25)**

This account 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 the local taxpayers and government grants. It does not include interests in related companies, these are included in the group accounts detailed on page 72.

## **Consolidated balance sheet (page 37)**

This sets out the assets and liabilities of the council as at the 31st March 2005, but excludes the assets and liabilities of the pension and trust funds. It does not include interests in related companies, these are included in the group accounts detailed on page 58.

## **Statement of total movement in reserves (page 53)**

This statement brings together all the recognised gains and losses of the authority during the period and identifies those that have and have not been recognised in the consolidated revenue account. The statement separates the movements between revenue and capital reserves.

## **Cash flow statement (page 58)**

This consolidated statement summarises the inflows and outflows of cash arising from transactions with

third parties for revenue and capital purposes. The statement excludes any transactions of the pension and trust funds.

## **The housing revenue account (page 63)**

The council has a statutory duty to maintain a separate revenue account for the provision of council housing. The account shows the expenditure on housing and how this has been financed by rents, government subsidies and other income.

## **The collection fund (page 68)**

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 authority.

## **Group accounts (page 72)**

This is the first year that the London Borough of Hillingdon has been required to produce a full set of group accounts under the 2004 SORP. The group financial statements include the group income and expenditure account, balance sheet, cash flow statement and the statement of total movement in reserves.

## **Pension fund (page 84)**

This fund is not included within the council's consolidated balance sheet, but is maintained separately. It provides for pensions and other benefits to council employees, excluding teachers who have a separate national scheme.

## Consolidated revenue account

This account shows the expenditure and the income relating to all the services provided by the council, including the housing revenue account. It then shows how the net cost of these services has been financed by government grants and income from local taxpayers.



*John Birdsall*

	Year ended 31 March 2005			Net Expenditure £000's	Year ended 31 March 2004		
	Notes	Expenditure £000's	Income £000's		Expenditure £000's	Income £000's	Net Expenditure £000's
<b>EXPENDITURE ON SERVICES</b>							
Central services to the public		23,515	18,757	4,758	22,240	16,989	5,251
Cultural, environmental and planning services		51,019	17,143	33,876	47,174	15,163	32,011
Education services		221,190	57,794	163,396	194,260	47,027	147,233
Highways, roads and transport services		34,632	9,203	25,429	35,122	10,920	24,202
Housing services		182,675	148,284	34,391	161,205	127,367	33,838
Social services		134,261	56,338	77,923	119,318	50,574	68,744
Court and probation services		679	0	679	552	0	552
Corporate and democratic core		6,765	560	6,205	5,812	248	5,564
Non distributed costs		10,222	7,388	2,834	10,346	7,353	2,993
<b>NET COST OF SERVICES</b>		664,958	315,467	349,491	596,029	275,641	320,388
Precepts and levies		250	0	250	308	0	308
Net loss on trading undertakings	1	9,886	9,632	254	9,540	9,382	158
Asset management revenue account	3	0	46,037	(46,037)	0	44,679	(44,679)
Contribution of housing capital receipts to government pool		8,931	0	8,931	0	0	0
Losses on early settlement of borrowing		0	0	0	1,870	0	1,870
Interest and investment income		0	1,023	(1,023)	0	619	(619)
Pension interest cost & expected return on pensions assets		1,862	0	1,862	4,509	0	4,509
<b>NET OPERATING EXPENDITURE</b>		685,887	372,159	313,728	612,256	330,321	281,935
Surplus of HRA transferred to HRA balances				(1,381)			4,138
Contribution from other earmarked reserves				374			(280)
Contribution from usable capital receipts equal to housing pooled capital receipts				(8,931)			0
Contribution from pensions reserve				(9,486)			(8,822)
Principal payment on finance leases				1,604			0
Contribution from capital financing account				(15,019)			(10,994)
<b>AMOUNT TO BE MET FROM GOVERNMENT GRANTS &amp; LOCAL TAXPAYERS</b>				280,889			265,977
FINANCED BY:							
General government grants				(125,100)			(110,921)
Council tax income				(91,696)			(87,714)
Non-domestic rate income	16			(68,872)			(71,158)
<b>INCOME FROM GENERAL GRANTS AND LOCAL TAXPAYERS</b>				(285,668)			(269,793)
<b>(SURPLUS) / DEFICIT FOR THE YEAR</b>				<b>(4,779)</b>			<b>(3,816)</b>
Balance at beginning of the year				(11,721)			(7,905)
<b>GENERAL FUND BALANCE AT END OF THE YEAR</b>				<b>(16,500)</b>			<b>(11,721)</b>
Comprising:							
Balance excluding school budgets	17			(7,616)			(6,453)
School budgets balance	17			(8,884)			(5,268)

# Notes to consolidated revenue accounts

## 1. Trading services

The Council operates a number of services on a trading basis. The financial results of the operations are as follows:

Trading undertakings	Expenditure	Income	2004/05	Expenditure	Income	2003/04
	£000's	£000's	Deficit/(Surplus) £000's	£000's	£000's	Deficit/(Surplus) £000's
Fleet management	3,053	2,989	64	2,989	2,958	31
Passenger services	2,804	2,702	102	2,642	2,516	126
Engineering consultancy	1,240	1,247	(7)	1,213	1,242	(29)
Harlington Road depot & canteen	1,081	986	95	962	1,038	(76)
Building cleaning	930	930	0	924	907	17
Property consultancy	778	778	0	810	721	89
	9,886	9,632	254	9,540	9,382	158

In addition the following trading services are included in the relevant service heading in the consolidated revenue account under best value guidance.

Other trading services						
Industrial estates	321	261	60	311	307	4
Uxbridge market	52	219	(167)	34	224	(190)
Park Lodge farm *	1	1	0	742	702	40
Highways, sewers and street lighting	3,279	3,279	0	3,407	3,348	59
Grounds maintenance	2,828	2,828	0	2,585	2,585	0
On street car parking *	1,543	1,543	0	986	986	0
	8,024	8,131	(107)	8,065	8,152	(87)

\* Park Lodge farm was leased out for 25 years from 1 April 2004. The tenant purchased the livestock, deadstock, machinery, foodstuff, seeds & fertilizer from the council. Only residual expenditure was incurred in 2004/05.

\* The increase in trading on on street car parking is due to new initiatives in bus lanes and parking meters.

## 2. External audit costs

The Audit Commission provides external audit services to the council. During 2004/05 the council incurred the following fees relating to external audit and inspection.

	2004/05	2003/04
	£000's	£000's
External audit services carried out by the appointed auditor	391	493
Public inspection audit	39	16
Statutory inspection audit	104	184
Grant claims and returns	135	148
<b>Total external audit costs</b>	<b>669</b>	<b>841</b>

### 3. Transactions on the asset management revenue account

The asset management revenue account shows the difference between the charges made to services for the use of assets and the cost of borrowing to fund capital expenditure. The charges to services are based on the value of each asset and consist of depreciation together with a notional interest charge. These charges are then transferred back to the consolidated revenue account (notional interest through the asset management revenue account and depreciation through the capital finance account) to ensure that the notional charges for capital have no impact on the level of council tax. For 2004/05 the notional interest rate set by CIPFA is 3.5% for assets at current value and 4.8%, increased from 4.625% in 2003/04, for assets at historic cost.

	2004/05		2003/04	
	£000's	£000's	£000's	£000's
<b>Income</b>				
Capital charges - General fund	(33,129)		(30,769)	
- Housing revenue account	(36,280)		(35,980)	
- Other	(37)		(40)	
Transfer from government grants deferred account	(5,250)		(4,241)	
		(74,696)		(71,030)
<b>Expenditure</b>				
Provision for depreciation	23,151		21,183	
External interest charges	5,508		5,168	
		28,659		26,351
Balance to consolidated revenue account		(46,037)		(44,679)

### 4. Publicity

Local authorities are required to keep a separate account of publicity expenditure under section 5 of the Local Government Act 1986 with certain exemptions under article 7 of the 1987 order. Relevant expenditure is as follows:

	2004/05	2003/04
	£000's	£000's
Press section : Salaries	292	254
Other Costs	141	110
Staff recruitment	1,175	1,225
Net expenditure on 'Hillingdon People'	0	2
	<b>1,608</b>	<b>1,591</b>

### 5. Agency services

The Council provides agency services through the London Airport Health Control to British Airports Authority. The cost of this service in 2004/05 was £2,258k (£2,117k in 2003/04) which is fully reimbursable and is not included in the consolidated revenue account on page 26.

## 6. Local authority (goods and services act) 1970

The council is empowered by this act to provide goods and services to other public bodies. The council provides payroll services to Hillingdon Homes Ltd and foundation and voluntary schools. The income and expenditure in respect of this service is included in the consolidated revenue account.

## 7. Pension schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two local government pension schemes:

- London Borough of Hillingdon pension fund
- London Pension Fund Authority fund

Both these schemes are funded schemes, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. During 2004/05 the council contributed £9.8m to the Hillingdon Pension Fund.

Teachers employed by the authority are members of the teachers' pension fund, administered by the Department for Education and Skills. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. During 2004/05 the employers' contribution rate was 13.5% (13.5% in 2003/04) resulting in an employers' contribution of £7.21m (£6.927m in 2003/04).

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 the council is required to make against council tax is based on the cash payable to the pension fund in the year, so the real cost of retirement benefits is reversed out of the consolidated revenue account (CRA) after net operating expenditure. The following transactions have been made in the CRA during the year to make this adjustment:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund		Total
	31 March 2005	31 March 2004	31 March 2005	31 March 2004	31 March 2005
	£000s	£000s	£000s	£000s	£000s
<b>Net cost of services</b>					
Current service costs	14,700	10,000	17	12	14,717
Past service costs	500	400	0	0	500
Settlements and curtailments	900	1,200	0	0	900
<b>Total Net Cost Of Services</b>	<b>16,100</b>	<b>11,600</b>	<b>17</b>	<b>12</b>	<b>16,117</b>
<b>Net Operating Expenditure</b>					
Interest costs	(25,000)	(26,800)	(38)	(425)	(25,038)
Expected return on assets in the scheme	26,900	22,400	0	316	26,900
<b>Total Net Operating Expenditure</b>	<b>1,900</b>	<b>(4,400)</b>	<b>(38)</b>	<b>(109)</b>	<b>1,862</b>
<b>Amounts to be met from Government Grants and Local Taxation:</b>					
Movement on pension reserve	(9,530)	7,200	44	(97)	(9,486)
<b>Actual amount charged against council tax for pensions in the year:</b>					
Employer's contributions payable to scheme	8,470	7,300	11	11	8,481
Contributions in respect of unfunded benefits	0	0	12	13	12

Note 22 to the consolidated balance sheet (page 49) contains details of the assumptions made in estimating the figures included in this note. Note 4 to the statement of total movements in reserves (page 56) details the costs that have arisen through the year.

## 8. Minimum revenue provision

Although services are charged with depreciation these charges are credited out through the capital financing account and do not have an impact on the amount required to be raised from local taxation. The depreciation charge is replaced by the minimum revenue provision (MRP), which is a statutory charge that the council has to set aside for the redemption of external debt. From 1st April 2004 this calculation has changed from charges to the general fund and HRA based on their respective credit ceilings to a single charge to the general fund based on its share of the authority's overall capital financing requirement (CFR). In 2004/05 MRP of £3,629k had to be financed from council tax. Further details of the capital financing account are shown in Note 2 to the statement of total movement in reserves (page 55).

	2004/05 £000's	2003/04 £000's
General fund MRP	3,629	2,593
HRA MRP	0	350
<b>Total MRP</b>	<b>3,629</b>	<b>2,943</b>
Less depreciation charged to general fund	(14,375)	(12,710)
Less HRA depreciation greater than MRA	(775)	0
<b>Net contribution to capital financing account</b>	<b>(11,521)</b>	<b>(9,767)</b>



## 9. Operating and finance leases

### Vehicles, Plant and Equipment

During 2004/05 the council made payments totalling £111k (£718k 2003/2004) under operating leases for vehicles and plant. Following a review of leases in 2004/05 78 vehicles have been classified as leased under finance leases. The 2004/05 finance lease payments in respect of these vehicles totalled £744k, separated between principal of £654k and interest of £90k.

At the end of the year the undischarged future financial obligations under vehicle leases were £2,781k (£3,556k for 2003/04). Of this total £790k is due within a year and £1,991k is due between 2006/07 and 2010/11.

### Dwellings

The council leases 102 dwellings from the Ealing Family Housing Association under finance leases. The finance lease payments for 2004/05 amounted to £1,085k. This was separated between principal of £663k and interest £422k.

## 10. Member allowances

During 2004/05 the total allowances paid to Members was £1,060k (£1,049k 2003/2004).

## 11. Officer emoluments

The number of employees in 2004/05 whose remuneration, excluding pension contributions, was £50k or more, are detailed below in bands of £10k. 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	2004/05		2003/04	
	Total	Due to Lump Sum	Total	Due to Lump Sum
£50,000 - £59,999	49	0	55	(1)
£60,000 - £69,999	16	(1)	21	(2)
£70,000 - £79,999	9	(1)	5	0
£80,000 - £89,999	3	0	0	0
£90,000 - £99,999	0	0	4	0
£100,000 - £109,999	0	0	3	0
£110,000 - £119,999	4	(1)	0	0
£120,000 - £129,999	0	0	0	0
£130,000 - £139,999	1	(1)	0	0
	<b>82</b>	<b>(4)</b>	<b>88</b>	<b>(3)</b>

## 12. Related party transactions

The council is required to disclose any material transactions with related parties to ensure that stakeholders are aware when these transactions take place and the amount and implications of such transactions. All such material related party transactions are disclosed below.

### Members and chief officers

A specific declaration form was used to collect information from members and chief officers.

During the year the council made payments to the following organisations with which members or chief officers had relationships falling within the scope of FRS 8:

ORGANISATION	NAME	PAYMENT £
DASH	Clr D Bishop	134,000
London Youth Games Ltd	Clr M Cox	10,810
Greater London Enterprise	Clr M Cox	22,496
Homestart Hillingdon	Clr M Cox	22,000
Project 2041 Navigator	Clr A Burles	660,000
Hillingdon Citizens Advice	Clr G Cooper	210,000
Hillingdon Race Equality Council	Clr G Cooper	72,000
Hillingdon Narrowboats Association	Clr G Courtenay	6,000
Hillingdon Association of Voluntary Services	Clr G Courtenay	192,000
Ruislip Northwood Old Folk's Association	Clr C Dann	21,000
Hillingdon Outdoor Activities Centre	Clr C Dann	52,000
Life Education	Clr P Ryerson	48,000
Hillingdon Women's Centre	Clr P Sethi	45,000
Hillingdon Asian Women's Communication Services	Clr P Sethi	11,000

During 2004/05 Clr G Cooper had a close relative/member of household who held a position of influence in DASH, a voluntary organisation that received a grant of £134,000 from the council.

Clr M Usher was in receipt of income from a company, Trinity Mirror Southern, that contracts with the council. In 2004/05 contract payments totalled £12,909. Clr J Duncan had a close relative/member of household in receipt of income from a company, Grundons, that contracts with the council. Contract payments totalled £403,000 in 2004/05.

Declaration forms have not been received from two council officers, who have since left the employment of the council, however in previous years these officers declared no transactions falling within the scope of FRS8.

### Hillingdon Homes Ltd

During 2004/05 payments totalling £49m were made to Hillingdon Homes Ltd, a subsidiary of the council. The following councillors are on the board of Hillingdon Homes Ltd:

Cllr A Retter	Cllr P Filgate
Cllr L Allen	Cllr H Higgins (up to 22/7/04)
Cllr Dubrow-Marshall	Cllr G Courtenay

They do not receive any remuneration.

### The pension fund

The London Borough of Hillingdon pension fund is considered a related party. The employer's contribution to the pension fund in 2004/2005 was £9,773k (2003/04 £8,377k).

### Government grants

The council received a number of grants from central government which is considered a related party. These are detailed on page 61 in Note 5 to the cash flow statement.

### Precepts

In 2004/05 the following precepts and levies are considered related party transactions:

Greater London Authority Precept	£22.7m
Greater London Magistrates' Court Authority	£0.52m
West London Waste Authority Levy	£5.8m
Environment Agency	£0.16m
Lee Valley Regional Park Authority	£0.26m

### 13. Building control trading account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the building control unit can not be charged, such as providing general advice and liaising with other statutory authorities. The statement below shows the cost of operating the building control unit divided between the chargeable and non-chargeable activities.

Notes	2004/05 £			2003/04 £		
	Chargeable Chargeable	Non Control	Total Building	Chargeable Chargeable	Non Control	Total Building
Expenditure						
Building control costs 1	603,705	201,235	804,940	518,332	331,394	849,726
Directorate costs	77,600	25,866	103,466	64,812	41,437	106,249
Corporate costs 2	108,413	36,138	144,551	81,147	51,881	133,028
<b>TOTAL EXPENDITURE</b>	<b>789,718</b>	<b>263,239</b>	<b>1,052,957</b>	<b>664,291</b>	<b>424,712</b>	<b>1,089,003</b>
<b>TOTAL INCOME</b>	<b>791,785</b>	<b>12,757</b>	<b>804,542</b>	<b>739,336</b>	<b>20,300</b>	<b>759,636</b>
<b>Surplus/(Deficit) for Year</b>	<b>2,067</b>	<b>(250,482)</b>	<b>(248,415)</b>	<b>75,045</b>	<b>(404,412)</b>	<b>(329,367)</b>

#### Notes

1. Includes all employee, transport and other building control service costs.
2. Includes premises, supplies and services.

### 14. Long term contracts

- a. On the 1st of April 2000 the council entered into a 12 year contract with Care UK Community Partnerships Ltd for older people residential and nursing care. The estimated gross cost for the remaining 7 years of the contract is £22.9m.
- b. On 29th February 2000 the council entered into a 10 year contract with Lifestyle Care Plc for older people residential and nursing care. The estimated gross cost for the remaining 5 years of the contract is £14m.
- c. In December 1999 the council entered into a 25 year contract with a private sector partner, Jarvis (Barnhill) Limited, to build and provide facilities management at the Barnhill Community High School under a private finance initiative (PFI) arrangement. The school opened in September 1999. Under the contract the council incurred principal of £288k and interest of £1,273k in 2004/05. The net present value of outstanding contract payments to be made over the remaining 19 years of the contract, assuming satisfactory performance, totals £26.9m. The contract runs until September 2024.

In accounting for this transaction the council has to apply FRS5, which states the council has an asset of the property with access to the benefits of the property and with the risks inherent to those benefits. Following application of the required tests as to the extent to which the council and the providers bear the potential variations in surpluses and deficits, the school is recognised as a fixed asset in the council's asset register.

Jarvis has recently experienced financial difficulties and their business strategy is to move away from the school's PFI market. The council has been in negotiations with Jarvis about the transfer of the contract to an alternative provider. In the unlikely event that Jarvis were not able to fulfil their contractual duties there would be an interruption to the facilities management of the school until an alternative provider could be arranged. Contingency arrangements are in place to manage this risk.

- d. The council has three 20 year finance leases with the Ealing Family Housing Association for 102 dwellings. The estimated outstanding liability cost for the remaining 5 years of the contract is £3.578m.

## 15. Pooled budget agreements

Section 31 of the Health Act 1999 allows partnership arrangement between NHS bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partner makes a contribution to a pooled budget with the aim of focusing services and activities for a client group. Funds contributed are those normally used for the service represented in the pooled budget and allow the organisations involved to act in a more cohesive way.

The council, in association with Hillingdon Primary Care Trust and independent sector providers, has established the Learning Disability Partnership Board. This has meant the creation of a pooled budget fund, and the details of the council contribution (funded by social services) and expenditure are disclosed below:

The Learning Disability Partnership Board	2004/05 £000s	2003/04 £000s
<b>Funding</b>		
Contribution from Primary Care Trust	7,673	8,107
Contribution from council (social services)	11,758	10,441
Income from client charges & grants	3,698	3,780
Allocation of Overspend - PCT	773	295
- Council (social services)	773	295
<b>GROSS EXPENDITURE</b>	<b>24,675</b>	22,918

At the year end there was a debtor due from the PCT of £773k, in respect of the overspend. There was no capital expenditure incurred as part of this partnership.

## 16. Non-domestic rate income

Non Domestic Rates are collected by the council on behalf of central government and paid into a central pool. The final payment to the NNDR pool in 2004/05 was £243.44m and the collection fund account (page 69) accounts for this. The council received a payment from the pool of £68.9m in 2004/05 as part of the government revenue support grant settlement.

## 17. General fund balance

Further analysis of the balances are shown in the statement of total movements in reserves on page 54.

## 18. Section 137 expenditure

Under section 137 of the Local Government Act 1972 (as amended), the council is empowered to incur expenditure which in its opinion is of benefit to local taxpayers and which cannot be justified under any other local authority power.

	2004/2005 £000s	2003/2004 £000s
Expenditure:		
Careline service	220	225
Grants to the voluntary sector	362	465

## Consolidated balance sheet

This statement summarises the council's financial position as at 31st March 2005. It sets out the assets and liabilities of the council and shows the balances and reserves. It excludes the pension and trust funds but does include the council's asset or liability in the local government pension scheme.




J M Teychenne

	Notes	At 31st March		At 31st March	
		2005	2004	2005	2004
		£000's	£000's	£000's	£000's
<b>FIXED ASSETS</b>					
<b>Operational Assets</b>	1				
Council dwellings		872,444		781,672	
Other land and buildings		529,765		321,911	
Vehicles, plant and equipment		10,352		6,342	
Community assets		10,130		8,375	
Infrastructure assets		138,972	1,561,663	137,725	1,256,025
<b>Non Operational Assets</b>	1				
Investment properties		5,404		14,391	
Assets under construction		1,918		1,335	
Surplus assets, held for disposal		6,325	13,647	8,843	24,569
<b>Intangible Assets</b>			0		0
Long term investments	6		76		76
Long term debtors	7		1,979		1,745
<b>Total Long Term Assets</b>			1,577,365		1,282,415
<b>Current Assets</b>					
Stocks & works in progress	8	337		447	
Debtors and payments in advance	9	65,019		75,713	
Short term investments	6	14,500		6,600	
Cash in hand		1,775	81,631	0	82,760
<b>Current Liabilities</b>					
Temporary borrowing		(6,016)		(2,016)	
Creditors and receipts in advance	10	(82,239)		(67,740)	
Bank overdraft		0	(88,255)	(4,594)	(74,350)
<b>Total Assets less Current Liabilities</b>			1,570,741		1,290,825
Provisions	13		(4,001)		(3,128)
Long term borrowing	11		(81,475)		(72,491)
Deferred liabilities			(8,839)		(6,978)
Liabilities related to defined benefit pension schemes			(134,318)		(84,572)
<b>Total Assets less Liabilities</b>			1,342,108		1,123,656
<b>Financed By:</b>					
Fixed asset restatement account	12		1,148,415		888,526
Capital financing account	12		184,473		189,254
Usable capital receipts account	12		9,158		10,265
Deferred credits			375		453
Government grants deferred account			103,605		93,068
Pension reserve	12		(134,318)		(84,572)
Fund balances and reserves	12		30,400		26,662
<b>Total Net Worth</b>			1,342,108		1,123,656

The assets and liabilities of the pension fund and various trust funds administered by the council are excluded from the above balance sheet as they are not statutory services.

**Christopher Neale, Director of Finance, 21 October 2005**





# Notes to consolidated balance sheet

## 1. Movement of fixed assets 2004/05

Operational Assets	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Infrastructure Assets £000's	Community Assets £000's	Total £000's
Gross book value as at 1 April 2004	814,610	348,991	17,911	174,438	8,375	1,364,325
Accumulated depreciation & impairment	(32,938)	(27,080)	(11,569)	(36,713)	0	(108,300)
Net book value as at 1 April 2004	<b>781,672</b>	<b>321,139</b>	<b>6,342</b>	<b>137,725</b>	<b>8,375</b>	<b>1,256,025</b>
Adjustment due to reclassification	(138)	9,587	75	16	(1,033)	8,507
Depreciation on reclassified assets	0	72	0	2	0	74
Restated net book value as at 1 April 2004	781,534	331,570	6,417	137,743	7,342	1,264,606
Additions	28,857	10,785	4,544	5,590	2,819	52,595
Revaluations	90,731	195,976	2,954	0	25	289,686
Disposals	(20,014)	(2,131)	(21)	0	(56)	(22,222)
Depreciation on assets sold	0	81	25	0	0	106
Depreciation for year	(8,664)	(6,516)	(3,567)	(4,361)	0	(23,108)
Gross book value as at 31 March 2005	914,046	563,208	25,463	180,044	10,130	1,692,891
Accumulated depreciation & impairment	(41,602)	(33,443)	(15,111)	(41,072)	0	(131,228)
Net book value as at 31 March 2005	<b>872,444</b>	<b>529,765</b>	<b>10,352</b>	<b>138,972</b>	<b>10,130</b>	<b>1,561,663</b>
Non-Operational Assets			Investment Properties £000's	Assets under £000's	Surplus Assets £000's	Total Construction £000's
Gross book value as at 1 April 2004			14,391	1,334	8,844	24,569
Accumulated depreciation & impairment			0	0	0	0
Net book value as at 1 April 2004			<b>14,391</b>	<b>1,334</b>	<b>8,844</b>	<b>24,569</b>
Adjustment due to reclassification			(8,995)	0	488	(8,507)
Depreciation on reclassified assets			0	0	(6)	(6)
Restated net book value as at 1 April 2004			5,396	1,334	9,326	16,056
Additions			2	588	9	599
Revaluations			6	0	0	6
Disposals			0	(4)	(2,997)	(3,001)
Depreciation on assets sold			0	0	30	30
Depreciation for year			0	0	(43)	(43)
Gross book value as at 31 March 2005			5,404	1,918	6,344	13,666
Accumulated depreciation & impairment			0	0	(19)	(19)
Net book value as at 31 March 2005			<b>5,404</b>	<b>1,918</b>	<b>6,325</b>	<b>13,647</b>

In order to evidence compliance with the new definition of non-operational assets introduced in 2004/05 the council undertook a review of all its non-operational assets. This review led to the reclassification of a number of assets, and the effect of this change is shown separately above.

The calculation of the net book value of council dwelling disposals and transfers written out of the accounts in 2004/05 constitutes a departure from the SORP. For further details see page 18.

## 2. Statement of sources of finance

Capital expenditure of £69.631m has been incurred in 2004/05 on fixed assets and deferred charges. The expenditure on fixed assets is recognised as an addition in the movement of fixed assets. In addition, the review of leases has resulted in the recognition of operational assets worth £4.784m. The sources of finance detailed below were used to fund capital expenditure incurred during the year and the principal element of finance lease payments.

	2004/05 £000s	2003/04 £000s
<b>Opening Capital Financing Requirement</b>	<b>110,092</b>	103,783
<b>Capital investment</b>		
Operational assets	52,595	29,201
Non-operational assets	599	274
Deferred charges	16,437	9,657
Finance leases	4,784	0
<b>Sources of finance</b>		
Capital receipts	(8,207)	(5,827)
Government grants and other contributions	(24,215)	(21,309)
Revenue provision	(12,933)	(5,687)
<b>Closing Capital Financing Requirement</b>	<b>139,152</b>	110,092
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow :		
- supported by Government financial assistance	24,554	6,309
- unsupported by Government financial assistance	4,506	0
<b>Increase in Capital Financing Requirement</b>	<b>29,060</b>	6,309

## 3. Depreciation

Depreciation is charged on all fixed assets other than non-depreciable land and investment properties. Depreciation is calculated using the straight line method based on the following useful lives:

Infrastructure	- 40 years
Vehicles, Plant & Equipment	- 5 to 7 years
Other Land & Buildings	- useful life varies depending on the condition, type and usage of the asset.
Surplus Assets	- useful life varies depending on the condition, type and usage of the asset.

Depreciation of council dwellings is provided at the level of major repairs allowance in line with CIPFA recommended practice.

#### 4. Valuation of fixed assets carried at current value

The freehold and leasehold properties which comprise the authority's property portfolio have been valued as at 1 April 2004 by the Estate and Valuation service of the authority. Revaluations are made on a rolling 5 year period. The only external valuation included is of council dwellings which were valued as at 1st April 2001 by Drivers Jonas and have been uplifted as at 31st March 2005 to take account of movements in market values. A valuation certificate has been given by the estates manager that the properties have been valued in accordance with the appraisal and valuation manual of the Royal Institute of Chartered Surveyors, and with guidance notes issued by the Chartered Institute of Public Finance and Accountancy. Property inspections in accordance with the rolling valuation programme were carried out between April 2004 and March 2005. Full details of the basis of valuation for each asset category is provided in statement of accounting policies (page 18).

	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Investment Properties £000's	Total £000's
Value at historical cost	0	0	25,463	0	25,463
Valued at current value in:					
2004/2005	872,444	529,765	0	13,647	1,415,856
2003/2004	781,672	322,139	0	24,569	1,128,380
2002/2003	767,470	318,658	0	25,523	1,111,651
2001/2002	644,816	322,880	0	26,648	994,344
2000/2001	566,498	369,131	0	21,364	956,993
1999/2000	533,369	365,254	0	26,171	924,794
1998/1999	433,942	324,789	0	22,906	781,637
1997/1998	386,725	324,148	0	24,112	734,985

#### 5. Deferred charges

From 2004/05 deferred charges have been removed from the balance sheet following the designation of the new intangible fixed assets category. Expenditure classified as capital under the capital financing regulations but which does not result in either a tangible or intangible fixed asset has been charged to revenue in year. A prior period adjustment was made to charge the balance of deferred charges as at 31st March 2004 of £22.015m to the capital financing account in line with the SORP.

	Improvement Grants £000's	Other £000's	2004/05 Total £000's	2003/04 Total £000's
Balance as at 1 April 2004	0	0	0	18,701
Expenditure	3,146	13,291	16,437	9,657
Charged to revenue in year	(3,146)	(13,291)	(16,437)	(6,343)
Charged to capital financing account	0	0	0	(22,015)
Balance as at 31 March 2005	0	0	0	0

## 6. Investments

	Book Value at 31st March 2005 £000's	Market Value at 31st March 2005 £000's	Book Value at 31st March 2004 £000's	Market Value at 31st March 2004 £000's
Loans to non public organisations	14,500	14,500	6,600	6,600
Government securities (long term)	76	94	76	96
	<b>14,576</b>	<b>14,594</b>	<b>6,676</b>	<b>6,696</b>

## 7. Long term debtors

	At 1st April 2004 £000's	New Advances £000's	Repayments £000's	At 31st March 2005 £000's
Housing advances & associations	62	0	(9)	53
Sale of council houses	459	0	(74)	385
Other loans & advances	1,224	728	(411)	1,541
	<b>1,745</b>	<b>728</b>	<b>(494)</b>	<b>1,979</b>

## 8. Stocks and work in progress

	At 31st March 2005 £000's	At 31st March 2004 £000's
Stocks:		
Building maintenance/highways	235	277
Printing & stationery	24	23
Other stocks	39	39
	<b>298</b>	<b>339</b>
Work In Progress:		
Other rechargeable works	39	108
	<b>337</b>	<b>447</b>

## 9. Debtors

	At 31st March 2005 £000's	At 31st March 2004 £000's
Government departments	19,902	30,678
Other public bodies	7,220	3,899
Hillingdon Homes Ltd	2,237	10,373
Housing rents	5,456	3,600
Non-domestic ratepayers	20,347	19,591
Community chargepayers	86	86
Council taxpayers	12,543	11,631
Sundry debtors	22,653	17,822
Car & other loans	63	60
	90,507	97,740
Less: provision for doubtful debts	(25,488)	(22,027)
	<b>65,019</b>	<b>75,713</b>

## 10. Creditors

	At 31st March 2005 £000's	At 31st March 2004 £000's
Government departments	14,833	14,211
Other public bodies	5,211	4,685
Hillingdon Homes Ltd	1,459	675
Housing rents prepaid	938	938
Sundry creditors	45,705	39,263
Non-domestic ratepayers	11,722	5,924
Council taxpayers	2,371	2,044
	<b>82,239</b>	<b>67,740</b>

## 11. Long term borrowing

	At 31st March 2005 £000's	At 31st March 2004 £000's
<b>Sources of borrowing</b>		
Public Works Loan Board (PWLB)	57,048	48,491
Mortgage / Special	427	0
Other loans	24,000	24,000
	<b>81,475</b>	<b>72,491</b>
<b>Analysis of loans by maturity</b>		
Maturing in 1-2 years	8,371	6,017
Maturing in 2-5 years	16,777	21,526
Maturing in 5-10 years	12,128	15,721
Maturing in more than 10 years	44,199	29,227
	<b>81,475</b>	<b>72,491</b>

£6,016k (£2,016k in 2003/2004) of long term PWLB borrowing will be maturing within one year so has been included in short term borrowing. Of this £6,000k relates to PWLB and remaining £16,000 to Mortgage / Special.

## 12. Fund balances and reserves

	At 31st March 2005 £000's	At 31st March 2004 £000's
General Fund :		
- Working balance	7,616	6,453
- Schools delegated funds	8,884	5,268
Earmarked Reserves		
- Parking fund	1,087	913
- New Road & Streetworks Act fund	200	0
Housing Revenue Account	13,013	14,394
Collection Fund		
- Council	(398)	(381)
- GLA	(2)	15
	<b>30,400</b>	<b>26,662</b>

### Reserves

Further analysis of all reserves is given in the statement of total movement in reserves on page 54.

### 13. Provisions

	At 31st March 2005 £000's	At 31st March 2004 £000's
Insurance	2,020	2,085
Asylum seeker grant claim	1,110	672
Other	871	371
Total	4,001	3,128

The council has external insurance for major risks such as buildings, liability indemnity and motor vehicles. The policy has an excess clause that requires the council to meet the first part of each claim before the insurance company becomes liable to make payments and for 2004/05 the excess level was £89k. The council self funds liability claims which fall under the insurance policy excess. The insurance fund provision is to provide for outstanding liability claims against the council as at 31 March 2005. For 2004/05 the provision has been calculated using a discounted cashflow basis at a discount rate of 5.84%.

Details of the provision in respect of asylum seeker grant claims are provided in Note 24 on page 52.

#### Other provisions

Following the House of Lords ruling in May 2002 that local authorities have no power to charge for care provided under s117 of Mental Health Act 1983 the council has made a provision of £371k for the reimbursement of charges. The amount and timing of payments will be determined by the number of claims.

In April 2003 the council entered into a contract to lease homes for use by the council as temporary accommodation. The contract requires the payment of dilapidation costs and a provision of £500k has been made to finance these costs.

### 14. Contingent liabilities and assets

There are several significant legal actions pending against the council arising from the exercise by the council of its statutory functions but these are being strongly contested. They are as follows:

1. The council is awaiting a response from the Government Office for London relating to a claim against the council in relation to the Hayes Bypass (estimated at £5,390k excluding costs and fees). However following the creation of the Greater London Authority (GLA) in 1999, the council is awaiting clarification of the statutory provisions governing the transfer of the properties to the GLA.
2. During 1992/93 the council's then insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. During 1993/94 a scheme of arrangement was set up to try to ensure an orderly settlement of outstanding claims. Under this arrangement the council may be required to repay MMI part of any claims

met since 1st October 1993. This would only occur if MMI could not meet all claims against it, which is not expected to be the case. At 31 March 2005, the sum potentially subject to 'clawback' was £2,137k (£2,110k as at 31 March 2004). Further claims totalling £66k were outstanding (£222k in 2003/2004).

3. The Department for Educations & Skills has proposed to reduce the amount of Leaving Care Grant Contingency Fund paid per client in 2004/05 from £140 pw to £100pw. If this proposal is approved it would reduce the amount of Leaving Care Grant for 2004/05 by £683k. The council is contesting this proposal and is confident that the full amount will be received. Further details of the Care Leaving Grant are provided in Note 24 on page 52.

## 15. Analysis of net assets employed

	As at 31 March 2005 £000's	As at 31 March 2004 £000's
General fund	445,869	319,940
HRA	896,239	803,716
<b>Total</b>	<b>1,342,108</b>	<b>1,123,656</b>



## 16. Information on assets held

Fixed assets owned by the council and on the asset register include the following:

	Number as at 31.3.2005	Number as at 31.3.2004
<b>Council Dwellings</b>	11,116	11,313
<b>Operational Buildings</b>		
Civic centre	1	1
Other offices	7	8
Depots	2	2
Nurseries & playgroups	7	9
Social services day centres	17	17
Social services homes & hostels	22	21
Primary schools	46	46*
Secondary schools	2	2
Special schools	5	5
Other education establishments	32	32*
Sports centres	5	5
Swimming pools	4	4
Golf courses	4	4
Youth centres	3	4
Community centres	11	11*
Meeting halls	8	8
Libraries	17	17
Theatres & museums	2	2
Citizens advice bureau	1	1
Public conveniences	9	12
Multi storey car parks	2	2
Car parks	22	19
Cemeteries	9	9
Crematorium	1	1
Playgrounds & playing fields	7	10
Farms & other land	13	14
Allotments	33	34
Other operational establishments	3	7
Commercial properties & parades of shops	70	0 <sup>+</sup>
Community facilities	118	0 <sup>+</sup>

	Number as at 31.3.2005	Number as at 31.3.2004
<b>Operational Equipment</b>		
Vehicles	86	11+
CCTV	11	11
Computer terminals	2,600	3,000
Heavy plant	10	10
<b>Infrastructure Assets</b>		
Highways (kilometres)	736	736
Bridges	246	246
<b>Community Assets</b>		
Parks & open spaces	185	185

The asset register has been updated for additions, sales and demolitions during the year.

\* The number as at 31 March 2004 has been reclassified.

+ The revision to the definition of non-operational assets resulted in community facilities and HRA shops being reclassified as operational buildings. In addition the reclassification of vehicles to finance leases has substantially increased the number of vehicles owned by the council.

## 17. Commitments under capital contracts

The council has entered into capital contracts that have committed the council to the following expenditure in future years:

Year	2004/05 £000s	2003/04 £000s
2004/05		5,767
2005/06	7,894	40
2006/07	208	
	<b>8,102</b>	<b>5,807</b>

## 18. Trust Funds

The council is responsible for a number of small trust funds which are not consolidated in the accounts. The council administers the trust and bequest funds in accordance with the wishes of the benefactors and disbursements from funds are made in pursuance of the objectives of each fund. Surplus monies are invested and the funds receive income mainly from interest and dividends on investments.

	At 31st March 2005 £	At 31st March 2004 £
Education trusts - providing academic prizes	3,498	3,338
Library trusts - purchase of library books	7,110	6,260
<b>Total</b>	<b>10,608</b>	<b>9,598</b>

The legal agreement in respect of Phase 3 of the Stockley Park development required the developers to undertake and pay for works to the highway. The developers agreed to deposit £512.9k with the council in January 2002. These monies are held in trust to be repaid, with interest, when the works are completed. In the event that they default the council will be entitled to use the money to complete the works. The balance on the account as at 31st March 2005 was £537k.

## 19. Finance leases

The council has three 20 year leases with the Ealing Family Housing Association for 102 dwellings. The net value of the leases has been included in fixed assets. The outstanding liability for the capital value of these leases at 31 March 2005 is £3.578m. Of this £729k is due within a year and therefore included in creditors and the remaining £2,849k is shown as a deferred liability.

The council has 78 vehicles leased under finances leases. The net value of the leases has been included in fixed assets. The outstanding liability for the capital value of these leases at 31 March 2005 is £2.3m. Of this £593k is due within a year and therefore included creditors and the remaining £1,706k is shown as a deferred liability.

## 20. Long term contracts including PFI

The Barnhill Community High School, which was built under the private finance initiative, has been recognised as a fixed asset in the council's asset register. It is shown within other land and buildings at a gross book value of £6m, with accumulated depreciation totaling £1,485k. Further details of the contract are shown in note 14 of the consolidated revenue account (page 34).

## 21. Euro costs

The council's integrated general ledger and creditors system has the capacity to handle currencies including the Euro in addition to sterling.

No assessment, and therefore no provision, has been made yet in relation to any cost implications associated with the introduction of the Euro.

## 22. Pensions FRS17 disclosure

The council has employees with pensions in the London Borough of Hillingdon pension fund and the London Pension Fund Authority pension fund. The funds are administered in accordance with the Local Government Pension Scheme regulations 1997 as amended. The schemes are funded, meaning that both the employers and employees pay contributions into a fund. These contributions are calculated at a level intended to balance the pension liabilities with the investment assets. A formal actuarial valuation of both funds was undertaken as at 31 March 2004 by Hymans Robertson, an independent firm of actuaries. This actuarial value of liabilities is used to assess the net pension liability as at 31 March 2005 under Financial Reporting Standard 17 (FRS 17), allowing for changes in financial assumptions as prescribed under FRS17.

FRS 17 requires the fund's assets to be expressed at their market value as at the date of disclosure. This will inevitably lead to significant levels of variation from year-to-year in the value of the net pension asset or liability based on the short-term fluctuation in the value of the fund's assets, particularly that proportion held in equity-type investments.

Contribution rates, set at the last actuarial valuation as at 31 March 2004, are designed to bridge the funding gap measured at this point over the course of 25 years (£53.5m). The suitability of this funding regime will be re-assessed at the next actuarial valuation due to take place using figures at 31 March 2007.

Note 7 to the consolidated revenue account contains details of the London Borough of Hillingdon and London Pension Fund Authority pension schemes in providing retirement benefits.

Liabilities have been assessed on an actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The main assumptions used in their calculations have been:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	31 March 2005 % per annum	31 March 2004 % per annum	31 March 2005 % per annum	31 March 2004 % per annum
Price increases	2.9%	2.9%	2.9%	2.9%
Salary increases	4.4%	4.9%	4.4%	4.4%
Pension increases	2.9%	2.9%	2.9%	2.9%
Discount rate	5.4%	6.5%	5.4%	6.5%

The attributable assets of the two pension funds (to cover their scheme liabilities) are valued at fair value, principally market value for investments, and consist of the following categories by proportion of the total assets held:

	Expected Long Term Return	London Borough of Hillingdon Pension Fund	London Pension Fund Authority Pension Fund	Expected Long Term Return	London Borough of Hillingdon Pension Fund	London Pension Fund Authority Pension Fund
		31 March 2005	31 March 2005		31 March 2004	31 March 2004
	%	%	%	%	%	%
Equities	7.7	77.0	15.0	7.7	82.3	13.2
Bonds	4.8	12.0	77.0	5.1	10.9	82.1
Property	5.7	8.0	0.0	6.5	5.9	0.0
Cash	4.8	3.0	8.0	4.0	0.9	4.7
TOTAL		100	100		100	100

The expected long term return is based on the long term future expected investment return for each asset class as at 31st March 2005.

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	31 March 2005 £000's	31 March 2004 £000's	31 March 2005 £000's	31 March 2004 £000's
Estimated Employer Assets	405,000	370,400	6,071	6,389
Present Value of Scheme Liabilities	507,300	429,000	7,391	6,847
Present Value of Unfunded Liabilities	30,600	25,400	98	114
Total Value of Liabilities	537,900	454,400	7,489	6,961
Net Pension Deficit	(132,900)	(84,000)	(1,418)	(572)

The liabilities show the long term underlying commitments that the authority has to pay in retirement benefits. The total liability of £545.4m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a £134.3m reduction in value as at 31st March 2005. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

### Defined contribution schemes

With regard to the teachers' pensions scheme there were no contributions remaining payable at the year end. The teachers' pension scheme is a defined benefit scheme. Although the scheme is unfunded a notional fund is used as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. Lump sums paid in respect of this in 2004/05 totalled £96k and on-going payments were £646k.

## 23. Investments

London Housing Consortium (LHC) was set up by the London Boroughs of Barnet, Brent, Camden, Ealing, Hackney, Haringey, Hillingdon, Islington and Tower Hamlets and the Anchor Trust. It exists to provide specialist architectural services and bulk procurement arrangements for the public sector. The major source of income is a levy on companies supplying goods for the public sector users through the LHC arrangements. Under the current membership Hillingdon has 10% of the voting rights. Revenue surpluses are shared between members on a formula basis. In 2004/05 Hillingdon's share of the surplus was £64,990. Copies of London Consortium's Statement of Accounts 2004/05 can be obtained from London Housing Consortium, Building Components & Services, 464 Uxbridge Road, Hayes Middx UB4 0PT.

## 24. Asylum seekers grant income

Expenditure incurred by the council in respect of asylum seekers is reimbursed by grant funding from the National Asylum Support Service (NASS). Based on expenditure incurred in 2004/05 the council is submitting two grant claims totalling £15.715m in respect of 2004/05. Of this £2.579m is due to be reimbursed by NASS in the form of a special circumstances payment.

In addition for unaccompanied asylum seeking children that have reached the age of 18, and that were referred between the ages of 16 and 17, the Department for Education and Skills (DFES) provide a Care Leaving Grant to support the ruling of the Hillingdon judgment. Based on the expenditure in 2004/05 the council has submitted a claim for £4.199m. Of this £2.062m is subject to a claim against the Care Leaving Grant Contingency Fund.

In 2004/05 the total amount of these grant claims still outstanding was £10.3m, being £6.567m for NASS and £3.769m for DFES. The main grant claims are subject to audit, however full payment is expected. However payments from the Special Circumstances and Contingency Fund, totalling £4.641m, are still to be confirmed. Historically these are less reliable as the grant conditions have not been confirmed. To take account of this the council has made a provision totalling £1.109m to cover the potential non receipt of this grant income.

## Statement of total movements in reserves

This statement brings together all the recognised gains and losses of the authority during the period and identifies those that have and have not been recognised in the consolidated revenue account. The statement separates the movements between revenue and capital reserves.



Note	Fixed Asset Restatement Account £'000 1	Capital Financing Account £'000 2	Usable Capital Receipts £'000 3	Pension Reserve £'000 4	General Fund £'000	Specific Reserves £'000	HRA £'000	Total £'000
Balance as at 1/4/2004	888,526	189,254	10,265	(84,572)	6,453	6,181	14,394	1,030,501
Net surplus/ (deficit) for the year	0	(20,676)	0	(49,746)	1,163	3,990	(1,381)	(66,650)
Unrealised gains/(loss), from revaluations of fixed assets	284,976	0	0	0	0	0	0	284,976
Effects of disposals of fixed assets:								
Cost or value of assets disposed	(25,087)	0	0	0	0	0	0	(25,087)
Proceeds of disposal	0	0	7,100	0	0	0	0	7,100
Net effect of disposals of fixed assets	(25,087)	0	7,100					(17,987)
Financing of fixed assets	0	15,895	(8,207)	0	0	0	0	7,688
Balance as at 31/3/2005	1,148,415	184,473	9,158	(134,318)	7,616	10,171	13,013	1,238,528

Analysis of specific reserves	As at 1/4/2004 £000's	Net Surplus/ (Deficit) for year £000's	As at 31/03/2005 £000's
Schools delegated funds (included in general fund)	5,268	3,616	8,884
Major repairs reserve	0	0	0
Parking fund	913	174	1,087
New Roads and Streetworks Act fund	0	200	200
TOTAL SPECIFIC RESERVES	6,181	3,990	10,171

The Parking Fund - This represents surpluses set aside from on street parking income to fund traffic management and transport initiatives, as defined by statute.

New Roads & Streetworks Act Fund - Income raised under s74 of the New Roads & Streetworks Act is required by statute to be ring fenced for maintaining the highways. Income not spent within the year is set aside in the New Roads and Streetworks Act Fund.

Schools delegated funds - Schools are able to carry forward unspent balances of delegated budgets. These balances are committed to be spent by the schools concerned and are not available to the council for general use.



## 1. Fixed asset restatement account

	General Fund £000s	HRA £000s	Total £000s
Balance as at 1st April 2004	309,072	579,454	888,526
Surplus on revaluation in year	200,232	89,528	289,760
Adjustments to fixed asset values	(4,916)	132	(4,784)
Disposal of fixed assets in year	(5,073)	(20,014)	(25,087)
Balance as at 31st March 2005	499,315	649,100	1,148,415

The balance represents the difference between the valuation of assets under the previous system of capital accounting and the revaluation as at 1 April 1994. The reserve is written down by the net book value of assets as they are disposed and debited or credited with the deficits or surpluses arising from revaluations.

## 2. Capital financing account

	£000s	£000s Total
Balance as at 1st April 2004		189,254
Capital financing - capital receipts		8,207
Write down of prior year government grants		427
Adjustment for finance lease principal		1,604
Capital financing - revenue	7,688	
Minimum Revenue Provision (less general fund depreciation)	(11,521)	
Write down of deferred charges	(16,437)	
Government grants written down	3,876	
Contributions written down	1,375	(15,019)
Balance as at 31st March 2005		184,473

The capital financing account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from capital receipts. It also contains the £14.973m contribution to the capital financing account credited from the consolidated revenue account (page 26). This contribution consists of the statutory minimum revenue provision less general fund depreciation, the amount of capital expenditure financed from revenue, the losses on the early settlement of borrowing and deferred charges, contributions and grants written off to revenue. The balance on the account is reduced as loan debt is repaid.

### 3. Usable capital receipts reserve

	£000's
Balance as at 1st April 2004	10,265
Capital receipts received in year	16,031
	26,296
<b>Less</b>	
Pooled capital receipts	(8,931)
Capital receipts used for financing	(8,207)
Balance as at 31st March 2005	9,158

The usable capital receipts reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

### 4. Pension reserve

	London Borough of Hillingdon Pension Fund £000's	London Pension Fund Authority Pension Fund £000's	Total £000's
Balance as at 1st April 2004	(84,000)	(572)	(84,572)
Current service cost	(14,700)	(17)	(14,717)
Employers' contributions	8,500	11	8,511
Contributions in respect of unfunded benefits	0	12	12
Past service costs	(500)	0	(500)
Impact of settlements and curtailments	(900)	0	(900)
Net return on assets	1,900	(38)	1,862
Actuarial losses (see below)	(43,200)	(814)	(44,014)
Balance as at 31st March 2005	(132,900)	(1,418)	(134,318)

The actuarial losses identified as movements on the pension reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005:

	London Borough of Hillingdon Pension Fund					
	2004/05		2003/04		2002/03	
	£000's	%	£000's	%	£000's	%
Actual return less expected return on pension scheme assets	16,200	4.0	61,300	16.6	(113,900)	(37.1)
Differences between actuarial assumptions about liabilities and actual experience	15,300	2.8	(2,800)	(0.6)	(15,000)	(3.4)
Changes in assumptions underlying the present value of scheme liabilities	(74,700)	-	-	-	-	-
<b>Actuarial losses</b>	<b>(43,200)</b>	<b>(8.0)</b>	<b>58,500</b>	<b>12.9</b>	<b>(128,900)</b>	<b>(29.2)</b>

	London Pension Fund Authority Pension Fund					
	2004/05		2003/04		2002/03	
	£000's	%	£000's	%	£000's	%
Actual return less expected return on pension scheme assets	34	0.6	205	3.2	(63)	(0.9)
Differences between actuarial assumptions about liabilities and actual experience	(502)	(6.7)	20	(0.3)	(53)	(0.7)
Changes in assumptions underlying the present value of scheme liabilities	(346)	-	-	-	-	-
<b>Actuarial losses</b>	<b>(814)</b>	<b>(10.9)</b>	<b>225</b>	<b>3.2</b>	<b>(116)</b>	<b>(1.6)</b>

## Cash flow statement

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



*I/P Group*

	Notes	2004/05 £000's	2004/05 £000's	2004/05 £000's
<b>REVENUE ACTIVITIES</b>				
<b>Cash Outflows</b>				
Cash paid to and on behalf of employees		193,349		180,998
Housing benefit paid out		15,855		14,852
RSG / NNDR payments payable to Secretary of State		125,100		110,921
Precepts paid		31,738		29,246
Payments to the capital receipts pool		8,931		
Other operating cash payments		188,990	563,963	266,345
<b>Cash Inflows</b>				
Rents (after rebates)		(45,978)		(17,296)
Council tax income		(99,129)		(93,453)
Non-domestic rate income		(258,460)		(227,772)
DWP grants for benefits				(46,412)
Other government grants	5	(143,849)		(125,014)
Cash received for goods & services		(3,125)		(3,821)
Other operating cash receipts		(58,072)	(608,613)	(108,387)
<b>Net Cash Inflow from Revenue Activities</b>	1		(44,650)	(19,793)
<b>SERVICING OF FINANCE</b>				
<b>Expenditure</b>				
Interest paid		3,620		5,718
Interest element finance lease rental payments		1,785	5,405	
<b>Income</b>				
Interest received		(1,034)	(1,034)	(1,016)
<b>Servicing of Finance Net Cash Outflows</b>			4,371	4,702
<b>CAPITAL ACTIVITIES</b>				
<b>Cash Outflows</b>				
Purchase of fixed assets		53,194		31,179
Purchase of long term investments		0		0
Other capital cash payments		16,437	69,631	9,657
<b>Cash Inflows</b>				
Sale of fixed assets		(16,027)		(21,873)
Capital grants received		(12,937)		(10,647)
Other capital cash payments/income		(3,277)	(32,241)	(2,699)
<b>Capital Activities Net Cash Outflow</b>			37,390	5,617
<b>Net Cash Inflow Before Financing / Management of Liquid Resources</b>			(2,889)	(9,474)
<b>MANAGEMENT OF LIQUID RESOURCES</b>				
<b>Net Increase in Short-Term Investments</b>			7,900	600
<b>FINANCING</b>				
<b>Cash Outflows</b>				
Repayments of amounts borrowed	7		6,716	194,980
Capital element of finance lease rental payments			1,604	
<b>Cash Inflows</b>				
Long term loans raised	7		(15,000)	(19,000)
Short term loans raised	7		(4,700)	(156,800)
<b>(Increase)/Decrease in cash</b>	2		(6,369)	10,306

## 1. Reconciliation of revenue cash flow

	Note	Year ended 31st March 2005		Year ended 31st March 2004	
		£000's	£000's	£000's	£000's
General fund net surplus		(4,779)		(3,816)	
HRA surplus		1,380		(4,138)	
Collection Fund		33		51	
<b>Total surplus</b>			<b>(3,366)</b>		<b>(7,903)</b>
<b>Add items not resulting in cashflow</b>					
Minimum Revenue Provision		(3,629)		(2,943)	
Contributions from reserves		374		(280)	
Provisions set aside in year		(873)		(190)	
Other non cash items		205		(2,301)	
<b>Movements in working capital</b>			<b>(3,923)</b>		<b>(5,714)</b>
(Increase) / decrease in creditors	3	(14,499)		10,502	
Increase / (decrease) in stocks & work in progress	3	(110)		(511)	
Increase / (decrease) in debtors	3	(10,694)		(246)	
<b>Items Classified elsewhere on Cashflow Statement</b>			<b>(25,303)</b>		<b>9,745</b>
Capital expenditure financed from revenue		(7,687)		(11,219)	
Deduct interest received		1,034		1,016	
Interest paid		(5,405)		(5,718)	
<b>Revenue activities net cash flow</b>			<b>(12,058)</b>		<b>(15,921)</b>
			<b>(44,650)</b>		<b>(19,793)</b>

## 2. Movement in liquid resources

	31st March 2005 £000's	31st March 2004 £000's	Movement 2004/05 £000's	Movement 2003/2004 £000's
Cash with accounting officers	0	1,718	(1,718)	(4,337)
Cash in hand / (overdrawn)	1,775	(6,312)	8,087	(5,969)
	1,775	(4,594)	6,369	(10,306)

### 3. Movement in other current assets

	31st March 2005 £000's	31st March 2004 £000's	Movement 2004/05 £000's	Movement 2003/2004 £000's
Debtors	65,019	75,713	(10,694)	(90)
Creditors	(82,239)	(67,740)	(14,499)	10,347
Stocks and work in progress	337	447	(110)	(511)
	<b>(16,883)</b>	<b>8,420</b>	<b>(25,303)</b>	<b>9,746</b>

### 4. Movement in borrowing

	31st March 2005 £000's	31st March 2004 £000's	Movement 2004/05 £000's	Movement 2003/2004 £000's
Public works loans board	63,491	50,507	(12,984)	37,706
Other loans	24,000	24,000	0	(18,526)
	<b>87,491</b>	<b>74,507</b>	<b>(12,984)</b>	<b>19,180</b>

### 5. Analysis of government grants

	31st March 2005 £000's	31st March 2004 £000's
Rent allowances	33,700	30,457
Council tax & housing benefits	17,733	15,804
Mandatory student awards	18	271
Schools standards fund	21,010	17,289
Homelessness	18,407	14,240
NNDR cost of collection	629	634
Refugee children	14,443	15,451
Adult asylum seekers	3,034	1,586
Other grants	34,875	29,282
	<b>143,849</b>	<b>125,014</b>

### 6. Agency expenditure

The gross revenue expenditure and revenue income have been grossed up to include agency expenditure (see Note 5 page 28), as this is not included in the consolidated revenue account.

## 7. Reconciliation of net cashflow to the movement in net debt

	2004/05 £000's	2003/04 £000's
Net Debt as at 1st April	72,501	81,975
Net Debt as at 31st March	71,216	72,501
<b>Decrease in net debt</b>	<b>(1,285)</b>	<b>(9,474)</b>
Represented by:		
Repayments of amount borrowed	(6,716)	(194,980)
New loans raised	19,700	175,800
	12,984	(19,180)
(Increase) / decrease in short term deposits	(7,900)	(600)
(Increase) / decrease in cash (see note 2)	(6,369)	10,306
	<b>(1,285)</b>	<b>(9,474)</b>



## Housing revenue account

The council has a statutory duty to maintain a separate revenue account for the provision of council housing. The account shows the expenditure on housing and how this has been financed by rents, government subsidies and other income.



Third Avenue

	Notes	Year ended 31st March 2005 £000's	Year ended 31st March 2004 £000's
<b>Income</b>			
Gross dwelling rents		44,146	42,992
Gross non dwelling rents		1,832	1,641
Charges for services and facilities		1,350	1,743
HRA subsidy receivable including MRA	5	32	19,355
		<b>47,360</b>	<b>65,731</b>
<b>Expenditure</b>			
Contribution to housing repairs		10,053	9,292
Supervision and management		12,804	11,212
Rents, rates,taxes & other charges		240	1,882
Rent rebates (housing benefits)		0	27,337
Increase in provision for bad debts	7	583	397
Cost of capital charge	4	28,236	27,506
Transfer of assumed surplus to ODPM	5	8,168	0
Debt management costs		16	17
Depreciation & impairment of fixed assets		8,776	8,473
		<b>68,876</b>	<b>86,116</b>
<b>Sub-Total : Net Cost of Services</b>			
		21,516	20,385
Net HRA income on the asset management revenue account		(27,081)	(26,885)
HRA investment income		(387)	(585)
<b>Sub-Total : Net Operating Income</b>			
		(5,952)	(7,085)
Revenue contribution to capital expenditure		7,603	2,674
Contribution to pension reserve		(158)	(77)
HRA contribution to MRP		0	350
HRA contribution to capital finance account		(112)	0
<b>Deficit/(Surplus) for the year</b>			
		<b>1,381</b>	<b>(4,138)</b>
Balance brought forward		(14,394)	(10,256)
Balance carried forward		<b>(13,013)</b>	<b>(14,394)</b>

# Notes to housing revenue account

## 1. Housing stock

The Council was responsible at 31 March 2005 for managing dwellings and hostels.

The stock was as follows:

	Total at 31st March 2005	Total at 31st March 2004 Restated
1 Bed Properties	3,793	3,825
2 Bed Properties	3,926	4,013
3 Bed Properties	3,133	3,211
4 plus Bed Properties	193	193
Hostels	71	71
<b>Total</b>	<b>11,116</b>	<b>11,313</b>

The stock figures as at 31 March 2004 were restated following the finalising of the housing subsidy grant claim for 2003/04.

## 2. Value of HRA assets

	Net Book Value at 31st March 2005 £000's	Net Book Value at 31st March 2004 £000's
<b>Operational Assets</b>		
Council dwellings	872,444	781,672
Other land & buildings	5,135	577
Community assets	0	76
Vehicle, plant & equipment	32	0
<b>Non-Operational Assets</b>	69	3,699
<b>Total</b>	<b>877,680</b>	<b>786,024</b>

The vacant possession value of dwellings within the authority's HRA as at 31st March 2005 was £1,856m. The difference of £984m between this and the balance sheet value of £872m is the economic cost of providing council housing at less than open market rents.

## 3. Capital expenditure

Capital Expenditure on HRA council dwellings during 2004/05 totalled £29.8m. This was financed by:

	£000's
Revenue contribution	7,604
Major repairs allowance	8,001
Supported capital expenditure (revenue)	14,200
Supported capital expenditure (capital)	10
	<b>29,815</b>

Capital receipts from the sale of HRA properties during 2004/05 totalled £12.216m and land of £32k.

#### 4. Cost of capital charges

The HRA is charged interest based on debt levels in accordance with legislation and this is known as the Item 8 debit. In addition the HRA is charged a notional capital financing charge for fixed assets calculated at 3.5% of the opening balance sheet values of the HRA's operational assets. This charge is credited to the asset management revenue account to ensure a neutral impact on HRA balances.

	£000's
Capital charges nominal interest	27,504
Item 8 debit	732
Cost of capital charges	28,236

Depreciation of £8,001k was charged to the HRA for 2004/05 in respect of council dwellings and £775k in respect of other land and buildings was charged to the HRA.

#### 5. Housing subsidy

HRA Subsidy is a government grant paid towards the net cost of management, maintenance and financing costs. For 2004/05 it was based on the following:

	2004/05 £000's	2003/04 £000's
<b>Expenditure</b>		
Management	5,420	5,356
Maintenance	9,903	9,371
Allowance for major repairs	8,001	8,473
Rent rebates*	0	27,225
Charges to capital	2,455	3,468
ALMO allowance	1,328	0
Admissable allowance	260	0
ASB allowance	1	0
Other expenditure	972	944
<b>Income</b>		
Rent	(36,474)	(35,430)
Interest on receipts	(34)	(52)
Subsidy payable	<b>(8,168)</b>	19,355

\* With effect from 1st April 2004 the responsibility for the administration of rent rebates transferred from the Office of the Deputy Prime Minister (ODPM) to the Department for Work & Pensions (DWP). This change has meant that the HRA no longer accounts for rent rebates which now form part of the housing and council tax benefit regime within the general fund. The £32k shown in the accounts for 2004/05 represents a payment of rent rebate in respect of a prior year.

#### 6. Rent arrears

At 31 March 2005 the gross HRA rent arrears amounted to £3.054m (31 March 2004 £2.441m ), £2.969m (£2.389m) relate to dwellings and £0.085m (£0.052m) to non dwellings.

## 7. Bad debt provision

The provision for bad debts on all HRA debts as at 31st March 2005 is £2.111m. Of this £1.793m relates to dwellings and £0.318m to non-dwellings.

## 8. Major repairs reserve

HRA resource accounting requires the maintenance of a Major Repairs Reserve (MRR) and holds depreciation charged to the HRA in excess of the major repairs allowance. The movements on this reserve are shown below.

	£000's
Balance as at 1 April 2004	0
Depreciation transferred to reserve	8,776
Amount used to finance capital expenditure	(8,001)
Transfer to the capital finance account	(775)
<b>Balance as at 31 March 2005</b>	<b>0</b>

All the £8,001k used to finance capital expenditure was spent on dwellings.

## Collection fund account

This account reflects the statutory requirement to maintain a separate collection fund, which shows the transactions of the billing authority in relation to the national non-domestic rates and council tax, and illustrates the way in which these have been distributed to preceptors and the general fund.



	Note	Year ended 31st March 2005		Year ended 31st March 2004	
		£000's	£000's	£000's	£000's
<b>Income</b>					
Council tax	2		99,665		94,758
Transfers from general fund:					
Council tax benefits			15,855		14,852
Income collectable from business ratepayers	1		243,436		227,772
Adjustment of previous years' community charges	3		0		1
			358,956		337,383
<b>Expenditure</b>					
Precepts & demands:					
London Borough of Hillingdon		91,949		87,825	
Greater London Authority		22,781	114,730	21,208	109,033
Business rates:					
Cost of collection			629		634
Payment to national pool			242,807		227,138
Provision for doubtful debts			1,143		763
Towards previous years' estimated collection fund (surplus)/deficit			(319)		(134)
			358,990		337,434
<b>Deficit for the Year</b>			34		51
<b>Collection fund balance</b>					
Fund deficit at beginning of year			366		315
Fund deficit at end of year:			34		51
			400		366
Analysis of year end deficit:					
Council tax	4		398		381
Previous years' community charges	4		2		(15)
			400		366

Christopher Neale, Director of Finance, 21 October 2005



# Notes to collection fund account

## 1. Income from non-domestic rates

Under the arrangements for uniform business rates, the council collects non-domestic rates for its area, which are based on local rateable values multiplied by a national uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the national non-domestic rate (NNDR) pool) managed by central government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population. The total non-domestic rateable value at 31st March 2005 was £604.7m. The national non-domestic multiplier for the year was 45.6p.

## 2. Council tax

The council's tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of band D dwellings) was calculated as follows:

Band	Estimated number of Properties	Discounts & Exemptions	Net estimated number of Properties	Ratio	Band D Equivalent 2004/05	Band D Equivalent 2003/04
A	665	174	491	6/9	327	335
B	5,223	1,078	4,145	7/9	3,224	3,210
C	20,323	3,284	17,039	8/9	15,146	15,086
D	44,087	4,904	39,183	9/9	39,184	39,423
E	17,236	1,719	15,517	11/9	18,965	19,090
F	9,207	955	8,252	13/9	11,920	11,992
G	4,459	454	4,005	15/9	6,676	6,678
H	365	54	311	18/9	622	605
<b>Total</b>					<b>96,064</b>	<b>96,419</b>
<b>Adjustment for non-collection</b>					<b>(1,667)</b>	<b>(1,911)</b>
<b>Council tax base</b>					<b>94,397</b>	<b>94,508</b>

## 3. Adjustment for previous years' community charges

Although council tax has replaced community charge since 1 April 1993, the council continues to account for residual adjustments in relation to the community charges raised in earlier years in the collection fund. These adjustments are transferred to the general fund in future financial years.

## 4. Contributions to collection fund surpluses and deficits

The deficit of £2k relating to prior year community charges will be transferred to the general fund in future years. The deficit of £398k relating to the council tax will be charged in subsequent financial years to the council and the GLA in proportion to the value of the respective demands on the Collection Fund.



## 5. Write-offs

	2004/05 £000s	2003/04 £000s
Council tax	1,024	1,304
NDR	0	183

## Group accounts

The summarised group financial statements presented on the following pages show the consolidated financial position of the authority and its interest in Hillingdon Homes Ltd. The group financial statements include the income and expenditure account, balance sheet, cash flow statement and movement in reserves for the group as a whole. There are no significant effects due to group consolidation.



## 1. Introduction

The council is required from 2004/05 to produce a full set of group accounts under the 2004 SORP. The group financial statements required include the group income and expenditure account, balance sheet, cashflow statement and statement of total movement in reserves which are shown on the following pages.

The London Borough of Hillingdon has a 100% interest in Hillingdon Homes (HH) Ltd, a company set up on the 30th April 2003 limited by guarantee which began trading on 1st May 2003. Hillingdon Homes is the only company consolidated in the group accounts.

Hillingdon Homes was set up to manage and maintain the housing stock of the LBH and to manage the investment programme for the modernisation of the housing stock.

The summarised group financial statements presented on the following pages show the consolidated financial position of the authority and its interest in Hillingdon Homes. There are no significant effects due to group consolidation.

## 2. Share holdings

### Hillingdon Homes Ltd (wholly owned subsidiary)

The composition of the board and the voting rights is as follows:

	Members	% of Voting Rights
LBH	5	1/3 rd
Tenants	5	1/3 rd (max)
Independent	5	1/3 rd
	15	100%

Council members on the board of Hillingdon Homes are detailed in Note 12 page 32.

### Policy decisions concerning the LBH commitment:

The council as the sole member of the company undertakes, in the event of the company being wound up, to contribute such amounts as may be required for the payment of the debts and liabilities of the company providing this does not exceed one pound. After the satisfaction of all the debts and liabilities the remaining assets will be transferred to the council's housing revenue account.

### **3. Basis of consolidation**

Hillingdon Homes Ltd is considered a subsidiary of the council and as such its income and expenditure and assets and liabilities are consolidated on a line by line basis to comply with FRS2.

The acquisition accounting basis was used for the purposes of consolidation as the council has control over Hillingdon Homes Ltd., with the date of acquisition being 30th April 2003. As the service was externalised at fair value it did not result in an adjustment for goodwill.

Hillingdon Homes' financial year runs from 1 April 2004 to 31 March 2005 therefore no adjustments are required regarding the accounting year. Hillingdon Homes' statement of accounts are to be submitted to their board on the 12th September 2005 for approval and are subject to audit by their appointed auditor KPMG. Copies of Hillingdon Homes Ltd 2004/05 statement of accounts can be obtained from Hillingdon Homes Finance Department, Ruslip Housing Office, 130 High Street, Ruslip HA4 8LP.

# Group income and expenditure account

	Notes	Year ended 31st March 2005		Net Expenditure £000's
		Expenditure £000's	Income £000's	
<b>Expenditure on services</b>				
Central services to the public		23,501	18,757	4,744
Cultural, environmental and planning services		48,574	17,143	31,431
Education services		214,093	57,795	156,298
Highways, roads and transport services		27,418	9,203	18,215
Housing services		154,257	148,284	5,973
Social services		133,091	56,338	76,753
Court services		679	0	679
Probation services				0
Corporate and democratic core		6,455	560	5,895
Non distributed costs		10,005	7,388	2,617
Operating income		0	0	0
Other operating income & expenditure		0	0	0
Government grant deferred	1	(5,250)		(5,250)
Loss on sale of fixed assets	1	984		984
<b>Net Cost of services</b>		<b>613,807</b>	<b>315,468</b>	<b>298,339</b>
Precepts and levies		250	0	250
Net loss on trading undertakings		9,886	9,632	254
Interest payable	1	6,099	0	6,099
Contribution to housing pooled capital receipts		8,931	0	8,931
Losses on repurchase/early settlement of borrowing		0	0	0
Interest and investment income		0	1,303	(1,303)
Pension interest cost & expected return on pensions assets		1,699	0	1,699
Taxation of group		21	0	21
<b>Net operating expenditure</b>		<b>640,693</b>	<b>326,403</b>	<b>314,290</b>
Surplus of HRA transferred to HRA balances				(1,380)
Contribution to other earmarked reserves				374
Contribution from usable capital receipts equal to housing pooled capital receipts				(8,931)
Contribution to pensions reserve				(9,486)
Principal payments to finance lease				1,604
Contribution to capital financing account				(15,020)
Reversal of losses on disposal of fixed assets	1			(984)
Contribution in respect of subsidiary entities				421
Appropriations to group income & expenditure reserve				
<b>Amount to be met from government grants and tax payers</b>				<b>280,889</b>
<b>Financed by</b>				
Revenue support grant				(125,100)
Council tax income				(91,696)
Non-domestic rate income				(68,872)
<b>Income from general grants and tax payers</b>				<b>(285,668)</b>
<b>(surplus) for the year</b>				<b>(4,779)</b>

## 1. Adjustment of accounting policies

To enable consolidation the council's accounts have to be adjusted to comply with UKGAAP, which differs in a number of areas from the 2004 SORP. To achieve this the following adjustments were made to the council's accounts:

- i. Profit/loss on disposal of assets. These total £984k and have been included in the net cost of services. They are subsequently netted out to ensure it does not impact on the amount to be raised from taxation.
- ii. Removal of notional interest charges. The gross expenditure of all services has been affected by the removal of notional interest which would have been within the gross expenditure in the reporting authority's consolidated revenue account.
- iii. Government grant deferred amortised in 2004/05 of £5.2m has been shown separately in the net cost of services.
- iv. With the removal of notional interest and the separation of government grants deferred the asset management revenue account (AMRA) is not required and is replaced by external interest payable.

# Group balance sheet

	Notes	Group Balance Sheet at 31st March 2005	
		£000's	£000's
<b>Fixed Assets</b>			
<b>Operational Assets</b>	1		
Council dwellings		872,444	
Other land and buildings		529,765	
Vehicles, plant and equipment		10,387	
Community assets		10,130	
Infrastructure assets		138,972	1,561,698
<b>Non Operational Assets</b>			13,647
Intangible assets			0
Long term investments			76
Long term debtors			1,979
<b>Total Long Term Assets</b>			1,577,400
<b>Current Assets</b>			
Stocks & works in progress		337	
Debtors and payments in advance	2	63,281	
Short term investments		14,500	
Cash in hand		5,015	83,133
<b>Current Liabilities</b>			
Temporary borrowing		(6,016)	
Creditors and receipts in advance	3	(83,147)	
Bank overdraft		0	(89,163)
<b>Total Assets less Current Liabilities</b>			1,571,370
Provisions	4		(4,139)
Long term borrowing			(81,475)
Deferred liabilities			(8,839)
Liability related to defined benefit pension schemes			(137,827)
<b>Total Assets less Liabilities</b>			1,339,090
Fixed asset restatement account			1,148,415
Capital financing account			184,473
Usable capital receipts reserve			9,158
Deferred credits			375
Government grants deferred account			103,605
Pension reserve			(137,224)
Fund balances and reserves	5		30,289
<b>Total Net Worth</b>			1,339,090

The assets and liabilities of the pension fund and various trust funds administered by the council are excluded from the above balance sheet as they are not statutory services.

**Christopher Neale, Director of Finance, 21 October 2005**



## Group statement of total movements in reserves

	LBH £'000	HH £'000	Total £'000
Balance as at 1/4/2004	1,030,501	(1,401)	1,029,100
Net surplus/(deficit) for the year	(66,650)	(1,617)	(68,267)
Unrealised gains/(loss), from revaluations of fixed assets	284,976	0	284,976
Effects of disposals of fixed assets:			
Cost or value of assets disposed	(25,087)	0	(25,087)
Proceeds of disposal	7,100	0	7,100
Net effect of disposals of fixed assets	(17,987)	0	(17,987)
Financing of fixed assets	7,688	0	7,688
<b>Balance as at 31/3/2005</b>	<b>1,238,528</b>	<b>(3,018)</b>	<b>1,235,510</b>



# Group cash flow statement

	Year ended 31st March 2005	
	£000's	£000's
<b>Revenue Activities Net Cash Inflow</b>		(36,184)
<b>SERVICING OF FINANCE</b>		
<b>Expenditure</b>		
Interest paid	3,620	
Interest element finance lease rental payments	1,749	
<b>Income</b>		
Interest received	(1,314)	
<b>Servicing of Finance Net Cash Outflows</b>		4,055
<b>Taxation</b>		21
<b>CAPITAL ACTIVITIES</b>		
<b>Cash Outflows</b>		
Purchase of fixed assets	53,194	
Purchase of long term investments	0	
Other capital cash payments	16,437	69,631
<b>Cash Inflows</b>		
Sale of fixed assets	(16,027)	
Capital grants received	(12,937)	
Other capital cash payments/income	(3,277)	(32,241)
<b>Capital</b>		37,390
Net cash outflow		5,282
Net increase in short term investments		7,900
<b>FINANCING</b>		
<b>Cash Outflows</b>		
Repayments of amounts borrowed	6,716	
Capital element of finance lease rental payments	1,604	8,320
<b>Cash Inflows</b>		
Long term loans raised		(15,000)
Short term loans raised		(4,700)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>1,802</b>

# Notes to group accounts

## 1. Reconciliation of revenue cash flow

	Year ended 31st March 2005	
	£000's	£000's
General fund net surplus	(4,779)	
HRA surplus	1,380	
Hillingdon Homes Ltd	327	
Collection fund	33	
<b>Total Surplus</b>		<b>(3,039)</b>
<b>Add items not resulting in cashflow</b>		
Minimum revenue provision	(3,629)	
Contributions from reserves	374	
Provisions set aside in year	(990)	
Loss on sale of assets	984	
Other non cash items	(1,224)	
<b>Movements in working capital</b>		<b>(4,485)</b>
(Increase) / decrease in creditors	(4,176)	
Increase / (decrease) in stocks & work in progress	(110)	
Increase / (decrease) in debtors	(12,352)	
<b>Items Classified elsewhere on Cashflow Statement</b>		<b>(16,638)</b>
Capital expenditure financed from revenue	(7,687)	
Deduct interest received	1,034	
Interest paid	(5,369)	(12,022)
<b>Revenue activities net cash flow</b>		<b>(36,184)</b>

## 2. Movement of fixed assets

	LBH Council Dwellings £000's	LBH Other Land & Buildings £000's	LBH Vehicles, Plant & Equipment £000's	HH Vehicles, Plant & Equipment £000's	LBH Infrastructure Assets £000's	LBH Community Assets £000's	Group Total £000's
Gross book value as at 1 April 2004	814,610	348,991	17,911	51	174,438	8,375	1,364,376
Accumulated depreciation & impairment	(32,938)	(27,080)	(11,569)	(6)	(36,713)	0	(108,306)
Net book value as at 1 April 2004	<b>781,672</b>	<b>321,911</b>	<b>6,342</b>	<b>45</b>	<b>137,725</b>	<b>8,375</b>	<b>1,256,070</b>
Adjustments due to reclassification	(138)	9,587	75	0	16	(1,033)	8,507
Depreciation on reclassified assets	0	72	0	0	2	0	74
Additions	28,857	10,785	4,544	0	5,590	2,819	52,595
Revaluations	90,731	195,976	2,954	0	0	25	289,686
Impairments				0			0
Disposals	(20,014)	(2,131)	(21)	0	0	(56)	(22,222)
Depreciation on assets sold	0	81	25	0	0	0	106
Depreciation for year	(8,664)	(6,516)	(3,567)	(10)	(4,361)		(23,118)
Net book value as at 31 March 2005	<b>872,444</b>	<b>529,765</b>	<b>10,352</b>	<b>35</b>	<b>138,972</b>	<b>10,130</b>	<b>1,561,698</b>

### 3. Debtors

	LBH At 31st March 2005 £000's	HH At 31st March 2005 £000's	Total Group At 31st March 2005 £000's
Government departments	19,902		19,902
Other public bodies	7,220		7,220
Hillingdon Homes Ltd	2,237		2,237
Housing rents	5,456		5,456
Non-domestic ratepayers	20,347		20,347
Community chargepayers	86		86
Council taxpayers	12,543		12,543
Sundry debtors	22,653	1,585	24,238
Car & other loans	63		63
Other debtors & prepayments	0	373	373
Less: Intra group transactions	(2,237)	(1,459)	(3,696)
	88,270	499	88,769
Less: Provision for doubtful debts	(25,488)		(25,488)
	<b>62,782</b>	<b>499</b>	<b>63,281</b>

### 4. Creditors

	LBH At 31st March 2005 £000's	HH At 31st March 2005 £000's	Total Group At 31st March 2005 £000's
Government departments	14,833		14,833
Other public bodies	5,211	22	5,233
Hillingdon Homes Ltd	1,459		1,459
Housing rents prepaid	938		938
Sundry creditors	45,705	3,160	48,865
Non-domestic ratepayers	11,722		11,722
Council taxpayers	2,371		2,371
Accruals & others		1,422	1,422
Less: Intra group transactions	(1,459)	(2,237)	(3,696)
	<b>80,780</b>	<b>2,367</b>	<b>83,147</b>

## 5. Provisions

In addition to the council's provision detailed in Note 13, page 45, Hillingdon Homes Ltd has provided for insurance liability (£136k) and deferred tax (£2k).

## 6. Fund balances and reserves

		At 31st March 2005 £000's
General Fund :	- Working balance	7,616
	- Schools delegated funds	8,884
Earmarked Reserves	- Parking fund	1,087
	- Traffic management fund	200
Housing Revenue Account		13,013
Collection Fund	- Council	(398)
	- GLA	(2)
Hillingdon Homes		(112)
		<b>30,289</b>

## Pension fund accounts

This Fund is not included within the council's consolidated balance sheet, but is maintained separately. It provides for pensions and other benefits to council employees, excluding teachers who have a separate national scheme.



Graham Mullett

Fund account	Note	Year ended 31st March 2005		Year ended 31st March 2004	
		£000's	£000's	£000's	£000's
<b>Contributions and Benefits</b>					
Contributions receivable - From Employers	3	9,773		8,377	
- From Employees	3	5,872		5,272	
Transfers in		5,730		5,266	
Other income		11		4	
			<b>21,386</b>		<b>18,919</b>
<b>Benefits Payable</b>					
Pensions payable		16,186		15,378	
Lump sums payable		2,302		2,111	
			<b>18,488</b>		<b>17,489</b>
<b>Payments to and on account of leavers</b>					
Refunds of contributions		119		178	
Transfers out		3,599		2,855	
			<b>3,718</b>		<b>3,033</b>
<b>Administrative Expenses</b>	7		782		804
			<b>22,988</b>		<b>21,326</b>
<b>Net withdrawals from dealings with members</b>			<b>(1,602)</b>		<b>(2,407)</b>
<b>Return on Investments</b>					
Investment income		12,122		12,450	
Changes in market - Realised		12,520		(5,751)	
value of investments - Unrealised		21,516		80,282	
Investment management expenses	8	(1,535)		(1,688)	
<b>Net Return on Investments</b>			<b>44,623</b>		<b>85,293</b>
<b>Net Increase in the fund during the year</b>			<b>43,021</b>		<b>82,886</b>
<b>Net Assets at start of year</b>			<b>392,672</b>		<b>309,786</b>
<b>Net Assets at end of year</b>			<b>435,693</b>		<b>392,672</b>

Fund account	Note	Year ended 31st March 2005		Year ended 31st March 2004	
		£000's	£000's	£000's	£000's
<b>Net Assets Statement</b>					
<b>Investments at Market Value</b>					
Fixed Interest Securities	- Government		5,092		8,432
	- Other		11,504		748
	- Overseas		9,966		8,066
Equities	- UK		204,170		230,663
	- Overseas		100,710		61,788
Index Linked Securities	- UK		13,082		21,136
	- Overseas		0		0
Unit Trusts	- UK property		33,587		23,362
	- UK other		1,609		1,585
	- Overseas other		10,217		1,935
Managed Funds	- UK other		18,669		1,445
	- Private equity		1,112		0
	- Overseas other		14,956		23,600
Investments at market value	9		424,674		382,760
Fund manager's cash			8,596		7,340
			433,270		390,100
<b>Current Net Assets</b>					
Debtors	- Due from the authority			475	
	- Sundry debtors	5	3,698	3,830	
Creditors	- Due to the authority		(358)	0	
	- Sundry creditors	6	(917)	(1,733)	2,572
<b>Total Net Assets</b>			<b>435,693</b>		<b>392,672</b>

Christopher Neale, Director of Finance, 21 October 2005





# Notes to pension fund accounts

The following information is intended to give a broad outline of the activities of the pension fund. Please refer to the Pension Fund Annual Report, which is published separately, for more detailed information.

## 1. Accounting policies

- a) The accounts have been prepared in accordance with the recommendations of the Chartered Institute of Public Finance and Accountancy and comply with the Local Authority Accounting Statement of Recommended Practice.
- b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted on a cash basis.
- c) Valuation of assets - Investments are valued on the basis of middle market prices, or where unavailable, on the most appropriate basis in the opinion of the Fund managers.
- d) Foreign currency translation of assets and liabilities are converted into sterling at the closing middle rates of exchange on the balance sheet date. Overseas income is converted at rates of exchange ruling when remitted.
- e) Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cash figure on an accruals basis.
- f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the council on a quarterly basis. Expenses are recorded on an accruals basis.
- g) Administration expenses recharged to the pension fund are monitored throughout the year in accordance with the budget and are charged to the pension fund at the end of the financial year.

## 2. Fund operation and membership

The Pension Fund is administered under the provisions of the Local Government Pension Scheme Regulations 1997 to provide benefits for employees and former employees. The benefits include

retirement allowances and pensions payable to former employees and their dependants.

The scheme is administered locally by the council through its pension fund, but the fund is a separate entity from the council and its accounts and balance sheet are separate financial statements.

The fund is financed by contributions from the council and its employees and by income from the fund's investments. The contributions from the council and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

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

Admitted Bodies:

Hillingdon Citizens Advice Bureau (CAB)  
Heathrow Travel Care  
Central Parking Systems (CPS)  
Park Lodge Farm

Scheduled Bodies:

Hillingdon Homes  
Uxbridge College  
Stockley Academy

As at 31 March 2005 there were 5,794 employees contributing to the fund, with 4,251 in receipt of benefit and 3,518 entitled to deferred benefits.

The pension fund investments are managed by three fund managers: UBS Global Asset Management, Goldman Sachs Asset Management and Capital International. The performance of the fund managers are monitored by the Pensions Committee that consisted of the following members in 2004/05:

Cllr P Corthorne	(Chairman)
Cllr R Lewis	(Vice Chairman)
Cllr M Cox	
Cllr J Duncan	
Cllr P Harmsworth	
Mr J Thomas (UNISON)	(Non Voting)

### 3. Contributions receivable & pensions payable to the fund

Contributions	2004/05			2005/06		
	Employers £000	Employees £000	Total £000	Employers £000	Employees £000	Total £000
L B Hillingdon	8,455	5,222	13,677	7,300	4,689	11,989
Scheduled bodies	1,245	617	1,862	996	542	1,538
Admitted bodies	73	33	106	81	41	122
<b>Total Contributions</b>	<b>9,773</b>	<b>5,872</b>	<b>15,645</b>	<b>8,377</b>	<b>5,272</b>	<b>13,649</b>
<b>Benefits</b>	<b>£000</b>			<b>£000</b>		
L B Hillingdon			18,324			17,160
Scheduled bodies			160			328
Admitted bodies			4			1
<b>Total Benefits</b>			<b>18,488</b>			<b>17,489</b>

### 4. Additional voluntary contributions (AVC's)

Additional voluntary contributions paid by scheme members are not included in the accounts as these are managed independently of the fund by Prudential.

### 5. Debtors

	31 March 2005 £000's	31 March 2004 £000's
Amount outstanding on sales of investments	517	1,224
Investment income due	3,078	2,521
Employers' / Employees' contributions due	0	74
Recoverable tax	103	11
	<b>3,698</b>	<b>3,830</b>

### 6. Creditors

	31 March 2005 £000's	31 March 2004 £000's
Amount outstanding on purchase of investments	501	1,294
Fund managers' fees	383	417
Tax payable	13	22
	<b>897</b>	<b>1,733</b>

## 7. Administration and investment costs

	31 March 2005 £000's	31 March 2004 £000's
Administration and processing	712	784
Actuarial fees	70	20
	<b>782</b>	<b>804</b>

## 8. Investment management expenses

	31 March 2005 £000's	31 March 2004 £000's
Investment managers' fees	1,476	1,641
Investment advice	28	21
Other costs	31	26
	<b>1,535</b>	<b>1,688</b>

## 9. Investment report

The level of activity of the fund's investments during the year to 31 March 2005 is as follows:

	31st March 2005 £000's	31st March 2004 £000's
Market value B/fwd	382,760	303,963
Less UBS residual account	(20)	0
Purchase of investments	220,860	132,424
Sale of investments	(212,981)	(128,158)
Realised profit/(loss) on sales	12,519	(5,751)
Unrealised profit/(loss) in market value	21,536	80,282
Market value at 31 March	<b>424,674</b>	<b>382,760</b>

The market value and proportion of investments managed by each fund manager at the year end is disclosed as follows:

	31st March 2005		31st March 2004	
	Market value £000's	Total %	Market value	Total %
UBS Global Asset Management	192,051	45.22	174,997	45.72
Goldman Sachs Asset Management	112,269	26.44	99,669	26.04
Capital International	119,242	28.08	108,094	28.24
Internally managed funds	1,112	0.26	0	0.00
	<b>424,674</b>	<b>100.00</b>	<b>382,760</b>	<b>100.00</b>

An analysis of the different types of investment split between 'UK' and 'overseas' and between 'listed and 'unlisted' at the year end is disclosed as follows::

	31st March 2005		31st March 2004	
	%	£000's	%	£000's
<b>UNITED KINGDOM</b>				
<b>Listed Securities</b>				
Fixed interest - government	1.20	5,092	2.20	8,432
Fixed interest - non government	2.71	11,504	0.57	2,193
Equities	48.08	204,170	60.26	230,663
Index linked securities	3.08	13,082	5.52	21,136
Internally managed funds	4.40	18,669	0.00	0
<b>Unlisted Securities</b>				
Unit trusts - Property	7.91	33,587	6.10	23,362
Unit trusts - Equities	0.38	1,609	0.41	1,585
	<b>67.75</b>	<b>287,713</b>	<b>75.08</b>	<b>287,371</b>
<b>OVERSEAS</b>				
Fixed interest - Government	2.35	9,966	1.70	6,517
Fixed interest - Non Government	0.00	0	0.40	1,549
Equities	23.71	100,710	16.14	61,788
Index linked securities	0.00	0	0.00	0
Managed fund - fixed interest	0.00	0	0.29	1,095
Managed fund - equity	3.78	16,068	5.88	22,505
Unit trusts - other	2.41	10,217	0.51	1,935
	<b>32.25</b>	<b>136,961</b>	<b>24.92</b>	<b>95,389</b>
<b>TOTAL</b>	<b>100.00</b>	<b>424,674</b>	<b>100.00</b>	<b>382,760</b>
<b>Made up of:</b>				
Listed		389,478		357,813
Unlisted		35,196		24,947

## 10. Actuarial position

The Fund's actuary, Hymans Robertson, carried out an actuarial valuation of the fund as at 31 March 2004. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 88% of the fund's accrued liabilities at the valuation date. The market value of the fund's assets at the valuation date, 31 March 2004, was £393m. The value of the deficit at that date was £53m.

The revised employers' contribution rates were effective from 1 April 2005 and were set to recover the deficiency over a period of 25 years. The total common contribution rate is 14.45%. However, this increase, from the common contribution rate of 9% in 2001, will be phased in over a 4 year period.

It should be noted that account was taken in calculating the employers' rate of the removal of the rule of 85 for service after 1st April 2005, as introduced in the 2004 amendment regulations. However, the Office of the Deputy Prime Minister (ODPM) has announced that these regulations will be revoked on 3 August 2005. This will require an interim valuation to be done before the next due date of 31st March 2007, which could increase the total common contribution rate.

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

Investment return	6.3%
Earnings growth	4.4%
Price inflation	2.9%

## 13. Related party transactions

The Pension Fund is required to disclose material transactions by related parties with deemed membership.

The council is a related party to the pension fund. The revenue contributions the council has made into the pension fund are set out in note 7 to the consolidated revenue account on page 29. The council provides the administration service for the pension fund. In 2004/05 a charge of £782k (£804k in 2003/2004) was made for these services.

A specific declaration form was used to collect information from key chief officers of the administering authority (London Borough of Hillingdon) and from members of the pension fund committee.

No senior officers had any interest with any related parties in relation to the pension fund. From the pension committee only one Member had an interest in a related party in relation to the pension fund, Cllr J Duncan, who is the Labour representative on the CAB management committee.

## 14. Stock lending arrangements

No stock was released to third parties under stock lending arrangements.

## 16. Statement of investment principles (SIP)

The SIP is reviewed annually and a current version is available on the council's web site:

[www.hillingdon.gov.uk/central/pensions](http://www.hillingdon.gov.uk/central/pensions)

# Glossary of terms

## Accruals

Amounts charged to the accounts for goods or services attributable to a financial year for which payments have not yet been made and income due not yet received.

## Audit

An independent examination of the council's accounts to ensure that they comply with the necessary legislation and follow best accounting practice. The council's accounts are audited by the operations directorate of the Audit Commission.

## Balances

The capital or revenue reserves of the council, made up of the accumulated surplus of income over expenditure.

## Capital charges

Charges that are made to service revenue accounts for the use of capital assets.

## Capital expenditure

Expenditure on the acquisition or enhancement of fixed assets e.g. land and buildings.

## Capital financing account

An account that records capital transactions relating to capital expenditure. The account is not available for general use in the financing of capital expenditure. It provides a balancing mechanism between the different rates at which assets are depreciated under the Statement of Recommended Practice (SORP) and are financed through the capital controls system.

## Capital receipts

Income received from the sale of fixed assets. A specified amount must be set aside to repay existing debt whilst the balance can be used to finance new capital expenditure.

## CIPFA

The Chartered Institute of Public Finance and Accountancy. The Institute produces standards and codes that the council must follow in preparing its financial statements.

## Collection fund

This is a statutory account that discloses income and expenditure relating to community charge, council tax and national non-domestic rate collection.

## Contingent of liabilities and assets

Sums of money which the council will be liable to pay or are owed in certain circumstances e.g. as a result of losing or winning a court case.

## Creditors

Amounts owed by the council for goods and services received but for which payment has not been made at the end of the financial year.

## Debtors

Amounts due to the council but not received at the end of the financial year.

## Deferred charges

Capital expenditure that does not give rise to a tangible asset e.g. improvement grants.

## Depreciation

A charge made to services in the revenue account to reflect the value of assets used during the year. It is reversed out of through the Capital Financing Account to ensure that it has a neutral impact on the amounts required to be raised from local taxation.

## Earmarked reserves

Reserves set aside for specific purposes.

## Expected return on assets (Pensions)

The average rate of return, including both income and changes in fair value but net of scheme

expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

### **Fixed assets**

Tangible assets that yield benefit to the council for a period of more than one year.

### **Fixed asset restatement reserve**

A reserve showing the surpluses or deficits arising on the periodic revaluation of fixed assets. The reserve is not available for general use in the financing of capital expenditure.

### **Gains or losses on curtailments**

An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

### **General Fund**

The council's main revenue account that summarises the cost of providing the council's services (excludes the Housing Revenue Account)

### **Government grant deferred**

Government grant income received in advance.

### **Housing Revenue Account**

A statutory account that contains all income and expenditure relating to the council's direct provision of council housing.

### **Item 8**

Item 8 refers to Item 8 of Parts I and II of Schedule 4 to the 1989 Act. These require authorities to credit/debit (respectively) to their HRA amounts in accordance with a formula determined by the Secretary of State. The formula provides for amounts to be credited in respect of interest and debited in respect of capital charges in relation to HRA property.

### **Minimum Revenue Provision (MRP)**

The minimum amount to be charged to the revenue account as defined by government regulation for the repayment of debt.

### **National Non-Domestic Rates (NNDR)**

The rates paid by businesses. The money is collected by the council and paid into a central pool administered by the government. The total collected is then redistributed to authorities on the basis of population.

### **Pension interest costs**

The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to the settlement.

### **Precepts**

A charge made by another authority (e.g. Greater London Authority) on the council to finance that other authority's net expenditure.

### **Revenue expenditure**

Expenditure on day-to-day items such as salaries, wages and running costs.

### **Revenue Support Grant (RSG)**

The main grant paid by the government to authorities in support of the council's revenue expenditure.

### **Unapportionable central overheads**

These are overheads for which no user now benefits and should not be apportioned to services.

### **Usable capital receipts**

The amount of capital receipts which the council is able to use for capital spending and which is not required to be set aside to pay back debt.

## Further information

If you have queries about these accounts, or require further information, please contact:

Corporate Accountancy  
Hillingdon Council  
Finance and Property Services (4N/06)  
Civic Centre  
High Street  
Uxbridge UB8 1UW

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or visit [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk)



