

# London Borough of Hillingdon

## Statement of Accounts for the year to 31 March 2019



HILLINGDON  
LONDON

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# London Borough of Hillingdon

## Statement of Accounts for the year ended 31 March 2019

<b>Contents</b>	<b>Page</b>
Leader's Statement	2
Narrative Report	3
Statement of Responsibilities for the Statement of Accounts	12
Independent Auditor's Report to the Members of the London Borough of Hillingdon	13
Statement of Accounting Policies	18
<i>Main Financial Statements</i>	35
Restatement of 17/18 Published Accounts	36
Expenditure and Funding Analysis	37
Comprehensive Income and Expenditure Statement	39
Balance Sheet	40
Movement in Reserves Statement	41
Cash Flow Statement	43
Notes to Main Financial Statements	44
<i>Other Financial Statements</i>	97
Housing Revenue Account and Notes	98
Collection Fund Account and Notes	102
Pension Fund Account and Notes	105
Annual Government Statement	129
Glossary	146

# Leader's Statement

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## 1. Leader's Statement

### Introduction by Councillor Ray Puddifoot, Leader of the Council

Welcome to Hillingdon's Statement of Accounts for 2018/19, which shows the Council's financial performance in delivering high quality services to residents during the year and outlines the Council's financial standing at 31 March 2019.

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

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

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

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

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

Cllr Ray Puddifoot  
Leader of the Council

# Narrative Report

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This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31 March 2019. The accounts are in the format for local authority accounts set by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The purpose of this narrative report is to provide a guide to the most significant matters reported in the financial statements. Included within this document are a number of technical terms that are specific to local government finance and a glossary has been provided on page 146 to assist the understanding of the financial statements.

## 2.1 Organisational overview and external environment

Hillingdon, situated on the western edge of Greater London, is the second largest London borough, covering a total area of about 42 square miles. It is just 14 miles from central London and bordered by the counties of Buckinghamshire, Hertfordshire and Surrey, as well as the London Boroughs of: Hounslow, Ealing and Harrow. Hillingdon is home to Heathrow, one of the world's busiest airports, which caters for more than 60 million passengers a year. The borough, Hillingdon, has some of the best sports and fitness facilities in London including: Hillingdon Sports and Leisure Complex with 50 metre indoor competition pool; leisure pool; outdoor lido; 100 station gym; athletics stadium and 400 metre running track; 3G floodlit pitches, sports hall and more. There are also 17 libraries; 2 theatres, and over 200 green spaces covering approximately 1,800 acres, including Ruislip Woods; the Nature Reserve, and Lido.

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

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

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

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

The Council employs approximately 2,700 staff, 3,050 inclusive of casual staff and has a population of around 312,600 (according to the 2019 Office of National Statistics). There is a growing proportion of young people, particularly of school-age children. Hillingdon is an ethnically diverse borough with 48% of residents from black and minority ethnic groups.

Hillingdon is rich in wildlife and wildlife habitat, including waterways; lakes; meadows, and nature reserves. Ruislip Woods has been designated London's first National Nature Reserve; whilst nearby Ruislip Lido boasts 40 acres of water. The borough also offers a host of sporting activities, including sports centres, many with newly refurbished gyms and three exceptional 18-hole and one 12-hole golf courses, including a championship standard course at Stockley Park. The arts and entertainment thrive, with The Beck professional theatre in Hayes, The Compass Theatre in Ickenham, and various other venues.

# Narrative Report

## 2.2 Financial Performance

### General Fund

The financial challenges facing the Council due to years of the Government's austerity programme, increased demand for services and the wider economic environment continued through 2018/19. Councils are continuing to see central government funding decline, however Hillingdon was still able to successfully freeze Hillingdon's share of Council Tax for another year in 2018/19, without impacting on front-line services to the public. In addition, the Council was able to manage significant increases in demand for services and keep fees and charges 10% cheaper than neighbouring boroughs.

Despite the challenges faced by the Council, of the savings target of £10,655k, £9,955k was banked. The remaining savings are at an earlier stage of delivery and are expected to be delivered in full. The planned drawdown on general balances in 18/19 was also not required. This balancing of local demand for services and financial constraints has been successfully managed through the Council's Business Improvement Delivery (BID Transformation) Programme.

The Council's net revenue budget for 2018/19 totalled £219m, excluding those services such as schools and housing benefit, which are funded by specific funding streams. This net budget was supported by a combination of central government grant and locally raised Council Tax and business rates. Significant changes in funding from 2017/18, include locally generated income from Council Tax and business rates, which were budgeted to grow by £4,824k as a result of tax base growth, with a further £5,400k expected additional income from the 100% Retention Pilot, however this was offset by a reduction in Revenue Support Grant from central government of £6,482k.

Throughout the year, monthly budget monitoring reports were reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures, whilst continuing to deliver on the Council's priorities for residents. Strong financial management, coupled with an ambitious BID Transformation Programme, delivered an improved position against budget at outturn.

General Fund revenue budgets reported an overall underspend of £2.2m against planned expenditure budgets, with underspends against both Directorate and Corporate Budgets. As a result, the planned drawdown of £950k from general balances was not needed and balances grew by £1,297k. The General Fund balance totalled £41.6m at year-end. Underspends across the Council include savings from staffing vacancies and investment savings from deferred borrowing on the capital programme utilising internal balances, offsetting a number of pressures.

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

As a result of increased flexibility over use of capital receipts, the Council was able to finance the costs associated with service transformation from capital receipts, with both one-off implementation costs and the support for service transformation, including the Business Improvement Development team, being funded from this resource. £2.6m of costs were funded from capital receipts during 2018/19 (£4.3m in 2017/18), this expenditure is not included in service lines.

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

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

# Narrative Report

Details on how the General Fund outturn position for management decision-making links through to the Comprehensive Income and Expenditure Statement (CIES) surplus for the year, in accordance with accounting standards, can be seen in the Expenditure and Funding Analysis (EFA) note which precedes the CIES on page 37.

The table below provides a reconciliation between the General Fund overview shown in the Council's budget revenue outturn on the previous page and the opening position reported in the Expenditure & Funding Analysis (EFA) as required by the CIPFA Code. The monthly budget monitoring reports separately on areas of different funding streams such as General Balances, Housing Revenue Account, and other reserve movements.

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

Note: in accordance with local authority accounting practice, income and favourable variances in the table above, and elsewhere in these accounts are shown as bracketed figures

## Housing Revenue Account

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

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

## Capital Investment

The Council's programme of capital investment for 2018/19 totalled £82.6m (£92.7m in 2017/18) and was funded from a range of sources. These sources of funding included grants, contributions from revenue resources; proceeds from asset sales, and prudential borrowing (details in note 36 to the accounts).

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

Investment during 2018/19 on the general fund totalled £45.2m and HRA £37.4m. Investment focused heavily on the Council's flagship programme of school expansions to meet the increasing requirements of school places over the next few years. There was also significant spend on street lighting; Highways and infrastructure; replacement of CCTV across the borough, and refurbishment of Bessingby Football and Boxing Clubhouse within the General Fund capital programme.

## Treasury Management

The Council takes a very prudent strategic approach in investing its cash balances to ensure money is invested at a very low level of risk. The strategy for investing funds first considers the security of the deposit, the liquidity of investments and then the return on the investment. Although the Bank of England increased base rates from 0.5% to 0.75% in August 2018, the economic environment has continued to be tight with limited returns available on investments. The Council adheres strictly to counterparties that have been agreed through the Treasury Management Strategy, consisting of other local authorities, instant access funds, and institutions with a credit rating A- or above. Investment income returns for the year on internally managed cash yielded 0.62% (0.42% 2017/18). The Council also

# Narrative Report

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

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

## **Change in Accounting Practice**

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

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

## **Property, Plant and Equipment**

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

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

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

## **2.3 Non-Financial Performance**

### **Environment**

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

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

# Narrative Report

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

## **Leisure and Culture**

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

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

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

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

## **Schools & Children's Services**

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

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

## **Social Care**

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

## **Protecting Residents**

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



# Narrative Report

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

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

## People Resources

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

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

## 2.4 Risks and Opportunities

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

Strong financial management and a commitment to putting our residents first are at the core of the HIP programme and underpins all projects. Our Business Improvement Delivery (BID) programme aims to deliver services that residents value, and to identify and improve the way the Council works. Projects are targeted through 6 strategic work streams covering: digitalisation; asset rationalisation; commercialisation; environment; transport and mobility, and organisational redesign.

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

## 2.5 Looking Ahead – Strategy and Resource allocation

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

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

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

# Narrative Report

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

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

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

In April 2018 a new wholly owned commercial housing development company called Hillingdon First Limited was established to build extra housing in the borough and generate a long-term revenue income stream for the Council acting as a commercial trading company to build housing to sell and rent at market values. As at 31 March 2019 it was not in operation however works have started in 2019/20. As sole shareholder of the company, the Council retains control and as a result the Council will consolidate the company into a set of group accounts in the Council's Financial Statements in future years.

## 2.6 Statements within the accounts

**The core accounting statements comprise:-**

### **Comprehensive Income and Expenditure Statement**

This statement reports the net cost for the year of all functions for which the Council is responsible, and demonstrates how that cost has been financed through income from taxpayers and general government grants. The income and expenditure is split by Council department. The surplus or deficit on this account represents the amount by which income is greater than, or less than expenditure.

The statement shows a surplus of £18.6m (£33.4m deficit 2017/18) on the provision of services for 2018/19. Of this, a surplus of £32.3m relates to General Fund balances and a deficit of £10.9m relates to the Housing Revenue Account. Additional reserve movements include a drawdown of £2.8m on Schools Balances.

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

### **Movement in Reserves Statement**

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

# Narrative Report

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

Unusable reserves increased from £570.9m in 2017/18 to £855.6m in 2018/19, mainly due to the upwards movement in property values to the Revaluation Reserve of £312.6m. In addition, there was an increase in the Pension Fund liability of £92.2m reflected in the pensions reserve reducing by the same amount.

To support the Movement in Reserves Statement, note 4 to the accounts shows the Adjustments between Accounting Basis and Funding Basis under Regulations. This note reverses the items of income and expenditure that are required to be credited or charged to the Comprehensive Income and Expenditure Statement, that do not affect the General Fund balance for Council Tax purposes. Total adjustments for 2018/19 were £31.3m within the General Fund, adjusting the General Fund position for Council Tax purposes to a surplus of £1.3m.

## **Balance Sheet**

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

The total net worth of the Council in 2018/19 was £1,021.3m (£739.1m in 2017/18). The largest items within the Balance Sheet consist of long-term assets valued at £1,895.2m, net pension liabilities of £616.7m and long-term borrowing of £214.9m.

The Council maintains reserve balances to meet the cost of unforeseen demands or events and as a result keeps a minimum level of balances. As at 31 March 2019 the Council has £41.6m General Fund balances and £40.3m Earmarked Reserves held for specific purposes. Further details on Earmarked Reserves can be seen in note 5 to the accounts.

## **Cash Flow Statement**

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

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

## **Supplementary accounting statements comprise:**

### **Housing Revenue Account (HRA) Comprehensive Income and Expenditure Statement**

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

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

### **Statement of Movement on the Housing Revenue Account Balance**

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

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

# Narrative Report

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## **Collection Fund Revenue Account**

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

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

The share of Collection Fund activity relating to the Council is reflected in the main statement of accounts, with the remainder being treated as agency activity on behalf of the Greater London Authority and Central Government. 79% of Council Tax and 64% of Business Rates activity relates to the London Borough of Hillingdon.

## **Pension Fund Accounts**

These show contributions to the Council's Pension Fund for members during the year, together with pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund at the end of the year. These accounts do not include any liabilities relating to payment of pensions and benefits in future years. The activity of the Pension Fund is not incorporated within the Council's core accounting statements.

**This document also includes the following:-**

### **Notes to the Accounts**

The notes provide further explanation of figures contained in the core and supplementary accounting statements. The notes to the accounts include the Expenditure Funding Analysis, which precedes the core financial statements on page 37 of this document to help the flow of information.

### **Statement of Accounting Policies**

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

### **Annual Governance Statement**

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

### **Glossary of Terms**

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

# Statement of Responsibilities for the Statement of Accounts

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## **Council's Responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Corporate Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts

## **Corporate Director of Finance Responsibilities**

The Corporate Director of Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ('the Code').

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

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

The Corporate Director of Finance has also:

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

## **Corporate Director of Finance Approval of Accounts**

I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31 March 2019 and its income and expenditure for the year then ended.

**Andrew Evans**  
**Deputy Director Corporate Finance**  
**31 July 2019**

## **Audit Committee Certificate for the Approval of the Accounts**

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 22 July 2019.

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

# Independent Auditor's Report

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

### Opinion

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- London Borough of Hillingdon Movement in Reserves Statement,
- London Borough of Hillingdon Comprehensive Income and Expenditure Statement,
- London Borough of Hillingdon Balance Sheet,
- London Borough of Hillingdon Cash Flow Statement,
- London Borough of Hillingdon Expenditure & Funding Analysis,
- Notes 1 to 46,
- London Borough of Hillingdon Housing Revenue Account Income and Expenditure Statement,
- London Borough of Hillingdon Movement on the Housing Revenue Account Statement and related notes 1 to 8,
- London Borough of Hillingdon Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Hillingdon as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

### Basis for opinion

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

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

### Conclusions relating to going concern

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

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

### Other information

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

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

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

We have nothing to report in this regard.

# Independent Auditor's Report

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

### **Arrangements to secure economy, efficiency and effectiveness in the use of resources**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, the London Borough of Hillingdon put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### **Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects.

### **Responsibility of the Corporate Director of Finance**

As explained more fully in the Statement of Responsibilities set out on page 12, the Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether the London Borough of Hillingdon had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Hillingdon put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

# Independent Auditor's Report

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

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition we are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of the Hillingdon Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

## **Use of our report**

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

Suresh Patel (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
London  
2<sup>nd</sup> August 2019

The maintenance and integrity of the London Borough of Hillingdon web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Independent Auditor's Report

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

### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

### Basis for opinion

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

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

### Conclusions relating to going concern

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

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

### Other information

The other information comprises the information included in the London Borough of Hillingdon Statement of Accounts 2018/19 other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information.

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

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

We have nothing to report in this regard.

### Matters on which we report by exception

We report to you if:

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

# Independent Auditor's Report

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We have nothing to report in these respects.

## **Responsibility of the Corporate Director of Finance**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 12, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

## **Use of our report**

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

Suresh Patel (*Key Audit Partner*)

Ernst & Young LLP (Local Auditor)

London

2<sup>nd</sup> August 2019

The maintenance and integrity of the London Borough of Hillingdon web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Statement of Accounting Policies

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The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2018/19 financial year and its position as at the year-end of 31 March 2019. The Statement of Accounts must be prepared in accordance with proper accounting practices as per the Accounts and Audit Regulations 2015. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by periodic revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared on an accruals and going concern basis.

## **CAPITAL**

### **1. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that the asset yields benefits to the Council for a period of more than one year and the cost of the item can be measured reliably. This excludes expenditure on routine repairs and maintenance of non-current assets that is charged directly to service revenue accounts when incurred.

#### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

- Infrastructure assets, community assets and assets under construction are included in the balance sheet at depreciated historical cost;
- Dwellings are carried at fair value, determined using the basis of existing use value for social housing;
- Surplus assets and investment properties are measured at fair value, estimated at highest and best use from a market participants perspective;
- All other asset classes are measured at fair value in its existing use. For land, buildings and assets which are not held for the purpose of generating cash flows, the fair value represents the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value due to the specialised nature of the asset, the asset is valued at its depreciated replacement cost;
- Plant and machinery forming an integral part of the property is included in the valuation of the buildings. Other plant and machinery has been given a value on the basis of historical costs as a proxy for current value.

Assets included in the Balance Sheet at fair value are re-valued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum, assets are valued every five years.

# Statement of Accounting Policies

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

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

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

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

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

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

## Impairment / Revaluation Loss

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

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

## Depreciation

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

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

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

# Statement of Accounting Policies

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

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

Depreciation is charged annually and is charged in full in the year of disposal and not in the year of acquisition. Assets under construction do not incur depreciation until they are complete. Depreciation is not charged on assets classified as held for sale.

## **Disposals**

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

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

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

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

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

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

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

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

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

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

# Statement of Accounting Policies

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## 2. Heritage Assets

The Council owns a number of heritage assets across the borough. The primary objective of holding these assets is for increasing the knowledge understanding and appreciation of the local history within the borough.

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

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

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

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

## 3. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events, such as software licences, are only recognised on the Balance Sheet when they are purchased or where internally developed and the Council can demonstrate:

- The technical feasibility of completing the asset;
- Its intention and the availability of adequate resources to complete the asset;
- Its ability to use or sell the asset;
- How the asset will generate future economic benefits or deliver service benefits; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are included at historical cost and only re-valued in line with IAS 38, where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. Intangible assets are amortised over their useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the net loss on disposal of non-current assets line in the Comprehensive Income and Expenditure Statement.

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

## 4. Charges to Revenue for Non-Current Assets

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

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

# Statement of Accounting Policies

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

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

## 5. Revenue Expenditure Funded from Capital under Statute

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

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

## 6. Investment Properties

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

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

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

## 7. Leases

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

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

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

### The Council as Lessee

#### Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or present value of the minimum lease payments, if

# Statement of Accounting Policies

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

Lease payments are apportioned between:

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

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

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

## Operating Leases

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

## The Council as Lessor

### Finance Leases

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Unapplied Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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



# Statement of Accounting Policies

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## Operating Leases

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

## **REVENUE**

### **8. Accruals of Income and Expenditure**

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Disclosures will be omitted if the information is not material.
- The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.
- Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the applicable exchange rate.

### **9. Acquisitions and Discontinued Operations**

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

### **10. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 working hours. Cash equivalents are investments that are held in instant access accounts, readily convertible to known amounts of cash with insignificant risk of change in value. Amounts held in fixed-term deposits not accessible within 24 working hours are not classified as cash equivalents, but as short-term investments. Any accrued interest will be treated in the same manner as the principal investment except for long-term investments with remaining terms in excess of 365 days; in these cases accrued interest will be shown as short-term investments.

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

# Statement of Accounting Policies

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## 11. Changes in Accounting Policies and Estimates and Errors

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

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

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

## 12. Employee Benefits

### Benefits Payable during Employment

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

### Termination Benefits

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

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

### Post-Employment Benefits

The Council participates in four defined benefit pension schemes-

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

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

### Teachers' Pension Scheme

- The Teachers' Pension Scheme is unfunded and administered on behalf of the Department of Education (DfE) by Capita. The pension cost charged to the accounts is the contribution rate set by the DfE on the basis

# Statement of Accounting Policies

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of a notional fund. The arrangements for the teachers' scheme mean that the liabilities for the benefits cannot be identified specifically to the Council. As such the scheme is accounted for as if it was a defined contribution scheme and no liability for future payment has been recognised in the Council's Balance Sheet. The Schools Budget line in the Council's Comprehensive Income and Expenditure Statement is charged with the employers contributions made into this scheme.

## NHS Pensions Scheme

- The NHS Pension Scheme is unfunded and is administered by NHS Business Services Authority. The arrangements for the NHS scheme mean that liabilities for the benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Council's Balance Sheet. The relevant service line in Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

## The Local Government Pension Scheme

- The pension liabilities attributable to the Council under the LGPS are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.
- Liabilities are discounted to their value at current prices.
- The pension fund assets attributable to the Council is included in the Balance Sheet at fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value
- The change in the net pensions liability is analysed into the following components:
  - Service cost comprising:
    - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Operating Budgets.
    - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - Remeasurements comprising:
    - The return on assets – excluding amounts included in net interest on the net defined benefit liability (asset) the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – debited to the Pensions Reserve as Other Comprehensive Income and Expenditure.

# Statement of Accounting Policies

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

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

## **Discretionary Benefits**

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

## **13. Long Term Contracts**

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

## **14. Private Finance Initiative (PFI) Contract**

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

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

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

## **15. Government Grants and Contributions**

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that

# Statement of Accounting Policies

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

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

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

## Community Infrastructure Levy

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

## 16. Inventories and Work in Progress

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

## 17. Schools

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

## 18. Fair Value

Fair value measurement is defined by IFRS13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition is applied to all fair value measurement for non-operational property, plant and equipment, investment property as well as for financial instruments. Operational property, plant and equipment continue to be valued in line with its existing use. Fair value assumes the transaction to sell the asset takes place in the principle market for the asset or liability or in the absence of the principle market in the most advantageous market. When measuring non-operational property, plant and equipment, the fair value at highest and best use is adopted. Valuation techniques maximise known data and minimise the use of estimates or unknowns. This takes into account three levels of valuation inputs

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

# Statement of Accounting Policies

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## 19. Contingent Liabilities

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

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

## 20. Contingent Assets

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

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

## 21. Provisions and Reserves

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

### Provisions

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

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

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

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

### Provision for bad and doubtful debts

No provision is made for debts that are secured except in exceptional circumstances. Of all remaining debts, and excluding financial instruments where an expected credit loss model is applied, the Council makes a provision for bad debts based upon continuous reviews of likely recovery undertaken by service managers and supporting finance staff.

### Reserves

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

# Statement of Accounting Policies

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## 22. Financial Assets

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

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

### Amortised Cost

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

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

### Fair Value through Profit or Loss (FVPL)

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

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

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

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

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

The Council has applied the statutory override to its long term strategic pooled fund holdings and any movements in the fair value will be reversed through the MIRS into an unusable reserve.

### Fair Value through Other Comprehensive Income (FVOCI)

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

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

# Statement of Accounting Policies

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Financial guarantees entered into before 1 April 2006 are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

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

## 23. Financial Liabilities

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

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

The liability is maintained in the Balance Sheet at amortised cost. Initial measurement will be at fair value, normally the amount of the originating transaction, less transaction costs where material. The effective interest rate is then calculated, the effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. Annual charges to the Comprehensive Income and Expenditure Statement are made for interest payable and are based upon the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet for most borrowings is the outstanding principal payable plus any accrued interest.

## 24. Redemption of Debt

The Council sets aside resources each year for the repayment of historical debt. Debt held by the Council is distinguishable into three types of loans:

**(a) Maturity loans** - where the principal is repaid in full on the date the loan matures and interest is paid every 6 months. The accrued interest is shown as part of the carrying value of the loan on the Balance Sheet.

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Net Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is calculated by discounting the revised contractual cash flows with the original effective interest rate. This is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.



# Statement of Accounting Policies

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## 25. Minimum Revenue Provision

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

## 26. Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and national non-domestic rates (NNDR). The key features relevant to accounting for Collection Fund activity in the core financial statements are:

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

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

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

## 27. VAT

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

## 28. Events after the Reporting Period

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

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

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

# Statement of Accounting Policies

## 29. Exceptional Items and Prior Year Adjustments

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

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

## 30. Assumptions Made About Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet as at 31 March 2019 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. Assets are subject to a 5 year rolling valuation and assumptions are made by the specialist valuer regarding market indicators and other data available to assess an asset's value.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £2.7m for every year that useful lives had reduced. A fall in value of the Council's Property, Plant and Equipment would impact on the net worth of the Council, however would not impact on the Council's usable balances. Fluctuations in the value of assets will not correlate with normal market conditions; however a 1% movement in asset values would move the Council's balance sheet position by £18.5m.
Provisions	Provisions are defined as probable future liabilities based on past events and there are therefore inherent uncertainties related to provisions that have been made and the amounts set aside.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.
Arrears	Provisions have been made for debt owed to the Council for which payment may not be received. The Council reviews its basis for calculating doubtful debts and impairments making the current levels appropriate. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient.	Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts. Sensitivity analysis is represented in note 46 to the accounts on page 95.

# Statement of Accounting Policies

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## **31. Carbon Reduction Commitment (CRC)**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is in phase 2 which commenced in April 2014 and runs until March 2019. The Council is required to purchase allowances, either prospectively or retrospectively and surrender them, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **32. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted**

The Code of Practice requires that the Council discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2019 for 2018/19). Disclosure requirements are expected to be included in a subsequent edition of the Code.

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

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

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

# Main Financial Statements

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The various financial statements that follow are prepared on an accruals basis and follow best practice recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) and International Financial Reporting Standards (IFRS) as defined by the Code of Practice on Local Authority Accounting in the United Kingdom. Further details of these requirements are detailed in the Statement of Accounting Policies.

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

## **Restatement of 2017/18 Published Accounts (page 36)**

This note provides an overview of changes to the Financial Statements from the published Statement of Account in 2017/18 as a result of changes in reporting requirements. This statement reconciles the position reported to management and that reported in the CIES.

## **Expenditure and Funding Analysis (page 37)**

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

## **Comprehensive Income and Expenditure Statement (page 39)**

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

## **Balance Sheet (page 40)**

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

## **Movement in Reserves Statement (page 41)**

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

## **Cash Flow Statement (page 43)**

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

## **Supporting notes to the Accounts (page 44)**

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

# Restatement of 2017/18 Published Accounts

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

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

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

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

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

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

# Expenditure and Funding Analysis

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

	<b>Total Net Expenditure Charged to GF &amp; HRA Balances</b>	<b>Adjustments between the Funding &amp; Accounting Basis (Note 1A)</b>	<b>Earmarked Reserve Adjustments (Note 5)</b>	<b>Adjustments between Funding &amp; Other Income and Expenditure on the Provision of Services (Note 1B)</b>	<b>Net Expenditure in Comprehensive Income and Expenditure Statement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2018/19</b>					
<b>General Fund</b>					
Chief Executive's Office	6,840	834	386	0	8,060
Finance	12,028	1,307	353	0	13,688
Residents Services	74,543	(31,264)	150	(18,388)	25,041
Social Care	121,046	5,443	1,007	(13,142)	114,354
Corporate Operating Budgets	5,483	2,425	390	(580)	7,718
HIP Initiatives	200	0	55	0	255
Corporate Funding*	(221,437)	1,297	(2,023)	222,163	0
<b>Total General Fund</b>	<b>(1,297)</b>	<b>(19,958)</b>	<b>318</b>	<b>190,053</b>	<b>169,116</b>
<b>Other Funds</b>					
Schools Budget	2,774	839	0	(30)	3,583
Housing Revenue Account	18,848	2,644	0	(7,055)	14,437
<b>Total Other Funds</b>	<b>21,622</b>	<b>3,483</b>	<b>0</b>	<b>(7,085)</b>	<b>18,020</b>
<b>Net Cost of Services</b>	<b>20,325</b>	<b>(16,475)</b>	<b>318</b>	<b>182,968</b>	<b>187,136</b>
Other Income and Expenditure on the Provision of Services	0	(22,770)	0	(182,968)	(205,738)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>20,325</b>	<b>(39,245)</b>	<b>318</b>	<b>0</b>	<b>(18,602)</b>

## Movement in Balances 2018/19

	<b>£'000</b>
Opening General Fund and HRA Balance (Adjusted)**	123,523
General Fund Declared Surplus	1,297
General Fund Surplus	1,297
HRA Deficit	(18,848)
Schools Reserve Movements	(2,774)
Other Earmarked Reserve Movements	(318)
<b>Closing General Fund and HRA Balance at 31 March 2018</b>	<b>102,880</b>

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

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

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

# Expenditure and Funding Analysis

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

	<b>Total Net Expenditure Charged to GF &amp; HRA Balances (Restated)</b>	<b>Adjustments between the Funding &amp; Accounting Basis (Note 1A)</b>	<b>Earmarked Reserve Adjustments (Note 5) (Restated)</b>	<b>Adjustments between Funding &amp; Other Income and Expenditure to the Provision of Services (Note 1B) (Restated)</b>	<b>Net Expenditure in Comprehensive Income and Expenditure Statement (Restated)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2017/18</b>					
<b>General Fund</b>					
Chief Executive's Office	7,033	747	(146)	0	7,634
Finance	12,011	1,916	389	0	14,316
Residents Services	75,431	36,276	(953)	(18,640)	92,114
Social Care	117,527	7,053	(1)	(11,185)	113,394
Corporate Operating Budgets	5,719	(3,509)	(2,063)	(506)	(359)
HIP Initiatives	240	0	127	0	367
Corporate Funding*	(219,546)	1,436	(975)	219,085	0
<b>Total General Fund</b>	<b>(1,585)</b>	<b>43,919</b>	<b>(3,622)</b>	<b>188,754</b>	<b>227,466</b>
<b>Other Funds</b>					
Schools Budget	4,424	(241)	0	(32)	4,151
Housing Revenue Account	8,718	(9,297)	0	(7,150)	(7,729)
<b>Total Other Funds</b>	<b>13,142</b>	<b>(9,538)</b>	<b>0</b>	<b>(7,182)</b>	<b>(3,578)</b>
<b>Net Cost of Services</b>	<b>11,557</b>	<b>34,381</b>	<b>(3,622)</b>	<b>181,572</b>	<b>223,888</b>
Other Income and Expenditure on the Provision of Services	0	(8,940)	0	(181,572)	(190,512)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>11,557</b>	<b>25,441</b>	<b>(3,622)</b>	<b>0</b>	<b>33,376</b>

## Movement in Balances 2017/18

	<b>£'000</b>
Opening General Fund and HRA Balance	124,938
General Fund Declared Surplus	1,585
General Fund Surplus	1,585
HRA Deficit	(8,718)
Schools Reserve Movements	(4,424)
Other Earmarked Reserve Movements	3,622
<b>Closing General Fund and HRA Balance at 31 March</b>	<b>117,003</b>

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

# Comprehensive Income and Expenditure Statement

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

Note	31 March 2019			31 March 2018		
	Expenditure	Income	Net Expenditure	Expenditure (Restated)	Income	Net Expenditure (Restated)
	£'000	£'000	£'000	£'000	£'000	£'000
<b>EXPENDITURE ON SERVICES</b>						
	9,418	(1,358)	8,060	8,781	(1,147)	7,634
	16,498	(2,810)	13,688	18,294	(3,978)	14,316
	85,117	(60,076)	25,041	150,666	(58,552)	92,114
	186,136	(71,782)	114,354	169,262	(55,868)	113,394
	147,273	(139,555)	7,718	144,343	(144,702)	(359)
	255	0	255	367	0	367
	174,362	(170,779)	3,583	168,318	(164,167)	4,151
	75,245	(60,808)	14,437	53,134	(60,863)	(7,729)
	<b>694,304</b>	<b>(507,168)</b>	<b>187,136</b>	<b>713,165</b>	<b>(489,277)</b>	<b>223,888</b>
6	3,094	0	3,094	1,779	0	1,779
	0	(14,425)	(14,425)	1,683	0	1,683
7	23,329	(1,096)	22,233	22,594	(444)	22,150
8	0	(216,640)	(216,640)	0	(216,124)	(216,124)
	<b>26,423</b>	<b>(232,161)</b>	<b>(205,738)</b>	<b>26,056</b>	<b>(216,568)</b>	<b>(190,512)</b>
	<b>720,727</b>	<b>(739,329)</b>	<b>(18,602)</b>	<b>739,221</b>	<b>(705,845)</b>	<b>33,376</b>
			(315,784)			(19,440)
44			58,639			(22,727)
			74			(30)
			<b>(275,673)</b>			<b>(8,821)</b>



# Balance Sheet

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

Reserves are reported in two categories:

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

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

		31 March 2019	31 March 2018
	Note	£'000	£'000
Property, Plant & Equipment	9	1,866,279	1,486,731
Heritage Assets	9	5,341	5,341
Intangible Assets	9	637	737
Investment Properties	9	5,711	5,527
Long Term Investments	14	14,899	57
Long Term Debtors	18	2,290	3,757
<b>LONG TERM ASSETS</b>		<b>1,895,157</b>	<b>1,502,150</b>
Inventories	15	254	198
Short Term Debtors	16	52,657	52,735
Short Term Investments	14	1,202	30,569
Cash and Cash Equivalents	21	47,502	49,578
Assets Held for Sale	9	0	44
Current Intangible Assets		91	229
<b>CURRENT ASSETS</b>		<b>101,706</b>	<b>133,353</b>
Short Term Provisions	22	(6,581)	(4,759)
Short Term Borrowing	14	(49,369)	(18,360)
Short Term Creditors	19	(69,491)	(102,559)
<b>CURRENT LIABILITIES</b>		<b>(125,441)</b>	<b>(125,678)</b>
Long Term Provisions	22	(862)	(1,166)
Deferred Credits		(4)	(11)
Long Term Borrowing	14	(214,890)	(229,647)
Long Term Creditors	20	(3,780)	(3,721)
Capital Grant Receipts in Advance	35	(12,969)	(10,499)
Deferred Liabilities	37	(886)	(1,165)
Net Liabilities Related to Defined Benefit Pension Schemes	45	(616,690)	(524,468)
<b>LONG TERM LIABILITIES</b>		<b>(850,081)</b>	<b>(770,677)</b>
<b>NET ASSETS</b>		<b>1,021,341</b>	<b>739,148</b>
Usable Reserves		165,756	168,245
Unusable Reserves		855,585	570,903
<b>TOTAL RESERVES</b>		<b>1,021,341</b>	<b>739,148</b>

**Andrew Evans**  
**Deputy Director Corporate Finance**  
**31 July 2019**

# Movement in Reserves Statement

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

Note	General Fund Balance	Schools Balances	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Total Usable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2018</b>	<b>40,323</b>	<b>5,433</b>	<b>34,139</b>	<b>37,108</b>	<b>18,463</b>	<b>2,532</b>	<b>30,247</b>	<b>168,245</b>
Transition to IFRS 9	0	0	6,520	0	0	0	0	6,520
<b>Balance at 1 April 2018</b>	<b>40,323</b>	<b>5,433</b>	<b>40,659</b>	<b>37,108</b>	<b>18,463</b>	<b>2,532</b>	<b>30,247</b>	<b>174,765</b>
Total Comprehensive Income & Expenditure	32,637	(2,774)	(318)	(10,943)	0	0	0	18,602
Adjustments between accounting basis & funding basis under regulations	(31,340)	0	0	(7,905)	13,415	632	(2,413)	(27,611)
Increase/(Decrease) in Year	<b>1,297</b>	<b>(2,774)</b>	<b>(318)</b>	<b>(18,848)</b>	<b>13,415</b>	<b>632</b>	<b>(2,413)</b>	<b>(9,009)</b>
<b>Balance at 31 March 2019</b>	<b>41,620</b>	<b>2,659</b>	<b>40,341</b>	<b>18,260</b>	<b>31,878</b>	<b>3,164</b>	<b>27,834</b>	<b>165,756</b>

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

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

# Movement in Unusable Reserves

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

Note	Revaluation Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	Available for Sale Financial Instruments	Pooled Investment Fund Adjustment Account	Total Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2018</b>	174,422	924,268	(305)	(524,468)	1,590	(4,678)	74	0	570,903	739,148
Transition to IFRS 9	0	0	0	0	0	0	(74)	74	0	6,520
<b>Balance at 1 April 2018</b>	174,422	924,268	(305)	(524,468)	1,590	(4,678)	0	74	570,903	745,668
Total Comprehensive Income & Expenditure	315,784	0	0	(58,639)	0	0	0	(74)	257,071	275,673
Adjustments between accounting basis & funding basis under regulations	(3,122)	65,653	(13)	(33,583)	(1,297)	129	0	(156)	27,611	0
Increase/(Decrease) in Year	312,662	65,653	(13)	(92,222)	(1,297)	129	0	(230)	284,682	275,673
<b>Balance at 31 March 2019</b>	487,084	989,921	(318)	(616,690)	293	(4,549)	0	(156)	855,585	1,021,341

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

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

# Cash Flow Statement

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

	Note	2018/19 £'000	2017/18 £'000
Net deficit on the provision of services	24	(18,602)	33,376
Adjust net (surplus) on the provision of services for non cash movements	24	(22,542)	(124,768)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	24	16,228	63,995
Net cash flows from operating activities	24	(24,916)	(27,397)
Net cash flows from investing activities	25	21,848	10,377
Net cash flows from financing activities	26	5,144	4,218
(Increase)/Decrease in cash and cash equivalents		<b>2,076</b>	<b>(12,802)</b>
Cash and cash equivalents at the beginning of the reporting period		<b>(49,578)</b>	<b>(36,776)</b>
Cash and cash equivalents at the end of the reporting period		<b>(47,502)</b>	<b>(49,578)</b>

# Notes to the Main Financial Statements

## 1A. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

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

	Adjustments for Capital Purposes (1)	Net Change for the Pensions Adjustment (2)	Other Differences (3)	Total Adjustments between Funding & Accounting Basis
	£'000	£'000	£'000	£'000
<b>2018/19</b>				
Chief Executive's Office	0	575	259	834
Finance	0	1,222	85	1,307
Residents Services	(43,434)	5,208	6,962	(31,264)
Social Care	(1,258)	4,329	2,372	5,443
Corporate Operating Budgets	(4,896)	7,268	53	2,425
Corporate Funding*	0	0	1,297	1,297
Schools Budget	597	436	(194)	839
Housing Revenue Account	28,809	673	(26,838)	2,644
<b>Net Cost of Services</b>	<b>(20,182)</b>	<b>19,711</b>	<b>(16,004)</b>	<b>(16,475)</b>
Other Income & Expenditure on the Provision of Services from the Expenditure and Funding Analysis	(39,122)	13,872	2,480	(22,770)
<b>Difference between General Fund surplus or deficit and CIES (Surplus) or Deficit on the Provision of Services</b>	<b>(59,304)</b>	<b>33,583</b>	<b>(13,524)</b>	<b>(39,245)</b>

	Adjustments for Capital Purposes (1)	Net Change for the Pensions Adjustment (2)	Other Differences (3)	Total Adjustments between Funding & Accounting Basis
	£'000	£'000	£'000	£'000
<b>2017/18</b>				
Chief Executive's Office	0	640	107	747
Finance	0	1,439	477	1,916
Residents Services	23,735	5,945	6,596	36,276
Social Care	344	4,716	1,993	7,053
Corporate Operating Budgets	(924)	(1,164)	(1,421)	(3,509)
Corporate Funding*	0	0	1,436	1,436
Schools Budget	(191)	477	(527)	(241)
Housing Revenue Account	7,910	826	(18,033)	(9,297)
<b>Net Cost of Services</b>	<b>30,874</b>	<b>12,879</b>	<b>(9,372)</b>	<b>34,381</b>
Other Income & Expenditure on the Provision of Services from the Expenditure and Funding Analysis	(23,359)	13,146	1,273	(8,940)
<b>Difference between General Fund surplus or deficit and CIES (Surplus) or Deficit on the Provision of Services</b>	<b>7,515</b>	<b>26,025</b>	<b>(8,099)</b>	<b>25,441</b>

\*Corporate Funding previously disclosed as Budget Requirement.

# Notes to the Main Financial Statements

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## **(1) Adjustments for Capital Purposes**

### **Net Cost of Services**

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

### **Other Income and Expenditure on the Provision of Services**

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

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

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

## **(2) Net Change for the Pensions Adjustments**

### **Net Cost of Services**

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

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

### **Other Income and Expenditure on the Provision of Services**

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

## **(3) Other Differences**

### **Net Cost of Services**

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

### **Other Income and Expenditure on the Provision of Services**

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

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

# Notes to the Main Financial Statements

## 1B. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

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

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

	Precepts and Levies	Interest Payable	Interest Receivable	Taxation & Non Specific Grant Income (excl Capital)	Transfers	Total Adjustments
	£'000	£'000	£'000	£'000	£'000	£'000
<b>2018/19</b>						
Residents Services	0	(558)	0	0	(17,830)	(18,388)
Social Care	0	0	9	0	(13,151)	(13,142)
Corporate Operating Budgets	(586)	(2,287)	572	465	1,256	(580)
Corporate Funding*	0	0	0	191,478	30,685	222,163
Schools Budget	0	0	0	0	(30)	(30)
Housing Revenue Account	0	(6,456)	331	0	(930)	(7,055)
<b>Net Cost of Services</b>	<b>(586)</b>	<b>(9,301)</b>	<b>912</b>	<b>191,943</b>	<b>0</b>	<b>182,968</b>

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

\*Corporate Funding previously disclosed as Budget Requirement.

# Notes to the Main Financial Statements

## 2. SEGMENTAL INCOME AND EXPENDITURE

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

Segmental Income & Expenditure 2018/19	Fees charges and other service income	Interest Receivable	Depreciation	Interest Payable
	£'000	£'000	£'000	£'000
Chief Executive's Office	(933)	0	0	0
Finance	(1,787)	0	0	0
Residents Services	(32,495)	0	0	558
Social Care	(11,998)	(9)	0	0
Corporate Operating Budgets	(235)	(572)	0	2,287
Schools Budget	(8,843)	0	0	0
Housing Revenue Account	(60,808)	(331)	10,473	6,456
<b>Net Cost of Services</b>	<b>(117,099)</b>	<b>(912)</b>	<b>10,473</b>	<b>9,301</b>

Segmental Income & Expenditure 2017/18	Fees charges and other service income	Interest Receivable	Depreciation	Interest Payable (Restated)
	£'000	£'000	£'000	£'000
Chief Executive's Office	(910)	0	0	0
Finance	(3,074)	0	0	0
Residents Services	(32,353)	0	0	643
Social Care	(10,979)	0	0	0
Corporate Operating Budgets	(732)	(298)	0	2,341
Schools Budget	(8,264)	0	0	0
Housing Revenue Account	(60,863)	(146)	10,220	6,366
<b>Net Cost of Services</b>	<b>(117,175)</b>	<b>(444)</b>	<b>10,220</b>	<b>9,350</b>



# Notes to the Main Financial Statements

## 3. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>		
Employee benefits expenses	204,837	195,774
Employee benefits of Voluntary Aided & Foundation Schools*	36,504	35,112
Other services expenses	442,800	426,468
Support service recharges	5,599	4,512
Depreciation, amortisation, impairment	4,564	51,299
Interest payments	23,173	22,496
Precepts and levies	586	604
Payments to Housing Capital Receipts Pool	2,508	1,175
Loss on the disposal of assets	0	1,683
Strategic pooled fund fair value adjustment	156	0
Change in the Fair Value of Investment Properties	0	98
<b>Total Expenditure</b>	<b>720,727</b>	<b>739,221</b>
<b>Income</b>		
Fees, charges and other service income	(117,099)	(117,175)
Interest and investment income	(912)	(444)
Income from Council Tax and Non Domestic Rates	(179,704)	(157,904)
Government grants and contributions	(427,005)	(430,322)
Change in the Fair Value of Investment Properties	(184)	0
Gain on the disposal of assets	(14,425)	0
<b>Total Income</b>	<b>(739,329)</b>	<b>(705,845)</b>
<b>(Surplus)/Deficit on the Provision of Services</b>	<b>(18,602)</b>	<b>33,376</b>

\*Employee benefits of Voluntary Aided & Foundation Schools

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

# Notes to the Main Financial Statements

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## 4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

### **General Fund Balance**

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

### **Housing Revenue Account Balance**

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

### **Major Repairs Reserve**

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

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

# Notes to the Main Financial Statements

## ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS 2018/19

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	Pooled Investment Fund Adjustment Account	Unusable Reserves
2018/19	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortisation of intangible assets	(138)		(2)			(140)		140						140
Depreciation of non current assets	(24,199)		(10,471)			(34,670)	2,620	32,050						34,670
Revaluation and impairment of non current assets	68,184	(37,938)				30,246		(30,246)						(30,246)
Statutory provision for the financing of capital investment (MRP) and HRA debt provision	4,896	9,129				14,025		(14,025)						(14,025)
Revenue expenditure funded from capital under statute (REFCUS)	(9,641)	(9)				(9,650)		9,650						9,650
Capital grants and contributions applied	22,879	1,819		(632)		24,066		(24,066)						(24,066)
Capital expenditure charged in year to balances		27	23,866			23,893		(23,893)						(23,893)
Use of Capital Receipts Reserve to finance new capital expenditure					19,054	19,054		(19,054)						(19,054)
Amounts written off on disposal of non current assets	4,969	9,456			(19,149)	(4,724)	502	4,222						4,724
Finance Lease Principal	247					247		(247)						(247)
Gain/Loss Investment Property	184					184		(184)						(184)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(2,508)				2,508	0								0
Premiums and discounts	(28)	15				(13)			13					13
Strategic pooled fund fair value adjustment	(156)					(156)							156	156
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(55,942)	(2,717)				(58,659)				58,659				58,659
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	23,757	1,319				25,076				(25,076)				(25,076)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,297)					(1,297)					1,297			1,297
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	133	(4)				129						(129)		(129)
Transfer to Reserve for Capital projects		26,808	(26,808)			0								0
<b>Total Adjustments</b>	<b>31,340</b>	<b>7,905</b>	<b>(13,415)</b>	<b>(632)</b>	<b>2,413</b>	<b>27,611</b>	<b>3,122</b>	<b>(65,653)</b>	<b>13</b>	<b>33,583</b>	<b>1,297</b>	<b>(129)</b>	<b>156</b>	<b>(27,611)</b>

# Notes to the Main Financial Statements

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

2017/18	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	Pooled Investment Fund Adjustment Account	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortisation of intangible assets	(119)		(2)			(121)		121						121
Depreciation of non current assets	(21,992)		(10,218)			(32,210)	2,825	29,385						32,210
Revaluation and impairment of non current assets	(2,023)	(16,945)				(18,968)		18,968						18,968
Statutory provision for the financing of capital investment (MRP) and HRA debt provision	924	9,035				9,959		(9,959)						(9,959)
Revenue expenditure funded from capital under statute (REFCUS)	(9,489)	1				(9,488)		9,488						9,488
Capital grants and contributions applied	25,042			215		25,257		(25,257)						(25,257)
Capital expenditure charged in year to balances	1,747		32,922			34,669		(34,669)						(34,669)
Use of Capital Receipts Reserve to finance new capital expenditure					26,526	26,526		(26,526)						(26,526)
Amounts written off on disposal of non current assets	(11,103)	9,420			(25,556)	(27,239)	2,576	24,663						27,239
Finance Lease Principal	248					248		(248)						(248)
Gain/Loss Investment Property	(98)					(98)		98						98
Other Income						0								0
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,175)				1,175	0								0
Premiums and discounts	(4)	16				12			(12)					(12)
Strategic pooled fund fair value adjustment						0								0
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(49,790)	(3,407)				(53,197)				53,197				53,197
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	25,432	1,740				27,172				(27,172)				(27,172)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,437)					(1,437)					1,437			1,437
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	520	(1)				519						(519)		(519)
Transfer to Reserve for Capital projects		18,017	(18,017)			0								0
<b>Total Adjustments</b>	<b>(43,317)</b>	<b>17,876</b>	<b>4,685</b>	<b>215</b>	<b>2,145</b>	<b>(18,396)</b>	<b>5,401</b>	<b>(13,936)</b>	<b>(12)</b>	<b>26,025</b>	<b>1,437</b>	<b>(519)</b>	<b>0</b>	<b>18,396</b>

# Notes to the Main Financial Statements

## 5. EARMARKED RESERVE TRANSFERS

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

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

### Grants Unapplied

Funds set aside from specific revenue grants to support future investment in services, which will be drawn down as required to support on-going projects. Balances at 31 March 2019 include monies in respect of the Homelessness and Brexit funding alongside a range of other smaller sums.

### Member Initiatives

Funds set aside to support delivery of specific local initiatives, including Hillingdon Improvement Programme, Highways maintenance and Leader's Initiatives amongst other balances. These monies are expected to be drawn down over the life of these initiatives.

### Other Reserves

Funds set aside to manage cyclical or irregular expenditure, including Housing Needs Initiatives, the Corporate Insurance Reserve, Elections Reserve and provision for costs of service transformation amongst other balances. Funds will be drawn down as required to fund specific costs.

### Business Rate Retention Reserve

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

### Treasury Management Reserve

Funds set aside to protect the Council against risk of volatility from investment returns to smooth the budget requirements. The opening balance has been adjusted through the application of IFRS 9 against a loan modification.

### Barnhill PFI

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

### Public Health Reserve

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

# Notes to the Main Financial Statements

## Parking Revenue Account / New Roads & Street Works Reserve

A statutory reserve earmarking monies primarily raised from on-street parking operations to support related investment in local infrastructure, further details on these operations are set out in note 28.

### 6. OTHER OPERATING EXPENDITURE

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

### 7. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018/19 £'000	2017/18 £'000
Interest payable and similar charges	9,301	9,350
Interest receivable and similar income	(912)	(444)
Strategic pooled fund fair value adjustment	156	0
Net interest on the net defined benefit liability	13,872	13,146
Changes in the fair value of investment properties	(184)	98
<b>Total</b>	<b>22,233</b>	<b>22,150</b>

### 8. TAXATION AND NON-SPECIFIC GRANT INCOME

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

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

# Notes to the Main Financial Statements

## 9. MOVEMENT OF NON-CURRENT ASSETS 2018/19

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Sub Total Plant, Property & Equipment	Heritage Assets	Intangibles	Investment Properties	Assets Held for Sale	Total Non Current Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation as at 1 April 2018</b>	<b>721,943</b>	<b>509,754</b>	<b>59,992</b>	<b>283,136</b>	<b>13,567</b>	<b>41,319</b>	<b>7,766</b>	<b>1,637,477</b>	<b>5,341</b>	<b>977</b>	<b>5,527</b>	<b>44</b>	<b>1,649,366</b>
Additions	17,186	254	4,427	13,566	0	222	0	35,655	0	40	0	0	35,695
Enhancements	9,084	11,908	1,357	17	0	14,786	98	37,250	0	0	0	0	37,250
Revaluation increases/(decreases) recognised in Revaluation Reserve	(1,503)	278,796	14,355	0	0	0	961	292,609	0	0	0	0	292,609
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	(40,180)	60,217	(859)	0	0	0	(321)	18,857	0	0	184	0	19,041
Derecognition - Disposals	(3,820)	(680)	(52)	0	0	0	(120)	(4,672)	0	0	0	(44)	(4,716)
Derecognition - Other	0	(3,581)	(631)	0	0	(131)	0	(4,343)	0	0	0	0	(4,343)
Assets reclassified within Property Plant and Equipment	27,188	540	0	0	0	(27,320)	(408)	0	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Cost or Valuation as at 31 March 2019</b>	<b>729,898</b>	<b>857,208</b>	<b>78,589</b>	<b>296,719</b>	<b>13,567</b>	<b>28,876</b>	<b>7,976</b>	<b>2,012,833</b>	<b>5,341</b>	<b>1,017</b>	<b>5,711</b>	<b>0</b>	<b>2,024,902</b>
<b>Accumulated Depreciation &amp; Impairment as at 1 April 2018</b>	<b>(1)</b>	<b>(21,308)</b>	<b>(16,857)</b>	<b>(112,055)</b>	<b>(460)</b>	<b>(28)</b>	<b>(37)</b>	<b>(150,746)</b>	<b>0</b>	<b>(240)</b>	<b>0</b>	<b>0</b>	<b>(150,986)</b>
Depreciation charge in 2018/19	(9,899)	(12,165)	(5,529)	(7,061)	0	0	(16)	(34,670)	0	(140)	0	0	(34,810)
Depreciation written out to Revaluation Reserve	7,608	13,111	2,455	0	0	0	0	23,174	0	0	0	0	23,174
Depreciation written out to Surplus/Deficit on Services	2,242	8,827	247	0	0	0	73	11,389	0	0	0	0	11,389
Derecognition - Disposals	49	51	17	0	0	0	14	131	0	0	0	0	131
Derecognition - Other	0	3,529	631	0	0	8	0	4,168	0	0	0	0	4,168
Assets reclassified within Property Plant and Equipment	0	88	0	0	0	0	(88)	0	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Accumulated Depreciation &amp; Impairment as at 31 March 2019</b>	<b>(1)</b>	<b>(7,867)</b>	<b>(19,036)</b>	<b>(119,116)</b>	<b>(460)</b>	<b>(20)</b>	<b>(54)</b>	<b>(146,554)</b>	<b>0</b>	<b>(380)</b>	<b>0</b>	<b>0</b>	<b>(146,934)</b>
<b>Balance Sheet amount 1 April 2018</b>	<b>721,942</b>	<b>488,446</b>	<b>43,135</b>	<b>171,081</b>	<b>13,107</b>	<b>41,291</b>	<b>7,729</b>	<b>1,486,731</b>	<b>5,341</b>	<b>737</b>	<b>5,527</b>	<b>44</b>	<b>1,498,380</b>
<b>Balance Sheet amount 31 March 2019</b>	<b>729,897</b>	<b>849,341</b>	<b>59,553</b>	<b>177,603</b>	<b>13,107</b>	<b>28,856</b>	<b>7,922</b>	<b>1,866,279</b>	<b>5,341</b>	<b>637</b>	<b>5,711</b>	<b>0</b>	<b>1,877,968</b>
<b>Nature of asset holding</b>													
Owned	729,897	849,341	59,410	177,603	13,107	28,856	7,922	1,866,136	5,341	637	5,711	0	1,877,825
Finance Lease	0	0	143	0	0	0	0	143	0	0	0	0	143
<b>Balance Sheet amount 31 March 2019</b>	<b>729,897</b>	<b>849,341</b>	<b>59,553</b>	<b>177,603</b>	<b>13,107</b>	<b>28,856</b>	<b>7,922</b>	<b>1,866,279</b>	<b>5,341</b>	<b>637</b>	<b>5,711</b>	<b>0</b>	<b>1,877,968</b>

# Notes to the Main Financial Statements

## MOVEMENT OF NON-CURRENT ASSETS 2017/18

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Sub Total Plant, Property & Equipment	Heritage Assets	Intangibles	Investment Properties	Assets Held for Sale	Total Non Current Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation as at 1 April 2017</b>	<b>720,993</b>	<b>497,380</b>	<b>59,874</b>	<b>264,117</b>	<b>13,524</b>	<b>29,392</b>	<b>17,649</b>	<b>1,602,929</b>	<b>531</b>	<b>845</b>	<b>5,624</b>	<b>41</b>	<b>1,609,970</b>
Additions	6,627	871	1,768	19,019	0	9,315	0	37,600	150	132	0	0	37,882
Enhancements	12,428	12,203	1,881	0	43	18,708	95	45,358	6	0	0	8	45,372
Revaluation increases/(decreases) recognised in Revaluation Reserve	(3,464)	7,383	(92)	0	0	0	0	3,827	4,654	0	0	0	8,481
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	(19,190)	(2,913)	0	0	0	0	0	(22,103)	0	0	(97)	0	(22,200)
Derecognition - Disposals	(6,156)	(16,037)	(2,254)	0	0	0	(3,714)	(28,161)	0	0	0	(49)	(28,210)
Derecognition - Other	0	0	(1,929)	0	0	0	0	(1,929)	0	0	0	0	(1,929)
Assets reclassified within Property Plant and Equipment	10,749	10,867	744	0	0	(16,096)	(6,264)	0	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	(44)	0	0	0	0	0	0	(44)	0	0	0	44	0
<b>Cost or Valuation as at 31 March 2018</b>	<b>721,943</b>	<b>509,754</b>	<b>59,992</b>	<b>283,136</b>	<b>13,567</b>	<b>41,319</b>	<b>7,766</b>	<b>1,637,477</b>	<b>5,341</b>	<b>977</b>	<b>5,527</b>	<b>44</b>	<b>1,649,366</b>
<b>Accumulated Depreciation &amp; Impairment as at 1 April 2017</b>	<b>(1)</b>	<b>(15,713)</b>	<b>(13,838)</b>	<b>(105,469)</b>	<b>(460)</b>	<b>(23)</b>	<b>(25)</b>	<b>(135,529)</b>	<b>0</b>	<b>(119)</b>	<b>0</b>	<b>0</b>	<b>(135,648)</b>
Depreciation charge in 2017/18	(9,686)	(10,446)	(5,479)	(6,586)	0	0	(13)	(32,210)	0	(121)	0	0	(32,331)
Depreciation written out to Revaluation Reserve	7,380	3,463	115	0	0	0	0	10,958	0	0	0	0	10,958
Depreciation written out to Surplus/Deficit on Services	2,245	890	0	0	0	0	0	3,135	0	0	0	0	3,135
Derecognition - Disposals	61	483	416	0	0	0	11	971	0	0	0	0	971
Derecognition - Other	0	0	1,929	0	0	0	0	1,929	0	0	0	0	1,929
Assets reclassified within Property Plant and Equipment	0	15	0	0	0	(5)	(10)	0	0	0	0	0	0
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Accumulated Depreciation &amp; Impairment as at 31 March 2018</b>	<b>(1)</b>	<b>(21,308)</b>	<b>(16,857)</b>	<b>(112,055)</b>	<b>(460)</b>	<b>(28)</b>	<b>(37)</b>	<b>(150,746)</b>	<b>0</b>	<b>(240)</b>	<b>0</b>	<b>0</b>	<b>(150,986)</b>
<b>Balance Sheet amount 1 April 2017</b>	<b>720,992</b>	<b>481,667</b>	<b>46,036</b>	<b>158,648</b>	<b>13,064</b>	<b>29,369</b>	<b>17,624</b>	<b>1,467,400</b>	<b>531</b>	<b>726</b>	<b>5,624</b>	<b>41</b>	<b>1,474,322</b>
<b>Balance Sheet amount 31 March 2018</b>	<b>721,942</b>	<b>488,446</b>	<b>43,135</b>	<b>171,081</b>	<b>13,107</b>	<b>41,291</b>	<b>7,729</b>	<b>1,486,731</b>	<b>5,341</b>	<b>737</b>	<b>5,527</b>	<b>44</b>	<b>1,498,380</b>
<b>Nature of asset holding</b>													
Owned	721,942	488,446	42,938	171,081	13,107	41,291	7,729	1,486,534	5,341	737	5,527	44	1,498,183
Finance Lease	0	0	197	0	0	0	0	197	0	0	0	0	197
<b>Balance Sheet amount 31 March 2018</b>	<b>721,942</b>	<b>488,446</b>	<b>43,135</b>	<b>171,081</b>	<b>13,107</b>	<b>41,291</b>	<b>7,729</b>	<b>1,486,731</b>	<b>5,341</b>	<b>737</b>	<b>5,527</b>	<b>44</b>	<b>1,498,380</b>



# Notes to the Main Financial Statements

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

The Council undertakes a rolling programme that ensures all of its Property, Plant and Equipment is carried at current value or fair value as prescribed in the Code of Practice and that every asset is valued at least every 5 years. During 2018/19 20% of the Council's General Fund assets were valued by external independent valuers Wilks Head & Eve LLP as part of the rolling programme. In addition, high value assets were also revalued and a desktop revaluation was carried out on all the schools to ensure no material swings in value.

The Housing Stock was uplifted in value to reflect market conditions for all Council Dwellings by Jones Lang LaSalle Limited to reflect the value at 31 March 2019 through a desktop valuation. Valuations are carried out in accordance with professional standards of the Royal Institution of Chartered Surveyors.

During 2018/19, the Council has recognised total revaluation losses of £63,220k (£21,393k in 2017/18) from downwards revaluations, which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. The Council recognised valuation gains of £93,466k (£2,425k in 2017/18) representing the reversal of previously recognised losses, largely within the other land and buildings asset class. These entries were then reversed through the Movement in Reserves Statement to mitigate any impact on General Fund and Housing Revenue Account Balances.

### Fair Value Hierarchy

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

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

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

## 11. COMMITMENTS UNDER CAPITAL CONTRACTS

As at March 2019, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2019/20 and future years budgeted to cost £25,661k. Similar commitments at 31 March 2018 were £32,550k. The major commitments are:

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

# Notes to the Main Financial Statements

## 12. HERITAGE ASSETS

At 31 March 2019 the Council held Civic Regalia and a statue 'Anticipation' that were insured for £501k. As neither a current market valuation, nor a replacement cost is available, this insurance value has been used as the basis for valuation.

At 31 March 2019 the Council owned the Battle of Britain Bunker that has been insured for £4,690k. As neither a current market valuation, nor a replacement cost is available due to the specialist nature of this historic asset, the insurance value has been used as the basis for valuation. In addition, a number of artefacts held at the battle of Britain bunker site are held as heritage assets, which belonged to Battle of Britain flying ace Wing Commander Ronald Gustave Kellett who was stationed at RAF Northolt in 1940. These items have been valued at £150k based on auctions of similar items.

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

### Heritage Assets of Particular Importance

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

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

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

## 13. INVESTMENT PROPERTIES

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

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

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

# Notes to the Main Financial Statements

## 14. FINANCIAL INSTRUMENT BALANCES

### FINANCIAL ASSETS

	Current		Long-Term		Total	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
<b>Investments at Amortised Cost</b>	702	15,051	0	0	702	15,051
<b>Fair Value through Profit &amp; Loss</b>						
- Principal	500	15,518	15,055	57	15,555	15,575
- Fair Value Adjustment	0	0	(156)	0	(156)	0
<b>Total Investments</b>	<b>1,202</b>	<b>30,569</b>	<b>14,899</b>	<b>57</b>	<b>16,101</b>	<b>30,626</b>
<b>Cash &amp; Cash Equivalents at Amortised Cost</b>						
- Cash held by the Council	25	21	0	0	25	21
- Bank Current Accounts	16,576	16,648	0	0	16,576	16,648
- Liquid Deposits	30,901	0	0	0	30,901	0
<b>Fair Value through Profit &amp; Loss</b>	0	32,909	0	0	0	32,909
<b>Total Cash &amp; Cash Equivalents</b>	<b>47,502</b>	<b>49,578</b>	<b>0</b>	<b>0</b>	<b>47,502</b>	<b>49,578</b>
<b>Other Assets at Amortised Cost</b>						
- Trade Receivables	21,204	25,359	0	0	21,204	25,359
- Lease Receivables	1,404	1,300	10,133	10,850	11,537	12,150
- Loss allowance	(6,145)	(6,472)	0	0	(6,145)	(6,472)
<b>Total Other Assets</b>	<b>16,463</b>	<b>20,187</b>	<b>10,133</b>	<b>10,850</b>	<b>26,596</b>	<b>31,037</b>
<b>Total Financial Assets</b>	<b>65,167</b>	<b>100,334</b>	<b>25,032</b>	<b>10,907</b>	<b>90,199</b>	<b>111,241</b>

### FINANCIAL LIABILITIES

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

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

# Notes to the Main Financial Statements

## INCOME, EXPENSE, GAINS AND LOSSES

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

	2018/19		2017/18	
	Surplus or Deficit on the provision of Services £'000	Other Comprehensive Income £'000	Surplus or Deficit on the provision of Services £'000	Other Comprehensive Income £'000
<b>Interest Revenue</b>				
- Assets measured at amortised cost	(142)	0	(298)	0
- Other	(13)	0	(2)	0
<b>Dividend Revenue</b>				
- Assets measured at fair value through profit and loss	(646)	0	(144)	0
<b>Net Gains</b>				
- Revaluation gains on assets measured at fair value through profit and loss	(55)	0	0	0
- De-recognition gains on assets measured at fair value through profit & loss	(56)	0	0	0
- Revaluation gain on assets measured through other comprehensive income	0	0	0	(30)
<b>Interest &amp; Investment Income and Revaluation Gains</b>	<b>(912)</b>	<b>0</b>	<b>(444)</b>	<b>(30)</b>
<b>Interest Expenses</b>				
- Liabilities measured at amortised cost	8,502	0	8,702	0
- PFI & Lease Contracts	509	0	591	0
- Lease Contracts	50	0	53	0
- Other	213	0	4	0
<b>Other Expenses</b>				
- Brokerage Fees	8	0	0	0
<b>Net Losses</b>				
- De-recognition loss on assets measured at fair value through profit & loss	19	0	0	0
- Revaluation loss on assets measured at fair value through profit & loss	156	0	0	0
- Revaluation loss on assets measured through other comprehensive income	0	74	0	0
<b>Interest Payable and Revaluation Losses</b>	<b>9,457</b>	<b>74</b>	<b>9,350</b>	<b>0</b>
<b>Net (Gain)/Loss for the Year</b>	<b>8,545</b>	<b>74</b>	<b>8,906</b>	<b>(30)</b>

# Notes to the Main Financial Statements

## STRATEGIC POOLED FUND INVESTMENTS AT FAIR VALUE THROUGH PROFIT & LOSS

The Council has elected to apply the statutory override to account for the following investments measured at fair value through profit & loss and transfer any fair value movements through the MIRS into the Pooled Investment Fund Adjustment Account.

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

## FAIR VALUES OF ASSETS AND LIABILITIES

### Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

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

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

### Financial liabilities

A financial liability is a contractual obligation to deliver cash or other financial asset to another entity, or exchange a financial asset or liability with another entity under conditions, which are potentially unfavourable to the Council. The Council's financial liabilities held during the year were all measured at amortised cost.

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

### Fair Value

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate, or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

# Notes to the Main Financial Statements

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows, excluding service charge elements, at the appropriate AA-rated corporate bond yield.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

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

## FAIR VALUE OF LIABILITIES CARRIED AT AMORTISED COST

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

The fair value of liabilities is higher than the balance sheet carrying amount because the Council's debt portfolio includes a number of loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. Overall there is a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

## FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

Financial Assets Held at Fair Value	Fair Value Level	31 March 2019		31 March 2018	
		Carrying Amount	Fair Value	Carrying Amount (Restated)	Fair Value (Restated)
		£'000	£'000	£'000	£'000
Money Market Funds	1	500	500	33,409	33,409
Pooled Funds (Short-Term)	2	0	0	15,018	15,018
Pooled Funds (Long-Term)	2	10	10	10	10
Strategic Pooled Funds (Long-Term)	2	14,844	14,844	0	0
Shares in Listed Companies (Long-Term)	1	45	45	47	47
<b>Financial Assets Held at Amortised Cost</b>					
Short-Term Deposits & Deposit Accounts	N/A	31,603	31,603	15,051	15,051
Cash and Bank Current Accounts	N/A	16,601	16,601	16,669	16,669
Lease Receivables	N/A	11,537	11,537	12,150	12,150
Trade Receivables	N/A	15,059	15,059	18,887	18,887
		<b>90,199</b>	<b>90,199</b>	<b>111,241</b>	<b>111,241</b>

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

# Notes to the Main Financial Statements

## LOSS ALLOWANCE BY ASSET CLASS

	31 March 2019		31 March 2018	
	Gross receivable	Simplified approach Loss Allowance	Gross receivable	Simplified approach Loss Allowance
	£'000	£'000	£'000	£'000
Lifetime Expected Credit Loss - Trade Receivables	21,204	(6,145)	18,139	(6,472)

## Offsetting Financial Assets and Liabilities

Financial assets or liabilities are set off against each other where the Council has a legally enforceable right to do so. The Council's bank accounts held with Lloyds Bank have a right of offset; for 2018/19 there were no accounts in an overdraft position where an offset was applied.

## 15. INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Balance outstanding at start of year	48	54	150	211	198	265
Purchases	1,022	938	263	280	1,285	1,218
Recognised as expense in year	(998)	(944)	(231)	(341)	(1,229)	(1,285)
Balance outstanding at year-end	<b>72</b>	<b>48</b>	<b>182</b>	<b>150</b>	<b>254</b>	<b>198</b>

## 16. SHORT TERM DEBTORS

	31 March 2019 £'000	31 March 2018 £'000
Trade Receivables	15,059	18,887
Prepayments	3,115	3,947
Other receivable amounts	34,483	29,901
	<b>52,657</b>	<b>52,735</b>

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

## 17. DEBTORS FOR TAXATION

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

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

	31 March 2019 £'000	31 March 2018 £'000
Up to one year	4,792	4,206
One to three years	7,709	6,119
Over three years	8,987	7,696
	<b>21,488</b>	<b>18,021</b>

# Notes to the Main Financial Statements

## 18. LONG TERM DEBTORS

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

## 19. SHORT TERM CREDITORS

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

## 20. LONG TERM CREDITORS

Long Term Creditors consist of balances held under Section 106 and 278 Agreements and deposits which would become repayable after more than 1 year. These amounted to £3,780k at 31 March 2019 (£3,721k at 31 March 2018).

## 21. CASH AND CASH EQUIVALENTS

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

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

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



# Notes to the Main Financial Statements

## 22. PROVISIONS

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

### CRC Allowance Purchase

The 2018/19 financial year was the eighth year for which there is an obligation to purchase and surrender Carbon Reduction Commitment (CRC) allowances in relation to carbon dioxide emissions. The Council is required to surrender to the scheme by the last working day in July 2019, the proportion of reported emissions for the preceding scheme year (2018/19). The obligation to transfer the allowances to the scheme is represented as a provision in the accounts to comply with accounting standards. The pre-purchased allowances are accounted for as intangible current assets.

### Non Domestic Rates Appeal Losses

See note 3 to the Collection Fund Accounts on page 104. The Collection Fund Share represents the Council's 64% obligation in relation to appeals over the rateable value of properties from NNDR purposes.

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

### Social Care Disputes

There are a small number of cases within Adult Social Care where the Ordinary Residence is in dispute with another local authority and determination from the Secretary of State is being sought. If it is determined that the Ordinary Residence for these cases is within the London Borough of Hillingdon then payments will have to be made for the back dated costs of the placements. This provision is based on paying for the placements from the date the cases were originally referred to the Social Work teams. In addition there are potential legal disputes in relation to funding levels of care provision.

### Dilapidation Provision

The Council is contractually obliged to fund dilapidation costs on a number of leased properties. During the year, provisions were released and drawn upon. The latest schedule of works has resulted in a decreased estimate for works which are expected to be carried out during 2019/20.

### Insurance

The Council has external insurance and liability indemnity to protect against major risks associated with items such as buildings and motor vehicles. The excess levels are as follows:

1. Property - £100k for combined risks
2. Liability - £250k
3. Motor Vehicles - £105k

The Council self-funds claims which fall under the excess thresholds. The insurance fund provision is to provide for outstanding claims against the Council as at 31 March 2019.

# Notes to the Main Financial Statements

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

## **Other provisions**

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

# Notes to the Main Financial Statements

## 23. UNUSABLE RESERVES

### 23A. CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, being the date that the Revaluation Reserve was created to hold such gains.

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

# Notes to the Main Financial Statements

## 23B. REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed and the gains are realised

The Reserve contains only revaluations gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2018/19		2017/18	
	£'000	£'000	£'000	£'000
<b>Balance at 1 April</b>		<b>174,422</b>		<b>160,383</b>
Upward revaluation of assets				
- Land & Buildings	304,825		11,863	
- Council Dwellings	7,302		8,355	
- Surplus Assets	1,190		0	
- Plant and Equipment	16,810		23	
- Heritage Assets	0	330,127	4,654	24,895
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(12,918)		(1,016)	
- Council Dwellings	(1,197)		(4,439)	
- Surplus Assets	(228)	(14,343)	0	(5,455)
<b>Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or (Deficit) on the Provision of Services</b>		<b>315,784</b>		<b>19,440</b>
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(1,740)		(2,005)	
- Surplus Assets	(16)		(14)	
- Plant and Equipment	(6)		(4)	
- Council Dwellings	(858)	(2,620)	(802)	(2,825)
Accumulated gains on assets sold or scrapped				
- Land & Buildings	(112)		(1,753)	
- Surplus Assets	(70)		(448)	
- Assets Held for sale	(1)		(1)	
- Council Dwellings	(252)		(374)	(2,576)
- Assets Under Construction	(67)	(502)	0	
<b>Amount written off to the Capital Adjustment Account</b>		<b>(3,122)</b>		<b>(5,401)</b>
<b>Balance at 31 March</b>		<b>487,084</b>		<b>174,422</b>

# Notes to the Main Financial Statements

## 24. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2018/19 £'000	2017/18 £'000
<b>(Surplus)/Deficit on the provision of services</b>	<b>(18,602)</b>	<b>33,376</b>
Depreciation and impairment of non-current assets	(4,424)	(51,178)
Amortisation of intangible fixed assets	(140)	(121)
Revenue Expenditure Funded from Capital under Statute	(9,650)	(9,488)
Pension Fund adjustments	(33,583)	(26,025)
(Increase)/Decrease in impairment for provision for bad debts	(1,072)	3,834
(Increase)/Decrease in creditors	33,009	(21,763)
Increase/(Decrease) in debtors	(473)	8,390
Increase/(Decrease) in inventories	56	(67)
Carrying amount of non-current assets sold	(4,724)	(27,239)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(1,541)	(1,111)
<b>Total adjusting items</b>	<b>(22,542)</b>	<b>(124,768)</b>
<b>Adjustments for items included in the net Surplus or Deficit on the Provision of Services that are investing or financing activities</b>		
Proceeds from the disposal of plant, property and equipment, investment property and intangible assets	19,149	25,556
Capital Grants and other contributions credited to Surplus or Deficit on the Provision of Services	24,698	25,042
Billing Authorities - Council Tax and NNDR adjustments	(27,619)	13,397
<b>Total included elsewhere on Cash Flow Statement</b>	<b>16,228</b>	<b>63,995</b>
<b>Net cash flows from operating activities</b>	<b>(24,916)</b>	<b>(27,397)</b>

### Interest received, interest paid and dividends received

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

# Notes to the Main Financial Statements

## 25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2018/19 £'000	2017/18 £'000
<b>Cash Outflows</b>		
Purchase of property, plant and equipment	72,905	83,098
Other payments for investing activities	9,650	9,488
	<b>82,555</b>	<b>92,586</b>
<b>Cash Inflows</b>		
Sale of property, plant and equipment	(19,149)	(25,556)
Capital grants received	(20,093)	(18,113)
Other receipts from investing activities	(7,098)	(9,023)
	<b>(46,340)</b>	<b>(52,692)</b>
<b>Net Cash Outflow</b>	<b>36,215</b>	<b>39,894</b>
Net Increase/(Decrease) in Short-Term Investments	(29,367)	(19,530)
Net Increase/(Decrease) in Long-Term Investments	15,000	(9,987)
<b>Net cash flows from investing activities</b>	<b>21,848</b>	<b>10,377</b>

## 26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2018/19 £'000	2017/18 £'000
<b>Cash Outflows</b>		
Repayments of amounts borrowed	17,278	17,367
Capital element of finance lease rental and on-balance sheet PFI payments	247	248
<b>Cash Inflows</b>		
New borrowing taken	(40,000)	0
Billing Authorities - Council Tax and NNDR adjustments	27,619	(13,397)
<b>Net cash flows from financing activities</b>	<b>5,144</b>	<b>4,218</b>

## Reconciliation of Liabilities arising from Financing Activities

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

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

# Notes to the Main Financial Statements

## 27. EXTERNAL AUDIT COSTS

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

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

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

## 28. PARKING REVENUE ACCOUNT

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

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

## 29. MEMBER ALLOWANCES

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

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

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

# Notes to the Main Financial Statements

## 30. POOLED BUDGETS

A section 75 agreement is in operation between London Borough of Hillingdon and Hillingdon Clinical Commissioning Group (HCCG) in respect of Learning Disability Services and was effective from 1 April 2008. This is not operating as a Pooled Budget in that it clearly identifies the financial liabilities of the two partners on an individual client basis. The object of the agreement is to enable the effective commissioning of services for this client group thereby providing a seamless service to the individual. For 2018/19 this service provided support to approximately 694 clients at a gross cost of £38,795k which included approximately 45 HCCG clients and 26 Joint Funded clients for which the Council received £6,272k.

### Better Care Fund Pooled Budget

The Better Care Fund Pooled Budget was set up in 2015/16. LB Hillingdon and Hillingdon CCG have Pooled Funds to work on joint services for Hillingdon residents. There is a compulsory contribution that each party must contribute but additional funds can be pooled. In 2018/19, £27,861k additional contributions were added to the Pooled Budget.

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

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

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

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

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



# Notes to the Main Financial Statements

## 31. RELATED PARTY TRANSACTIONS

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

### Central Government

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

### London Housing Consortium

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

### West London Waste Authority

West London Waste Authority is a statutory waste disposal authority created in 1986 with membership of the London Borough of Hillingdon and five other London Boroughs. It is primarily funded by a levy paid by each of the six participating councils. The amount contributed for 2018/19 is included under the heading Precepts and Levies below.

### The Pension Fund

The London Borough of Hillingdon Pension Fund is considered a related party. The employer's contribution to the Pension Fund in 2018/19 was £22,395k (£22,006k in 2017/18). A precept of £347k was paid to the London Pension Fund Authority in 2018/19 (£348k in 2017/18).

### Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2018/19 is shown in note 29.

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

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

# Notes to the Main Financial Statements

## Precepts/Levies

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

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

## 32. OFFICER EMOLUMENTS

The number of employees in 2018/19 whose remuneration, excluding pension contributions, was £50k or more, are detailed below in bands of £5k. The bandings only include the remuneration of senior employees that have not been disclosed separately. The number of employees included in the totals that exceeded the £50k threshold due to lump sum termination payments are indicated in brackets. These employees left the employment of the Council during the financial year.

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

### Disclosure of Remuneration for Senior Employees (Schools):-

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

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

# Notes to the Main Financial Statements

## Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2018/19.

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

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

# Notes to the Main Financial Statements

## Disclosure of Remuneration for Senior Employees (LBH):-

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

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

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

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

# Notes to the Main Financial Statements

## 33. EXIT PACKAGES

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

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

LBH EMPLOYEES						
Cost Band	2018/19 No. of LBH Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	36	33	3	297	357	654
£20,001 - £40,000	12	6	6	313	91	404
£40,001 - £60,000	5	0	5	242	204	446
£60,001 - £80,000	0	0	0	0	0	0
Over £80,001	1	1	0	104	0	104
	<b>54</b>	<b>40</b>	<b>14</b>	<b>956</b>	<b>652</b>	<b>1,608</b>

LBH EMPLOYEES						
Cost Band	2017/18 No. of LBH Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	108	92	16	1,079	37	1,116
£20,001 - £40,000	39	34	5	893	197	1,090
£40,001 - £60,000	8	5	3	147	235	382
£60,001 - £80,000	4	4	0	129	168	297
Over £80,001	10	2	8	465	1,193	1,658
	<b>169</b>	<b>137</b>	<b>32</b>	<b>2,713</b>	<b>1,830</b>	<b>4,543</b>

SCHOOL EMPLOYEES						
Cost Band	2018/19 No. of Schools Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	6	2	4	37	0	37
£20,001 - £40,000	3	0	3	74	0	74
	<b>9</b>	<b>2</b>	<b>7</b>	<b>111</b>	<b>0</b>	<b>111</b>

SCHOOL EMPLOYEES						
Cost Band	2017/18 No. of Schools Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	9	8	1	16	8	24
£20,001 - £40,000	1	0	1	26	0	26
	<b>10</b>	<b>8</b>	<b>2</b>	<b>42</b>	<b>8</b>	<b>50</b>

# Notes to the Main Financial Statements

## 34. DEDICATED SCHOOLS GRANT

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

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

Details of the deployment of the DSG receivable for 2018/19 are as follows:

Schools Budget Funded by Dedicated Schools Grant		
Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
		281,538
		(132,583)
		148,955
		4,126
		(4,126)
Final DSG for 2018/19 before academy recoupment		
Academy figure recouped for 2018/19		
Total DSG after academy recoupment for 2018/19		
Plus Brought-forward from 2017/18		
Less Carry-forward to 2019/20 agreed in advance		
Agreed initial budgeted distribution in 2018/19		
In year adjustments		
<b>Final budgeted distribution for 2018/19</b>		
Less actual central expenditure		
Less actual ISB deployed to schools		
Plus Local Authority contribution for 2018/19		
<b>Total</b>		
Carry-forward agreed in advance		
<b>Carry-forward to 2019/20</b>		

# Notes to the Main Financial Statements

## 35. GRANT INCOME

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

### REVENUE GRANT INCOME

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

# Notes to the Main Financial Statements

## CAPITAL GRANT INCOME

	2018/19 £'000	2017/18 £'000
<b>Capital Grant Income credited to the Comprehensive Income and Expenditure Statement</b>		
Disabled Facilities Grant	4,708	4,227
Education and Skills Funding Agency	9,007	7,213
Transport for London	4,669	6,266
Greater London Assembly	266	738
<b>Total Capital Grant Income</b>	<b>18,650</b>	<b>18,444</b>
Schools Capital Contributions	507	1,690
S106 Contributions	1,270	1,097
Community Infrastructure Levy	3,287	3,455
Other Capital Contributions	984	356
<b>Total Capital Grants and Contributions Received</b>	<b>24,698</b>	<b>25,042</b>

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

## GRANTS RECEIVED IN ADVANCE

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

	2018/19 £'000	2017/18 £'000
<b>Capital Grant &amp; Contribution Receipts in Advance</b>		
ESFA Capital Grants	1,944	377
S106	11,025	10,122
<b>Total Capital Grant &amp; Contribution Receipts in Advance</b>	<b>12,969</b>	<b>10,499</b>



# Notes to the Main Financial Statements

## 36. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

# Notes to the Main Financial Statements

## 37. LEASES

In financial years prior to 2018/19 the Council acquired a private finance initiative (PFI) school and a contract for superloos under finance leases with the risks and rewards associated with ownership of such assets having transferred to the Council. Assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet. Since the initial transfer, the PFI school moved to Academy status and the asset was removed from the balance sheet, however the Council still holds the liability.

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

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

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

### Finance Leases - Lessee (including PFI)

Plant, Property and Equipment Outstanding obligations on 31 March	Finance Lease Liabilities		Minimum Lease Payments	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Within 1 year (held in current liabilities)	244	247	701	806
2 - 5 years	886	1,009	1,678	2,246
More than 5 years	0	156	0	201
Total costs payable in future years	886	1,165	1,678	2,447
<b>Total future lease payments</b>	<b>1,130</b>	<b>1,412</b>	<b>2,379</b>	<b>3,253</b>

### Operating Leases - Lessee

Plant, Property and Equipment Outstanding obligations on 31 March	Operating Lease	
	2018/19 £'000	2017/18 £'000
Within 1 year	448	635
2 - 5 years	106	472
<b>Total future lease payments</b>	<b>554</b>	<b>1,107</b>

Operating lease obligations include commitments held by Hillingdon maintained schools as well as those held by the Council. Operating lease expenditure of £110k (£74k in 17/18) relating to maintained schools is included within Cost of Services in the Comprehensive Income and Expenditure Statement.

### Operating Leases - Lessor

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

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

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

Future Minimum Lease Payments:	Operating Lease	
	2018/19 £'000	2017/18 £'000
Within 1 year	1,404	1,300
2 - 5 years	3,272	3,618
More than 5 years	6,861	7,232
<b>Total future lease payments</b>	<b>11,537</b>	<b>12,150</b>

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

# Notes to the Main Financial Statements

## 38. LONG TERM CONTRACTS AND PRIVATE FINANCE INITIATIVE

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

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

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

### Private Finance Initiative (PFI)

In December 1998 the Council entered into a 25 year contract with a private sector partner, Jarvis (Barnhill) Limited, to build and provide facilities management at Barnhill Community High School under a private finance initiative (PFI) arrangement. The school opened in September 1999. In 2010 the parent company Jarvis PLC went into administration and management of the facility was transferred to Johnson Workplace Management Ltd without impacting the day to day operation of the school. In August 2013 Johnson Workplace Management Ltd were acquired by Bellrock Facilities Management who are now responsible for the management of the contract. In 2018/19 the Council paid principal of £230k, interest of £509k and service charges of £2,543k. Current forecasts of future payments, assuming satisfactory performance over the remaining 5 years of the contract, are set out below. As payments to the contractor are index linked, these figures are based on current indexation rates and may vary if rates alter.

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Within 1 year (2019/20)	2,669	226	421	3,316
2 - 5 years	12,142	760	704	13,606
<b>Total</b>	<b>14,811</b>	<b>986</b>	<b>1,125</b>	<b>16,922</b>

Barnhill Community High School transferred to academy status resulting in the removal of the property from the Council's asset register; however the liability will remain in place until it is extinguished in 2023/24. The Council will have no responsibility after this date.

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

# Notes to the Main Financial Statements

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## **39. CONTINGENT LIABILITIES AND ASSETS**

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

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

The draft accounts included a contingent liability of £3.4m relating to an upheld ruling relating to transitional protections in the Judges' and Firefighters' Pension Schemes. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Following a further post balance sheet event in which the Government stated the ruling would apply to all public sector pensions the Council has removed the contingent liability and adjusted the statement of accounts.

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

## **40. EVENTS AFTER THE BALANCE SHEET DATE**

Following the latest pension fund related legal rulings the Fund's actuary has assessed the likely impact to pension liabilities which revealed an estimated increase of £6.9m. Pension fund assets have also been updated to reflect post balance sheet asset valuations.

## **41. AGENCY**

### **Collection of Mayoral CIL**

The Community Infrastructure Levy (CIL) is a planning charge, introduced by the Planning Act 2008, as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. Following this, the Mayoral CIL (MCIL) was introduced to assist in financing Crossrail. The MCIL Levy was ratified on 29 February 2012 and applies to developments agreed after 1 April 2012. The MCIL is charged on most developments in Central London and is charged at £35 per square metre in Zone 2. Local planning authorities are responsible for collecting Mayoral CIL payments on behalf of the Mayor. The local planning authority is able to retain 4% of the levy to cover the costs of administration and collection. Contributions of £2,232k have been received this year and £2,143k has been paid over to the charging authority (Transport for London). The balance of £89k has been retained by the Council to cover administrative expenses.

# Notes to the Main Financial Statements

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## 42. SUMMARY OF TREASURY MANAGEMENT POLICY

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

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

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

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

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

## 43. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Financial Instruments - Risks

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

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

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

The main risks covered are:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

### Credit Risk: Treasury

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages credit risk by ensuring treasury investments are only placed with organisations of high credit quality as outlined in the Treasury Management Strategy. These include financial institutions with a minimum long term credit rating of A- (Fitch); A3 (Moody's); A- (S&P) for UK counterparties, A+ (Fitch); A1 (Moody's); A+ (S&P) for Overseas counterparties and AA+ (Fitch); Aa1 (Moody's); AA+ (S&P) for non-UK sovereigns, the UK government, other local authorities and organisations without credit ratings upon which the Council has received independent investment advice. The Treasury Management Strategy also sets maximum sums that can be invested with any financial institution.

The Council also considers other information such as corporate developments, market sentiment towards investment counterparties and other sources of intelligence before making deposits.

# Notes to the Main Financial Statements

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## Credit Rating Definitions

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

Money Market Funds
Fitch: AAmmf : Extremely strong capacity to achieve fund's investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk.
Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.
S&P: AAAM has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks.

# Notes to the Main Financial Statements

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

	31 March 2019			31 March 2018				
	Rating at 31 March 2019*	Long Term	Short Term	Expected Loss	Rating at 31 March 2018*	Long Term	Short Term	Expected Loss
		£'000	£'000	£'000		£'000	£'000	£'000
<b>Credit Risk Exposures</b>								
UK Banks:								
- Barclays Current Accounts	A	0	4,832	0	A	0	2,761	0
- HSBC Current Accounts	AA-	0	883	0	AA-	0	767	0
- Lloyds Current Accounts	A+	0	10,859	0	A	0	13,119	0
- Lloyds Short-Term Deposit	A+	0	702	0	N/A	0	0	0
- Santander Current Accounts	A	0	1	0	A	0	1	0
- Handelsbanken Current Account	AA-	0	1	0	N/A	0	0	0
<b>Sub Total</b>		<b>0</b>	<b>17,278</b>	<b>0</b>		<b>0</b>	<b>16,648</b>	<b>0</b>
<b>Investments where credit loss is not applicable</b>								
Government & Local Authority Investments:								
- DMADF	AA	0	30,901	N/A	AA	0	0	N/A
- Lancashire County Council	N/A	0	0	N/A	AA-	0	5,038	N/A
- Northumberland County Council	N/A	0	0	N/A	AA	0	5,011	N/A
- London Borough of Brent	N/A	0	0	N/A	AA	0	5,002	N/A
Money Market Funds	AAA**	0	500	N/A	AAA**	0	33,409	N/A
Pooled Funds	AAA	0	0	N/A	AAA	0	15,018	N/A
Pooled Funds (Long-Term)	Unrated	10	0	N/A	Unrated	10	0	N/A
Strategic Pooled Funds	Unrated	14,844	0	N/A	N/A	0	0	N/A
Shares in Listed Companies (Long-Term)	Unrated	45	0	N/A	Unrated	47	0	N/A
Cash Held By Council	N/A	0	25	N/A	N/A	0	21	N/A
<b>Sub Total</b>		<b>14,899</b>	<b>31,426</b>	<b>0</b>		<b>57</b>	<b>63,499</b>	<b>0</b>
Lease Receivables	N/A	10,133	1,404	0	N/A	10,850	1,300	0
Trade Receivables - Simplified Approach	N/A	0	21,204	(6,145)	N/A	0	18,139	(6,472)
<b>Sub Total</b>		<b>10,133</b>	<b>22,608</b>	<b>(6,145)</b>		<b>10,850</b>	<b>19,439</b>	<b>(6,472)</b>
<b>Total</b>		<b>25,032</b>	<b>71,312</b>	<b>(6,145)</b>		<b>10,907</b>	<b>99,586</b>	<b>(6,472)</b>

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

# Notes to the Main Financial Statements

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

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

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

## Borrowing

The policy on borrowing is to spread exposure between Public Works Loans Board (PWLB), local authorities and market sources. This enables the Council to avail itself of rescheduling facilities offered by PWLB and also to obtain favourable rates, when offered by the market.

	31 March 2019				31 March 2018			
	PWLB	Market	Temporary Local Authorities	Total	PWLB	Market	Temporary Local Authorities	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Nominal Value	194,837	48,000	30,000	272,837	202,115	48,000	0	250,115
Premium	(9,670)	0	0	(9,670)	(3,191)	0	0	(3,191)
Accrued Interest	446	615	31	1,092	470	613	0	1,083
<b>Amortised Value</b>	<b>185,613</b>	<b>48,615</b>	<b>30,031</b>	<b>264,259</b>	<b>199,394</b>	<b>48,613</b>	<b>0</b>	<b>248,007</b>

## Liquidity Risk

Liquidity risk is the risk that cash will not be available when it is required. This can jeopardise the ability of the Council to carry out its daily functions or disrupt these from being carried out in the most cost effective manner. To prevent or minimise this risk, the Council has a comprehensive cash flow management process that seeks to ensure that cash is available as needed. If unexpected movements occur, the Council has ready access to borrowings from money markets and the PWLB. There is no significant risk that the Council will be unable to raise finance to meet its commitments.

Instead the risk to which the Council is exposed is when loans or other forms of capital financing mature, they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. The policy on debt redemption is to maintain a fairly stable fall out of debt required to be refinanced each year. To achieve this, targets are set within the Treasury Management Strategy which limit the maximum amount of debt maturities within specific time periods. This spreads the risk of interest rate exposure so all debt is not subject to renewal at the same time. The maturity analysis of financial liabilities is as follows:

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

In addition to debt that falls out naturally in any year, the Council can choose to redeem debt early as part of its overall debt management policy. This assists in restructuring the Council's debt portfolio and although in the short term a



# Notes to the Main Financial Statements

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

## Interest Rate Risk

The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 50% on external debt that can be subject to variable interest rates. This strategy is periodically reviewed and adapted to reflect changing economic circumstances in light of actual movements in interest rates. Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk is balanced against actions taken to mitigate credit risk.

Movements in interest rates can impact the Council in several ways. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates and pooled funds – the fair value of the assets will fall

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

If interest rates had been 1% higher (based 2018/19 balances and with all other variables held constant) the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	10
Increase in interest receivable on variable rate investments	(462)
Decrease in fair value of investments held at FVPL charged against provision of services	1
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>(451)</b>
<b>Share of overall impact credited to the HRA</b>	<b>(730)</b>
Decrease in fair value of investments held at FVOCI	(284)
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>284</b>
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	36,689

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

## Price Risk

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

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

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

## Foreign Exchange Risk

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

# Notes to the Main Financial Statements

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## Financial Liabilities

The majority of borrowing made by the Council is sourced from the PWLB (£194,838k nominal value 31 March 2019; £193,338k fixed rates, £1,500k variable rate). Borrowing at fixed rates enables the Council to enjoy stability of costs in future years and helps improve budgetary processes. Fixed rates protect the Council from interest rate increases but in contrast exposes it to opportunity costs should rates fall. Borrowing at variable rates currently allows the Council to source debt at levels which are considerably lower than fixed rate debt. Sourcing debt from the PWLB allows the Council to reschedule or prematurely redeem debt and the portfolio is continually monitored to take advantage of opportunities that may present themselves periodically to reduce overall costs.

£36,000k of debt (nominal value) is held in "Lenders Option Borrowers Option" (LOBO) market loans. These have been set to provide varying periods of fixed rate ranges with subsequent options for the lender to change this rate on agreed dates. Over the next three years loans totalling £6,000k, £5,000k and £10,000k respectively are scheduled for rate change options. In addition the Council holds £12,000k of fixed-rate market loans and £30,000k of short-term Local Authority borrowing.

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

## Financial Assets

The Council had a weighted average balance of investments for 2018/19 of £82,139k. Throughout the year deposits were placed in instant access accounts, pooled funds, in fixed-term deposits with varying maturity periods and a number of UK T-Bills were purchased. This approach aimed to match investment maturities with expected expenditure and so spread interest rate risk. At year-end there were no deposits with maturities extending one year and therefore all instruments are classified as variable.

## Transition to IFRS 9

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

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

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

## 44. PENSION SCHEMES

### Defined Benefit Pension Schemes

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

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

### LGPS

The two LGPS scheme funds are:

- London Borough of Hillingdon (LBH) Pension Fund of the LGPS for employees, administered locally by the Council.

# Notes to the Main Financial Statements

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

For the London Borough of Hillingdon LGPS, contributions are made at a level intended to balance the pensions liabilities with investment assets. The adequacy of the funds' contributions and investments to resource future liabilities is reviewed tri-annually by actuaries appointed by the Council. Contribution rates are then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 2018/19 employer's contribution rate was 23.1%.

Employees contributed at variable rates between 5.5% and 12.5% of pensionable salary. The employer's contribution rate set for 2019/20 is 24.1% with any pension strain costs being directly attributable to the service area, as was the case in 2018/19.

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

## Teachers Pension Scheme

Teachers employed by the Council are members of the Teachers Pension Scheme. This fund is administered by the Department for Education and provides teachers with defined benefits upon their retirement. The Council contributes towards the pensions by making payments to the fund based on a percentage of members' pensionable salaries. The employer's contribution rate for 2018/19 was 16.48% (16.48% 2017/18). The total contribution to the fund by the Council in 2018/19 was £7,186k (£7,108k in 2017/18), of this amount £605k was outstanding at 31 March 2019 (£589k at 31 March 2018).

The Teachers Pension Scheme is a defined benefit scheme. Although the scheme is unfunded a notional fund is used as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers scheme. There was £514k paid in respect of on-going early retirement payments in 2018/19 (£507k in 2017/18).

## NHS Pension Scheme

The Health and Social Care Act 2012, made provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities. As a result of this transfer, the Council is responsible for deduction of pension contributions, both employees and employers from transferred staff. These contributions are forwarded on directly to the National Health Service Pension Scheme. The National Health Service Pension Scheme is unfunded and administered by National Health Service Business Services Authority (NHSBSA). It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The pension cost charged to the accounts is the contribution rate set by the NHSBSA. In 2018/19 the Council paid a total of £33.2k (£31.8k in 2017/18) to the NHS Pension Scheme, representing 14.38% of pensionable pay. Following a recent consultation, the Department of Health and Social Care (DHSC) has confirmed the employer contribution rate will increase to 20.6% from 1 April 2019.

# Notes to the Main Financial Statements

## Transactions relating to retirement benefits

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

Comprehensive Income and Expenditure Statement	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2019	31 March 2018 (Restated)	31 March 2019	31 March 2018	31 March 2019	31 March 2018 (Restated)
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost of Services</b>						0
Current Service Cost	36,870	40,628	0	0	36,870	40,628
Past Service Costs (Including curtailments)	7,239	1,087	0	0	7,239	1,087
(Gain)/Loss Settlements	0	(2,386)	0	0	0	(2,386)
Administration Expenses	677	720	1	2	678	722
Financing and Investment Income and Expenditure:						
Net Interest Expense	13,812	13,104	60	42	13,872	13,146
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>58,598</b>	<b>53,153</b>	<b>61</b>	<b>44</b>	<b>58,659</b>	<b>53,197</b>
<b>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	(20,996)	2,139	(64)	(51)	(21,060)	2,088
Actuarial gains and losses arising on changes in financial assumptions	78,488	(24,295)	112	(150)	78,600	(24,445)
Other	1,141	(370)	(42)	0	1,099	(370)
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>58,633</b>	<b>(22,526)</b>	<b>6</b>	<b>(201)</b>	<b>58,639</b>	<b>(22,727)</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(32,849)	(25,985)	(57)	(40)	(32,906)	(26,025)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>						
Employer's contributions payable to scheme	(22,906)	(25,057)	0	0	(22,906)	(25,057)
Contributions in respect of unfunded benefits	(2,166)	(2,111)	(4)	(4)	(2,170)	(2,115)
<b>Total Employers Contributions Payable to Scheme</b>	<b>(25,072)</b>	<b>(27,168)</b>	<b>(4)</b>	<b>(4)</b>	<b>(25,076)</b>	<b>(27,172)</b>

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

In addition the Comprehensive Income and Expenditure Statement included an actuarial loss of £58,639k in 2018/19 (£22,727k actuarial gain in 2017/18). Any impact of foreign exchange rates will come through as a result of market value movements in asset holdings.

The Council expects to make payments of £23,322k (£22,395k in 2018/19) in respect of contributions to the LBH Pension Fund during the financial year 2019/20.

# Notes to the Main Financial Statements

## 45. PENSION SCHEMES BALANCE SHEET DISCLOSURES

### Reconciliation of present value of scheme liabilities

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2019 £'000	31 March 2018 (Restated) £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 (Restated) £'000
<b>Opening Benefit Obligation</b>	1,395,187	1,381,086	3,783	4,283	1,398,970	1,385,369
Current Service Cost	36,870	40,628	0	0	36,870	40,628
Administration Expenses	677	720	0	0	677	720
Interest on defined liability	36,345	34,549	81	61	36,426	34,610
Contributions by Members	6,444	6,867	0	0	6,444	6,867
Remeasurement (gains) and losses:						
- Actuarial (gains)/losses arising from changes in financial assumptions	78,488	(24,295)	112	(150)	78,600	(24,445)
- Other	1,141	(370)	(42)	0	1,099	(370)
Past Service Cost including Curtailments	7,239	1,087	0	0	7,239	1,087
Liabilities Extinguished on Settlements	0	(3,038)	0	0	0	(3,038)
Estimated Unfunded Benefits Paid	(2,166)	(2,111)	(4)	(4)	(2,170)	(2,115)
Estimated Benefits Paid	(41,668)	(39,936)	(363)	(407)	(42,031)	(40,343)
<b>Closing Defined Benefit Obligation</b>	<b>1,518,557</b>	<b>1,395,187</b>	<b>3,567</b>	<b>3,783</b>	<b>1,522,124</b>	<b>1,398,970</b>

### Reconciliation of fair value of scheme assets

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
<b>Opening Fair Value of Employer Assets</b>	873,391	862,749	1,111	1,450	874,502	864,199
Interest Income on Plan Assets	22,533	21,445	21	19	22,554	21,464
Contributions by Members	6,444	6,867	0	0	6,444	6,867
Contributions by the Employer	22,906	25,057	0	0	22,906	25,057
Contributions in respect of Unfunded Benefits	2,166	2,111	4	4	2,170	2,115
Remeasurement (gains) and losses:						
- The return on plan assets, excluding the amount in the net interest expense	20,996	(2,139)	64	51	21,060	(2,088)
- Other	0	0	0	0	0	0
Assets Distributed on Settlements	0	(652)	0	0	0	(652)
Administration Expenses	0	0	(1)	(2)	(1)	(2)
Estimated Unfunded Benefits Paid	(2,166)	(2,111)	0	0	(2,166)	(2,111)
Estimated Benefits Paid	(41,668)	(39,936)	(367)	(411)	(42,035)	(40,347)
<b>Closing Fair Value of Employer Assets</b>	<b>904,602</b>	<b>873,391</b>	<b>832</b>	<b>1,111</b>	<b>905,434</b>	<b>874,502</b>

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

The LBH return on scheme assets is estimated based on the actual fund returns. In 2017/18, index returns were also included where necessary.

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

# Notes to the Main Financial Statements

## Pension Scheme assets comprised

	LBH Pension Fund				LPFA Pension Fund				Total	
	Quoted Prices in Active Markets 18/19 £'000	Quoted Prices not in Active Markets 18/19 £'000	Quoted Prices in Active Markets 17/18 £'000	Quoted Prices not in Active Markets 17/18 £'000	Quoted Prices in Active Markets 18/19 £'000	Quoted Prices not in Active Markets 18/19 £'000	Quoted Prices in Active Markets 17/18 £'000	Quoted Prices not in Active Markets 17/18 £'000	31 March 2019 £'000	31 March 2018 £'000
	<b>Equity Instruments</b>									
Consumer	17,169		13,102		89		127		17,258	13,229
Manufacturing					42		64		42	64
Energy & Utilities	23,314		23,800		13		18		23,327	23,818
Financial Institutions	28,318		35,177		45		67		28,363	35,244
Health & Care	6,986		7,067		27		33		7,013	7,100
Information Technology	524		777		72		107		596	884
Other	29,541		39,597		27		31		29,568	39,628
<b>Debt Securities</b>										
Other					39				39	0
<b>Private Equity</b>		16,202		18,999		84		118	16,286	19,117
<b>Real Estate</b>		120,817		106,487		79		80	120,896	106,567
<b>Investment Funds &amp; Unit Trusts</b>										
Equities	384,332		393,139				9		384,332	393,148
Bonds	179,295		133,855				8		179,295	133,863
Infrastructure		24,388		23,350		50		49	24,438	23,399
Other		62,968		57,729			52		62,968	57,781
<b>Target Returns</b>					118	65	123	103	183	226
<b>Cash &amp; Cash Equivalents</b>	10,748		20,312		80	2	228	(106)	10,830	20,434
	<b>680,227</b>	<b>224,375</b>	<b>666,826</b>	<b>206,565</b>	<b>552</b>	<b>280</b>	<b>867</b>	<b>244</b>	<b>905,434</b>	<b>874,502</b>

# Notes to the Main Financial Statements

## Pensions Assets and Liabilities recognised in the Balance Sheet

	2018/19 £'000	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000
<b>Present value of liabilities:</b>					
LBH	(1,518,557)	(1,395,187)	(1,381,086)	(1,123,590)	(1,218,712)
LPFA	(3,567)	(3,783)	(4,283)	(4,660)	(5,201)
<b>Fair Value of Assets:</b>					
LBH	904,602	873,391	862,749	740,154	736,612
LPFA	832	1,111	1,450	1,613	2,123
<b>Deficit in the scheme:</b>					
LBH	(613,955)	(521,796)	(518,337)	(383,436)	(482,100)
LPFA	(2,735)	(2,672)	(2,833)	(3,047)	(3,078)
<b>Total</b>	<b>(616,690)</b>	<b>(524,468)</b>	<b>(521,170)</b>	<b>(386,483)</b>	<b>(485,178)</b>

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,522m is offset by the scheme assets of £905m to give the net pension liability of £617m as disclosed on the balance sheet.

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

Following post balance sheet legal rulings and asset valuations, both liabilities and asset figures have been amended to reflect the latest estimates.

# Notes to the Main Financial Statements

## 46. PENSION SCHEMES BASIS OF ESTIMATION

### Basis for estimating assets and liabilities

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

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

### Sensitivity Analysis

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

	LBH Pension Fund		LPFA Pension Fund	
	% Increase to Employer Liability	Increase to Employer Liability £'000	% Increase to Employer Liability	Increase to Employer Liability £'000
<b>Changes in Assumptions as at 31 March 2019</b>				
0.5% Decrease in Real Discount Rate	9%	142,515	4%	125
1 Year Increase in Member Life Expectancy	3-5%	n/a*	4%	129
0.5% Increase in the Salary Increase Rate	1%	15,196	0%	0
0.5% Increase in the Pension Increase Rate	8%	125,348	4%	125

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



# Notes to the Main Financial Statements

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## **Scheme and Impact on the Authorities cash flows**

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

The objectives of the LBH LGPS Pension fund are to keep employer's contributions at a rate which is as constant as possible. The Council's Pension Fund undergoes a triennial valuation to set the contribution rates of the all the employers in the scheme to achieve a funding level of 100% over the next 25 years. The current contribution rate was set over the last triennial valuation period ending March 2016 to cover contribution rates of the Council for three years from April 2017, contributions are set for three years to minimise disruption in cash flow impacts of the Council.

The weighted average duration of the defined benefit obligation for scheme members is 16.4 years as established in the triennial valuation dated 31 March 2016.

Further information about the LBH pension Fund can be seen in the Pension Fund accounts and in the Pension Fund annual report.

# Other Financial Statements

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## **The Housing Revenue Account (HRA) (page 98)**

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

## **The Collection Fund Account (page 102)**

This account reflects the statutory requirement to maintain a separate Collection Fund which shows the transactions of the billing authority in relation to National Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the general fund. The Collection fund is consolidated with the other accounts of the Council.

## **The Pension Fund Account (page 105)**

This fund is not included within the Council's Balance Sheet, but is maintained separately. The Council acts as the administrator for the London Borough of Hillingdon Fund of the Local Government Pension Scheme.

# HRA Income and Expenditure Statement

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

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

# Movement on the Housing Revenue Account Statement

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

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

# Notes to the Housing Revenue Account

## 1. HOUSING STOCK

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

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

## 2. VALUE OF HRA ASSETS

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

The vacant possession value of dwellings within the Council's HRA as at 31 March 2019 was £2,919m; this differs from the balance sheet value of £730m which is based on the economic use value of social housing. The difference of £2,189m between these two figures shows the economic cost of providing housing at social rents over 30 year cycle compared to open market rents.

## 3. DEPRECIATION

Depreciation charged in year to the HRA

	<b>Depreciation 31 March 2019 £'000</b>	<b>Depreciation 31 March 2018 £'000</b>
Council Dwellings	9,898	9,686
Other Land & Buildings	20	21
Intangibles	2	2
Surplus Assets	8	8
Vehicle, Plant & Equipment	545	503
<b>Total</b>	<b>10,473</b>	<b>10,220</b>

# Notes to the Housing Revenue Account

## 4. CAPITAL EXPENDITURE

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

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

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

## 5. RENT ARREARS

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

## 6. BAD DEBT PROVISION

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

## 7. MAJOR REPAIRS RESERVE

HRA resource accounting requires the maintenance of a Major Repairs Reserve (MRR) and holds depreciation charged to the HRA and revenue contribution to capital expenditure of HRA. The movements on this reserve are shown below.

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

The £31,878k held in this reserve will be used to finance capital expenditure on dwellings.

## 8. CONTRIBUTIONS TO PENSION RESERVE

The cost of employer's pension contributions in the HRA Income and Expenditure is reported in-line with IAS 19, which requires the current service cost, rather than the actual employer's contribution, be recognised. The HRA increase for 2018/19 was £1,398k.

# Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for the Council, as a billing authority, to maintain a separate Collection. This statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non Domestic Rates.

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

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

# Notes to the Collection Fund Account

## 1. Calculation of the Council Tax Base and 2018/19 Council Tax Revenues

The Council Tax Base is based upon the number of dwellings within the borough, analysed by valuation band and adjusted for reductions in expected tax yield arising from discounts, exemptions and the Council Tax Support Scheme. The Council Tax Base is set annually in advance of budget setting, with the 2018/19 base agreed by full Council on 18 January 2018.

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

Annual precepts levied upon the Collection Fund Account in respect of Council Tax by the Council and Greater London Authority are derived from the Council Tax Base and the Band D Council Tax charge approved for the financial year. The following table analyses all Council Tax activity within the Collection Fund between the major preceptors, with the Council's own activity reflected in the main statement of accounts.

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



# Notes to the Collection Fund Account

## 2. National Non-Domestic Rating Income & Business Rate Retention System

National Non-Domestic Rates are levied on the basis of the Valuation Office Agency's assessment of the Rateable Value of a non-domestic property. As at 31 March 2019 the aggregate Rateable Value across the 8,748 hereditaments within the borough totalled £809,867k, with rates payable determined by the National Non-Domestic multiplier which is set annual by Central Government. For 2018/19 the standard multiplier was 49.3p in the pound and for small businesses 48.0p in the pound.

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

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

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

Non-Domestic Ratepayers are able to challenge the Valuation Office Agency's assessment of the Rateable Value for their property, which if successful will result in a reduction in future payments and in some cases a refund of previously levied rates. 395 such appeals relating to 229 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2019. Given the inherent uncertainty around the financial impact of such appeals, a provision of £2,878k has been established on the basis of past experience. This represents an decrease of £2,215k on the previously held provision, within this movement £1,387k was released to fund refunds paid during 2017/18, £1,715k was released where provision was no longer required and an additional £888k was added to the provision in respect of outstanding appeals.

# Pension Fund Account

## PENSION FUND ACCOUNT

	Note	31 March 2019 £'000	31 March 2018 £'000
Contributions	4	43,176	42,829
Transfers In from other pension funds	5	1,487	34,362
		<b>44,663</b>	<b>77,191</b>
Less: Benefits	6	(44,016)	(42,003)
Less: Payments to and on account of leavers	7	(2,626)	(3,297)
		<b>(46,642)</b>	<b>(45,300)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>(1,979)</b>	<b>31,891</b>
Less: Management expenses	8	(8,833)	(7,332)
<b>Net additions/(withdrawals) including fund management expenses</b>		<b>(10,812)</b>	<b>24,559</b>
<b>Return on investments</b>			
Investment income	9	22,732	15,289
Profit and losses on disposal of investments and changes in market value of investments	10A	42,843	15,834
Taxes On Income		(83)	(86)
<b>Net return on investments</b>		<b>65,492</b>	<b>31,037</b>
<b>Net Increase in the fund during the year</b>		<b>54,680</b>	<b>55,596</b>
<b>Net Assets at start of year</b>		<b>1,012,303</b>	<b>956,707</b>
<b>Net Assets at end of year</b>		<b>1,066,983</b>	<b>1,012,303</b>

## NET ASSETS STATEMENT

		31 March 2019 £'000	31 March 2018 £'000
Investment Assets	10	1,066,215	1,010,428
Investment Liabilities	10	(89)	(326)
<b>Total net investments</b>		<b>1,066,126</b>	<b>1,010,102</b>
Current Assets	11	1,424	2,480
Current Liabilities	12	(567)	(279)
<b>Net assets of the fund available to fund benefits at the end of the reporting</b>		<b>1,066,983</b>	<b>1,012,303</b>

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

**Andrew Evans**  
Deputy Director Corporate Finance  
31 July 2019

# Notes to the Pension Fund Account

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## 1. DESCRIPTION OF THE FUND

### a. General

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

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

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

### b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

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

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

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

#### Admitted Bodies:

Braybourne Facilities

*Bishop Ramsey Cleaners*

Caterlink

*Frays Academy*

Caterplus

Churchill Services - Mitie & McMillan Cleaning

Cucina

*Haydon Academy*

*Ruislip High School*

Greenwich Leisure

Hayward Services

*Ruislip Academy*

*Highfield Primary*

*Hillingdon Primary*

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

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

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Security

Mitie Facilities Management

NHS - Michael Sobel House

The Pantry

*Whiteheath Infant*

*Warrender School*

*Frithwood School*

*Hillside School*

Taylor Shaw

*Haydon Academy*

#### Scheduled Bodies:

Middlesex Partnership Trust

*Barnhill Academy*

*Belmore Academy*

London Housing Consortium

Orchard Hill College Academy Trust

*Skills HUB (formerly Hillingdon Tuition Centre)*

# Notes to the Pension Fund Account

Bishop Ramsey Academy	<i>Central Payroll</i>
Bishopshalt Academy	<i>Young Peoples Academy</i>
Charville Academy	Park Federation Trust
Douay Martyrs Academy	<i>Central Payroll</i>
Eden Academy Trust	<i>Cranford Park Academy</i>
<i>Moorcroft School</i>	<i>Lake Farm Park Federation</i>
<i>Pentland Field School</i>	<i>Wood End Academy</i>
<i>Grangewood School</i>	<i>West Drayton Academy</i>
Elliot Foundation Trust	QED Academy Trust
<i>Hillingdon Primary School</i>	<i>Coteford Academy</i>
<i>John Locke Academy</i>	<i>Queensmead Academy</i>
<i>Pinkwell School</i>	<i>Northwood Academy</i>
Guru Nanak Academy Trust	Rosedale Hewens Academy Trust
<i>Nanak Sar Primary School</i>	<i>Rosedale Primary &amp; College</i>
<i>Guru Nanak Sikh Academy</i>	<i>Hewens Primary &amp; College</i>
Global Academy	<i>Brookside Primary School</i>
Harefield Academy	Vanguard Learning Trust
Harrow & Uxbridge College	<i>Ruislip High School</i>
Haydon Academy	<i>Ryefield Primary School</i>
Heathrow Aviation Engineering	<i>Vyners Academy</i>
LBDS Frays Academy Trust	Stockley Academy
<i>Cowley St. Lawrence Academy</i>	Swakeleys Academy
<i>Laurel Lane Academy</i>	Uxbridge Academy
<i>St. Matthews Primary School</i>	William Byrd School
<i>St. Martins Primary School</i>	Willows Academy

As at 31 March 2019, there were 9,015 active members contributing to the fund, with 6,881 members in receipt of benefit and 9,643 members entitled to deferred benefits.

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

## c. Funding

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

# Notes to the Pension Fund Account

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## d. Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

## e. Governance

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

### Pensions Committee

Cllr Phillip Corthorne (Chairman)	Cllr Tony Eginton
Cllr Martin Goddard (Vice-Chairman)	Cllr John Morse
Cllr Teji Barnes	

### Pensions Board

Roger Hackett (Employee Representative)	Zak Muneer (Employer Representative)
Tony Noakes (Employee Representative)	Hayley Seabrook (Employer Representative)

## 2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis, and summarise the fund transactions and report on the net assets available to pay pension benefits as at 31 March 2019.

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

## 3. ACCOUNTING POLICIES

### a. Valuation of assets

- Market quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.
- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.
- For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used.
- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

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

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

# Notes to the Pension Fund Account

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- d. Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accruals basis.
- e. Administration expenses are paid when invoiced by third party providers through the administrating authority's payment system and recharged to the Pension fund.
- f. Interest on property developments - property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.
- g. Contributions are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.
- h. Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.
- i. Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient. Group transfers are accounted for under the agreement which they are made.
- j. Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.
- k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

## **Critical Judgements and Uncertainties**

- l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2019 was £115,893k (£114,879k at 31 March 2018).
- m. Assumptions made about the future and other major sources of estimation uncertainty - The pension fund accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

# Notes to the Pension Fund Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £17,329k. There is a risk that this investment may be under or overstated in the accounts.
Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2018. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £29,133k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £7,956k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £61,434k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivity analysis to the method of assumptions used for year ended 31 March 2019 by the fund's actuaries.

# Notes to the Pension Fund Account

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

## Sensitivity Analysis

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

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

## 4. CONTRIBUTIONS

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

Deficit Funding: At the actuarial valuation on 31 March 2016 the fund was 75% funded, with the remaining 25% deficit to be recovered over a period of 25 years. The new actuarial valuation results are due to be released in Q3, 2019.

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

## 5. TRANSFERS IN

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



# Notes to the Pension Fund Account

## 6. BENEFITS

	31 March 2019 £'000	31 March 2018 £'000
<b>By category</b>		
Pensions	(36,423)	(33,721)
Commutations and Lump Sum Retirement Benefits	(6,750)	(7,607)
Lump Sum Death Benefits	(843)	(675)
	<b>(44,016)</b>	<b>(42,003)</b>

	31 March 2019 £'000	31 March 2018 £'000
<b>By authority</b>		
LB Hillingdon	(40,973)	(40,220)
Scheduled Bodies	(2,579)	(1,428)
Admitted Bodies	(464)	(355)
	<b>(44,016)</b>	<b>(42,003)</b>

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2019 £'000	31 March 2018 £'000
Refunds to members leaving service	(79)	(62)
Individual transfers out to other schemes	(2,547)	(3,235)
	<b>(2,626)</b>	<b>(3,297)</b>

## 8. MANAGEMENT EXPENSES

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

	31 March 2019 £'000	31 March 2018 £'000
Administrative Costs	(840)	(753)
Investment Management Expenses	(7,897)	(6,392)
Oversight and Governance	(96)	(187)
	<b>(8,833)</b>	<b>(7,332)</b>

## 8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2019 £'000	31 March 2018 £'000
Management Fees	(5,934)	(5,291)
Performance Related Fees	(1,405)	(525)
Custody Fees	(66)	(56)
Transaction Costs	(492)	(520)
	<b>(7,897)</b>	<b>(6,392)</b>

# Notes to the Pension Fund Account

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## 8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

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

## 8C. EXTERNAL AUDIT COSTS

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

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

## 9. INVESTMENT INCOME

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

# Notes to the Pension Fund Account

## 10. INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
<b>Investment Assets</b>		
Equities	128,054	128,306
Pooled investments	774,128	679,908
Pooled property investments	135,049	127,808
Private equity	17,329	20,091
<b>Other Investment balances</b>		
Cash deposits	10,472	53,558
Investment income due	1,183	757
<b>Total investment assets</b>	<b>1,066,215</b>	<b>1,010,428</b>
<b>Investment liabilities</b>		
<b>Derivative contracts:</b>		
Purchase Settlements Outstanding	(89)	(326)
<b>Total investment liabilities</b>	<b>(89)</b>	<b>(326)</b>
<b>Net investment assets</b>	<b>1,066,126</b>	<b>1,010,102</b>

## 10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Value 1 April 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value 31 March 2019 £'000
<b>2018/19</b>					
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	32,310	774,128
Pooled Property Investments	127,808	5,109	(1,288)	3,421	135,049
Private Equity	20,091	201	(6,512)	3,549	17,329
	<b>956,113</b>	<b>509,743</b>	<b>(447,707)</b>	<b>36,411</b>	<b>1,054,560</b>
Forward Foreign Exchange	0	0	0	0	0
	<b>956,113</b>	<b>509,743</b>	<b>(447,707)</b>	<b>36,411</b>	<b>1,054,560</b>
<b>Other investment balances</b>					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
<b>Total Investment Assets</b>	<b>1,010,428</b>			<b>42,843</b>	<b>1,066,215</b>
	Value 1 April 2017 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value 31 March 2018 £'000
<b>2017/18</b>					
Equities	123,992	257,437	(254,089)	966	128,306
Pooled Investments	672,256	197,317	(188,869)	(796)	679,908
Pooled Property Investments	114,894	4,006	0	8,908	127,808
Private Equity	27,128	370	(9,669)	2,262	20,091
	<b>938,270</b>	<b>459,130</b>	<b>(452,627)</b>	<b>11,340</b>	<b>956,113</b>
Forward Foreign Exchange	0	12	(19)	7	(0)
	<b>938,270</b>	<b>459,142</b>	<b>(452,646)</b>	<b>11,347</b>	<b>956,113</b>
<b>Other investment balances</b>					
Cash Deposits	16,276			(575)	53,558
Investment Income Due	644				757
Adjustments to Market Value Changes				5,062	
<b>Total Investment Assets</b>	<b>955,190</b>			<b>15,834</b>	<b>1,010,428</b>

# Notes to the Pension Fund Account

## 10B. ANALYSIS OF INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
<b>Equities</b>		
<b>UK</b>		
Quoted	128,054	128,306
	<b>128,054</b>	<b>128,306</b>
<b>Pooled funds - additional analysis</b>		
<b>UK</b>		
Fixed income unit trust - Quoted	82,707	56,312
Other Unit trusts - Quoted	249,858	233,063
Unitised insurance policies - Quoted	343,000	295,839
Limited liability partnerships - Unquoted	98,564	94,694
	<b>774,129</b>	<b>679,908</b>
Pooled property Investments - Unquoted	135,049	127,808
Private equity - Unquoted	17,329	20,091
Cash deposits	10,472	53,558
Investment income due	1,183	757
	<b>164,032</b>	<b>202,214</b>
<b>Total investment assets</b>	<b>1,066,215</b>	<b>1,010,428</b>
<b>Investment liabilities</b>		
Purchase Settlements Outstanding	(89)	(326)
<b>Total investment liabilities</b>	<b>(89)</b>	<b>(326)</b>
<b>Net investment assets</b>	<b>1,066,126</b>	<b>1,010,102</b>

## 10C. INVESTMENTS ANALYSED BY FUND MANAGER

### Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2019 £'000	%	Market Value 31 March 2018 £'000	%
<b>Investments Managed by London CIV Pool</b>				
Legal & General Investment Management	343,000	32	295,839	29
London CIV Asset Pool	249,858	24	233,020	23
	<b>592,858</b>	<b>56</b>	<b>528,859</b>	<b>52</b>
<b>Investments Managed Outside of London</b>				
Adams Street Partners	12,654	1	13,565	1
AEW UK	58,927	6	54,361	5
JP Morgan Asset Management	82,707	8	56,312	6
LGT Capital Partners	4,675	0	6,526	1
M&G Investments	7,956	1	12,419	1
Macquarie Infrastructure	29,133	3	28,307	3
Permira Credit Solutions	61,434	6	53,968	5
UBS Global Asset Management (Equities)	131,174	12	133,133	13
UBS Global Asset Management (Property)	76,521	7	75,192	7
Other*	8,086	1	47,460	5
	<b>473,268</b>	<b>44</b>	<b>481,243</b>	<b>48</b>
<b>Total</b>	<b>1,066,126</b>	<b>100</b>	<b>1,010,102</b>	<b>100</b>

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

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

# Notes to the Pension Fund Account

## 10D. STOCK LENDING

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £17,125k (31 March 2018: £31,377k). These equities continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £18,428k (31 March 2018: £34,288k) representing 108% of stock lent. Collateral consists of acceptable securities and government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.

## 11. CURRENT ASSETS

	31 March 2019 £'000	31 March 2018 £'000
Debtors		
Employers' contributions due	68	50
Employees' contributions due	17	16
Cash balances	1,339	2,414
	<b>1,424</b>	<b>2,480</b>

## 12. CURRENT LIABILITIES

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

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

## 13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

According to information provided by Prudential, £180k was received in additional voluntary contributions by members. Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 4.

# Notes to the Pension Fund Account

## 14. FAIR VALUE - BASIS OF VALUATION

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

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

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019. It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in note 16 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2019 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	29,133	30,839	25,232
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	69,390	75,372	61,668
Private Equity	5%	17,329	17,528	15,858
Venture Capital	5%	41	43	39
<b>Total</b>		<b>115,893</b>	<b>123,782</b>	<b>102,797</b>

# Notes to the Pension Fund Account

## 14A. FAIR VALUE HIERARCHY

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

### Level 1

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

### Level 2

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

### Level 3

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

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

Values as at 31 March 2019	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,054	810,613	115,893	1,054,560
Loans and Receivables	11,655	0	0	11,655
Financial Liabilities at Fair Value through Profit and Loss	(89)	0	0	(89)
<b>Net investment Assets</b>	<b>139,620</b>	<b>810,613</b>	<b>115,893</b>	<b>1,066,126</b>

Values as at 31 March 2018	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,307	712,927	114,879	956,113
Loans and Receivables	54,315	0	0	54,315
Financial Liabilities at Fair Value through Profit and Loss	(326)	0	0	(326)
<b>Net investment Assets</b>	<b>182,296</b>	<b>712,927</b>	<b>114,879</b>	<b>1,010,102</b>

## 14B. RESTATEMENT OF VALUATION HIERARCHIES

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

# Notes to the Pension Fund Account

## 14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

### Level 3 Assets Reconciliation

	Value 1 April 2018	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	20,091	201	(6,509)	196	3,350	17,329
Private Finance - M&G	12,472	0	(3,886)	(1,646)	1,016	7,956
Infrastructure - Macquarie	28,307	1,493	(4,193)	2,065	1,461	29,133
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	53,968	12,063	(5,568)	(201)	1,172	61,434
	<b>114,879</b>	<b>13,757</b>	<b>(20,156)</b>	<b>414</b>	<b>6,999</b>	<b>115,893</b>
Other investment balances	0				0	0
<b>Total Investment Assets</b>	<b>114,879</b>				<b>6,999</b>	<b>115,893</b>

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

## 14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

### Quantitative Information on Significant unobservable inputs

#### Private Equity: Adams Street & LGT capital

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

#### Private Finance: M&G

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

#### Infrastructure: Macquarie

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

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

#### Direct Lending: Permira

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

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

### Description of Valuation Process

#### Private Equity

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other



# Notes to the Pension Fund Account

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

## **Private Finance: M&G**

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

## **Direct Lending: Permira**

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

## **Infrastructure: Macquarie**

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

## **DCF-Based Market Valuation Process**

### **Financial Model**

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

### **Update for Economic, Operational and Financial Assumptions**

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

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

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

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

### **Discount Rate**

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

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

# Notes to the Pension Fund Account

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

### Private Equity

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

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

### Private Finance (M&G)

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

### Infrastructure: Macquarie

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

### Direct Lending: Permira

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

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

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

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

## 15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Designated as fair value through P&L	Loans & Receivables	Financial Liabilities at Amortised Cost	Total	Designated as fair value through P&L	Loans & Receivables	Financial Liabilities at Amortised Cost	Total
	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000
<b>Financial Assets</b>								
Equities	128,054	0	0	128,054	128,306	0	0	128,306
Pooled Investments	774,128	0	0	774,128	679,908	0	0	679,908
Pooled property investments	135,049	0	0	135,049	127,808	0	0	127,808
Private Equity	17,329	0	0	17,329	20,091	0	0	20,091
Cash	0	10,472	0	10,472	0	53,558	0	53,558
Other Investment balances	0	1,183	0	1,183	0	757	0	757
	<b>1,054,560</b>	<b>11,655</b>	<b>0</b>	<b>1,066,215</b>	<b>956,112</b>	<b>54,315</b>	<b>0</b>	<b>1,010,428</b>
<b>Financial Liabilities</b>								
Purchase Settlements	0	0	(89)	(89)	0	0	(326)	(326)
Outstanding	0	0	(89)	(89)	0	0	(326)	(326)
	<b>0</b>	<b>0</b>	<b>(89)</b>	<b>(89)</b>	<b>0</b>	<b>0</b>	<b>(326)</b>	<b>(326)</b>
<b>Total</b>	<b>1,054,560</b>	<b>11,655</b>	<b>(89)</b>	<b>1,066,126</b>	<b>956,112</b>	<b>54,315</b>	<b>(326)</b>	<b>1,010,102</b>

# Notes to the Pension Fund Account

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

### Risk and Risk Management

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

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

### Market risk

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

### Other price risk

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

### Other price risk - Sensitivity Analysis

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

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

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

Asset Type	Value as at 31 March 2019 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	464,052	9.60%	508,601	419,503
UK Equity	128,054	9.60%	140,347	115,760
Bonds	211,512	6.70%	225,683	197,341
Alternatives	115,893	3.70%	120,181	111,605
Property	135,049	5.20%	142,072	128,026
<b>Total</b>	<b>1,054,560</b>		<b>1,136,884</b>	<b>972,236</b>

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

# Notes to the Pension Fund Account

Asset Type	Value as at 31 March 2018 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	344,271	8.40%	373,190	315,352
UK Equity	214,794	10.00%	236,273	193,315
Bonds	154,478	4.30%	161,121	147,835
Alternatives	114,879	5.10%	120,738	109,020
Property	127,785	5.40%	134,685	120,885
<b>Total</b>	<b>956,207</b>		<b>1,026,007</b>	<b>886,407</b>

Note: changes in asset values as at 31 March 2018 restated by asset type for comparative reason based on the current analysis provided by PIRC, our fund's analytics information provider.

**Interest Rate Risk** - The risk to which the pension fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

## Interest Rate Risk Sensitivity Analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

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

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

**Currency Risk** - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates. The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2019 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2019 and as at the previous period ending 31 March 2018.

## Currency exposure by asset type

	Asset Value 31 March 2019 £'000	Asset Value 31 March 2018 £'000
Overseas Managed Funds	214,196	111,250
Private Equity/Infrastructure	46,462	48,398
	<b>260,658</b>	<b>159,648</b>

# Notes to the Pension Fund Account

## Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the funds data provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 7.30%, based on the data provided by PIRC. A 7.30% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. An 7.30% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset Value 31 March 2019	Potential market movement	Value on increase	Value on decrease
		7.30%		
	£'000	£'000	£'000	£'000
Overseas Managed Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	46,462	3,392	49,854	43,070
	<b>260,658</b>	<b>19,028</b>	<b>279,686</b>	<b>241,631</b>

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

**Credit Risk** - Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The pension fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The pension fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The pension fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2019 was £11,811k (31 March 2018: £55,972k) and this was held with the following institutions

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

# Notes to the Pension Fund Account

**Liquidity Risk** - The risk the pension fund will have difficulties in paying its financial obligations when they fall due.

The pension fund holds a working cash balance in its own bank accounts with Lloyds as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£1,339k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2019 these assets totalled £805,876k, with a further £10,672k held in cash in the Custody accounts at Northern Trust.

## Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

## 17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as at 31 March 2016 setting rates for the period April 2017 to March 2020. The next triennial valuation will take place as at 31 March 2019.

In line with the triennial valuation the fund updates its Funding Strategy Statement every three years. The key elements of the funding strategy are:

1. to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
2. to ensure that employer contribution rates are as stable as possible
3. to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
4. to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
5. to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 2016 actuarial valuation, the fund was assessed as 75% funded (72% at the March 2013 valuation). This corresponded to a deficit of £269m (2013 valuation: £266m) at that time. The slight improvement in funding position between 2013 and 2016 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially offset by lower than expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term).

## Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%) 1 April 2017 - 31 March 2020	Secondary Rate (£)		
	2017/18	2018/19	2019/20
19.50%	£5,296,000	£5,537,000	£6,938,000

The Primary rate above includes an allowance for administration expenses of 0.7% of pay. The employee average contribution rate is 6.4% of pay.

# Notes to the Pension Fund Account

At the previous formal valuation at 31 March 2016, a different regulatory regime was in force. Therefore a contribution rate that is directly comparable to the rates above is not provided.

The valuation of the fund has been undertaken using a risk based approach and this approach adopted recognises the uncertainties and risks posed to funding and follows the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cash flows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

## Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

### Financial Assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2016	31 March 2013
Funding Basis Discount Rate	4.0%	4.6%
Benefit Increases (CPI)	2.1%	2.5%
Salaries Increases	2.6%	3.3%

### Demographic Assumptions

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

Description	31 March 2016	31 March 2013
<b>Male</b>		
Pensioners	22.6 years	22.7 years
Non- Pensioners	24.0 years	24.3 years
<b>Female</b>		
Pensioners	24.6 years	24.7 years
Non- Pensioners	26.5 years	26.9 years

# Notes to the Pension Fund Account

## 18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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

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

Description	31 March 2019 £m	31 March 2018 £m
Present Value of Promised Retirement Benefits	1,703*	1,548
Active Members	753	624
Deferred Members	380	350
Pensioners	570	574

*\*Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation*

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pension legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the fund.

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Following pension fund related legal rulings, the Fund's actuary has assessed the likely impact to pension liabilities which reveals an increase in the present value of promised retirement benefits. There is no impact to the Pension Fund financial statements, however the actuarial present value above has been amended with the revised amount.

## 19. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements. The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note 4 to the Pension Fund accounts. No senior officer or Pension Committee member had any interest with any related parties to the pension fund.

### Governance

There are three members of the Pension Fund Committee who are deferred or retired members of the pension fund. Cllr Philip Corthorne (Chairman), a deferred member; Cllr Tony Eginton, a retired member and Cllr Teji Barnes, a deferred member. Each member is required to declare their interest at each meeting.



# Notes to the Pension Fund Account

## Key Management Personnel

Two employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer and the Head of Pensions, Treasury & Statutory Accounts. This note highlights the funding by the pension fund for key officers and pension benefits of those staff accrued in year.

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

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

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

## 20. BULK TRANSFER

There were no bulk transfers in 2018-19. There was a bulk transfer of £31,049k into the fund from Harrow College as a result of a merger with Uxbridge College during the 2018-19 financial year.

## 21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of up to six years from the date of each original commitment. It is anticipated all outstanding commitments will be called by December 2019.

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

## 22. CONTINGENT ASSETS

Two admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

## 23. POST BALANCE SHEET EVENTS

Following a legal ruling regarding age discrimination arising from pension scheme transition arrangements; court of appeal judgements were made affecting judges and firefighters pensions. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. On the 15<sup>th</sup> July 2019, the UK Government issued a statement confirming that the ruling would apply to public sector pensions. The Fund's actuary has assessed the likely impact to pension liabilities which reveal an increase in the present value of promised retirement benefits. There is no impact to the Pension Fund financial statements as a result of this judgement, however the actuarial present value in note 18 has been amended to the revised higher figure.

# Annual Governance Statement 2018/19

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## London Borough of Hillingdon Annual Governance Statement 2018/19

### 1. Introduction

- 1.1 The London Borough of Hillingdon (LBH) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, LBH is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.
- 1.2 LBH follows an approach to corporate governance which is in accordance with the principles of the CIPFA/SOLACE 2016 Framework and guidance '*Delivering Good Governance in Local Government*'. This statement meets the requirements of Regulation 6 (1)(a) of the Accounts and Audit Regulations 2015 which require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement reporting on the review with the published Statement of Accounts. Regulation 6(1)(b) requires that the statement is an Annual Governance Statement (AGS) which must be prepared in accordance with proper practices in relation to the accounts.

### 2. Executive Summary

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

### 3. Significant Governance Issues

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

# Annual Governance Statement 2018/19

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

- 3.2.2 **Early Years Centres** - During 2018/19 IA issued an opinion of no assurance identifying inconsistent practices regarding the application of enrolment fees and reliance upon manual processes. Improved processes for managing income have been developed and following a restructure of the function, it is now part of a wider Business Improvement Delivery (BID) review of early support services.
- 3.2.3 **Emergency Duty Team** - An IA assurance review of the EDT service identified opportunities to strengthen areas around governance, remit for out of hours social work services as well as effective use of key performance information. A follow up review is scheduled to take place 2019/20 Quarter 2. Alongside this work a review of the social care out of hours service across both Adults and Children's Social Care is currently underway to include a review of the relationship with the supplier, regarding the handling of calls linked to social care activity.
- 3.2.4 **National Transfer Scheme** - As a port authority LBH are under statutory obligation to intervene and safeguard children and their families at their point of entry into the UK. The National Transfer Scheme (NTS) is not legislated for and therefore dispersing Unaccompanied Asylum Seeking Children (UASCs) through this scheme remains a challenge for LBH. LBH remains significantly over the nationally agreed limit of UASCs (0.07%) and continues to face an increased challenge with regards to capacity to meet needs of this growing cohort. This coupled with changes to the care leavers legislation means that these young people who remain in LBH's care are entitled to services up until the age of 25. The Government review of appropriate or adequate funding especially once these young people turn 18 and become care leavers remains overdue and this has a direct impact on LBH's ability to accurately financially forecast commitments linked to UASCs.
- 3.2.5 **Parking Services** - An IA Review identified the need to strengthen governance arrangements regarding the management of cases and review of system hierarchy user settings. Positive progress has been made with the introduction and embedding of a specialised Penalty Charge Notice ICT system. A temporary cash collection service was implemented during 2018/19 whilst a tendering exercise was undertaken. This temporary service has enhanced service delivery in relation to the cash collection service for the Council. A new long term contract is currently in the process of being awarded.
- 3.2.6 **School Improvement** - LBH continues to undertake regular performance reviews of Community Schools where there are concerns and where appropriate Warning Notices are served. Concerns are escalated to the Regional Schools Commissioner in the case of Academy Schools. The Council is working closely with all Head Teachers and Governing Bodies in the Borough to embed a school-led improvement approach in Hillingdon and to ensure all children receive a 'good' or better education.
- 3.2.7 **Supported Housing Service** - A contracted social care provider is being closely monitored by the Council via its Care Governance process due to safeguarding concerns about the management of tenants finances. A Police investigation is ongoing and the Council and the provider have taken appropriate remedial action and will continue to monitor and support the service until the matter is concluded.
- 3.3. The Council continues to operate in an environment of declining financial support from government against a backdrop of rising inflation costs and significant demographic changes (i.e. there are an increasing number of children in the borough and people are living longer). As a result, this presents the Council with the challenge of managing the greater demand for its broad range of services, which in the absence of any response would result in a rising annual deficit. However, LBH continues to review and transform services to drive improvement and efficiency through initiatives such as the successful BID programme, which has bridged the budget gap with 2018/19 savings of £10.7 million delivered or on track for delivery. This proven successful approach is set to be continued beyond 2018/19, enabling the Council to continue 'putting our residents first' despite the challenging financial conditions and demographic pressures.

Fran Beasley  
Chief Executive  
22 May 2019

Cllr Ray Puddifoot MBE  
Leader of the Council  
30 May 2019

# Annual Governance Statement 2018/19

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## **4. The Purpose of the Governance Framework**

- 4.1 The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 4.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. The embedded process evaluates the likelihood of those risks and the impact should they be realised in order to manage them efficiently, effectively and economically.
- 4.3 The governance framework has been in place at LBH for the year ended 31<sup>st</sup> March 2019 and up to the date of approval of the 2018/19 Statement of Accounts.

## **5. The Governance Framework**

- 5.1 LBH has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined in the table overleaf demonstrate how LBH maintains effective internal controls and an effective governance system and aligned to the seven principles of the CIPFA/SOLACE 2016 Framework and guidance 'Delivering Good Governance in Local Government'. The table overleaf includes examples and hyperlinks to sources of further information which include detail about how the LBH has implemented its commitments.

# Annual Governance Statement 2018/19

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.		
The Council's Commitment	How the Council meets these principles	Governance in action
<p><b>1a</b></p> <p><b>Behaving with integrity</b></p>	<ul style="list-style-type: none"> <li>✓ The <b>Council's vision, 'Putting Our Residents First'</b> and priority themes; "Our People", "Our Natural Environment", "Our Built Environment" and "Financial Management". Our vision and priority themes underpin everything the Council does, including how it works with partners, makes decisions and serves communities.</li> <li>✓ Rather than adopting a formal <b>Code of Corporate Governance</b>, the Council ensures that LBH's governance structure, decision-making process and areas of responsibility are covered in the Council's Constitution and Schemes of Delegation.</li> <li>✓ The <b>Committee Standing Orders</b> (Part 4B), Procurement &amp; Contract Standing Orders (Part 4H) &amp; Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually.</li> <li>✓ Part 5 of the Constitution sets out formal '<b>Codes of Conduct</b>' governing the behaviour and actions of all Council Members, co-opted members and Council officers. A formal 'Code of Conduct for Members and Co-opted Members' was adopted in July 2012. This Code requires that Councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority periodically reviews the code and guidance to ensure these requirements reflect changes to the Council structure. A revised Code of Conduct for Officers and Protocol for Member/Officer Relations were approved by full Council in February 2015. The Member/Officer Protocol governs and regulates the relationship between the elected Members and appointed officers.</li> <li>✓ The Council has a zero tolerance approach towards fraud and corruption and this commitment is set out in the Council's <b>Counter Fraud Strategic Plan 2018/19</b>. This is underpinned by the ongoing development of the Fraud Universe and a full range of investigative policies and procedures.</li> <li>✓ A formal <b>Whistleblowing Policy</b>, which sets out how the Council complies with the Public Interest Disclosure Act 1998, allows Council staff, contractors working for the authority and residents to raise complaints regarding any behaviour or activity connected to the authority, ranging from unlawful conduct to fraud or corruption.</li> <li>✓ The <b>Member Register of Interests</b> records the pecuniary and non-pecuniary interests of Members and co-opted members of LBH. There is a separate 'Related Parties' register that all Members and a selection of senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.</li> </ul>	<p><a href="#">Constitution</a></p> <p><a href="#">Register of Interests</a></p>



# Annual Governance Statement 2018/19

2. Ensuring openness and comprehensive stakeholder engagement		
The Council's Commitment	How the Council meets these principles	Governance in action
<p><b>2a</b></p> <p><b>Ensuring openness</b></p>	<ul style="list-style-type: none"> <li>✓ The <b>Council's website</b> is set out in a clear and easily accessible way using plain language. The information which residents use most, such as Council Tax, and Waste and Recycling can be accessed easily from the main page. Further work is being undertaken to improve the website through Business Improvement Delivery.</li> <li>✓ LBH's commitment to the seven <b>Nolan Principles of Public Life</b> (including openness) detailed in the Constitution.</li> <li>✓ All <b>Council and Committee meetings are held in public</b> (other than in limited circumstances where consideration of confidential or exempt information means that the public are excluded), with agenda and reports being produced in paper form and on the Council's website. Key Council meetings are broadcast live on YouTube including full Council, Cabinet, Planning Committees and Licensing Sub Committees.</li> </ul>	<p><a href="#">LBH Website</a></p> <p><a href="#">Constitution</a></p> <p><a href="#">Council Meetings</a> <a href="#">Council's YouTube channel</a></p>
<p><b>2b</b></p> <p><b>Engaging with institutional stakeholders</b></p>	<ul style="list-style-type: none"> <li>✓ LBH has a set of general <b>consultation/engagement standards</b> that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out LBH's commitment to engage, consult and respond to the views of local communities. The standards also support LBH's commitment to transparency and the need for sharing information with LBH residents. All resident and stakeholder feedback supports and informs the Council's corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. A customer engagement approach is in place covering all Council services to align customer engagement to support the delivery of Council priorities.</li> <li>✓ <b>Hillingdon Partners</b> is a voluntary body which brings together the key local, public, private, voluntary and community sector organisations to work as a local strategic partnership to improve the quality of life for all those who live in, work in and visit Hillingdon. The Partnership seeks to promote the interests of LBH with external organisations, regional bodies and central government. They have 9 priority areas for the focus of its work, with actions to address local priorities delivered through theme groups. Other statutory providers (<b>Health &amp; Wellbeing Board</b> and <b>Safer Hillingdon Partnership</b>) are referenced in section 3b.</li> <li>✓ The <b>Council's Policy Overview, Scrutiny and Select Committees</b> secure strong local stakeholder and expert witness participation in their reviews delivering added value findings to Cabinet. Exercising its statutory Health and Crime &amp; Disorder responsibilities, the External Services Select Committee regularly scrutinises the work of the local NHS, Police and other public agencies with their most senior representatives attending. Corporate parenting responsibilities have been integrated within the Council's overview and scrutiny arrangements to provide stronger oversight and directly engage children in care and care leavers in the democratic process.</li> </ul>	<p><a href="#">Hillingdon Partners</a></p> <p><a href="#">Annual Report</a></p>

# Annual Governance Statement 2018/19

	<ul style="list-style-type: none"> <li>✓ LBH's <b>Employee Forum</b> is a consultative body and created to ensure that the views of the whole employee population can be heard in an open and transparent way.</li> <li>✓ Regular meetings are taking place with the <b>Hillingdon Foster Carers Association</b> to discuss and consult on issues pertinent to our Hillingdon foster carers who are corporate parents for our most vulnerable children</li> <li>✓ There are well established <b>Tenant and Resident Associations</b> in the Borough as well as Council tenant forum groups (e.g. sheltered housing forum) which provide valuable opportunities to discuss important service developments and to receive and listen to resident feedback. These groups directly inform service developments and provide the platform for effective communication and engagement with council tenants and leaseholders.</li> </ul>	
<p><b>2c</b> <b>Engaging with individual citizens and service users effectively</b></p>	<ul style="list-style-type: none"> <li>✓ The Council supports different ways for residents to present their individual and community's <b>concerns directly to elected members</b>, for example via Ward Surgeries, Ward Budgets and the Members' Enquiries process.</li> <li>✓ The Council has in place a well-established <b>Petition Scheme</b>, including e-Petitions. This is widely used by residents in the people in the borough to submit their views on local matters directly to decision-makers.</li> <li>✓ A <b>Joint Strategic Needs Assessment (JSNA)</b> outlines the current and future health and wellbeing needs of the population over 3 to 5 years and informs the Council's service planning, commissioning strategies and links to strategic plans such as LBH's Joint Health and Wellbeing Strategy. The JSNA is 'live' and can be accessed via the LBH website and is updated throughout the year rather than being refreshed annually.</li> <li>✓ <b>Hillingdon Youth Council</b> represents the young people of Hillingdon and provides a voice for young people who live, study or work in the borough and is made up of a variety of people from different ethnic and cultural backgrounds between the ages of 11 to 19 (up to 25 years with Special Educational Needs and Disability). It is a forum in which they can discuss and exchange their views and opinions about issues affecting young people.</li> <li>✓ <b>Children in Care Council</b> engages and enables children in care to express how they are being cared for by Hillingdon. They regularly meet with managers in children's services and councillors to discuss changes we would like to make to practices and procedures which are affecting them.</li> <li>✓ LBH monitors <b>legislative changes</b>, considers implications and opportunities and ensures that the authority is substantially compliant with laws and regulations. CMT is briefed on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review all Committee and Executive reports prior to decision, for Legal compliance.</li> </ul>	<p><a href="#">Petition Scheme</a></p> <p><a href="#">JSNA</a></p> <p><a href="#">Youth Council</a></p> <p><a href="#">Children in Care Council</a></p>



# Annual Governance Statement 2018/19

3. Defining outcomes in terms of sustainable economic, social and environmental benefits		
The Council's Commitment	How the Council meets these principles	Governance in action
<p><b>3a</b> <b>Defining outcomes</b></p>	<ul style="list-style-type: none"> <li>✓ <b>The Hillingdon Improvement Programme (HIP)</b> is LBH's strategic improvement programme which aims to deliver excellence as set out in the Council vision – 'Putting Our Residents First'. The HIP vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. The HIP has helped to change the culture of the organisation and continues to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from residents about customer care, waste and recycling services, libraries, LBH primary and secondary schools and how well they feel informed, through regular feedback. The HIP is consistently trying to improve Council services by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance LBH's reputation. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors are also responsible for specific HIP projects.</li> <li>✓ <b>The Performance Management Framework</b> is a Council-wide framework requiring all service areas and teams to set annual service delivery plans, targets, identify risk and report performance against Council priorities. Key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team (CMT).</li> <li>✓ <b>The Medium Term Financial Forecast (MTFF)</b> is the Council's key process for service and corporate financial planning, providing a forward view of the Council's financial position over the forthcoming five years and a framework to develop savings proposals to manage emerging budget gaps. This follows an annual cycle from initial scoping in February/ March through a robust challenge process involving both Senior Managers and Members to deliver a consultation budget in December before Council Tax setting for the subsequent financial year in February. A budget consultation report is also produced for each Policy Overview, Scrutiny &amp; Select Committee for discussion at the January round of meetings with any comments added to the final budget report in February. The Council also undertakes the statutory budget consultation process with business ratepayers and residents in the Borough across December and January with the responses included as an appendix to the final budget report. Throughout this process updates are communicated through key officer forums, such as CMT and Business Transformation Board, with regular monthly updates to HIP Steering Group through the Corporate Finance work stream.</li> </ul>	<p><a href="#">HIP</a></p> <p><a href="#">MTFF Budget Reports and Budget Consultation</a></p>

# Annual Governance Statement 2018/19

	<p>✓ LBH recognises there is a continued need for effective strategic and operational <b>risk management processes</b> and procedures. The Council has processes in place to identify and manage risks to the achievement of its objectives, as set out in the Risk Management Policy and Guidance 2017-20. The Corporate Risk Register is a part of this framework and is used to inform decision making, provide assurance over actions being taken to manage key risks, and to inform risk management planning and mitigation activities. Effective risk management helps to mitigate against the financial and reputation risks arising from the broad range of <b>insurable risks</b> to which LBH is exposed. It is anticipated that the LBH insurance contracts will support the transfer of financial risk through a mixed portfolio of suppliers specialising in particular insurance sectors, alongside actions by the Risk and Insurance Team to raise awareness of such risks.</p>	<p><a href="#">Risk Management Policy</a></p>
<p><b>3b</b> <b>Sustainable economic, social and environmental benefits</b></p>	<p>✓ Part 2, article 8 of the Constitution also sets out how the Authority works with its partners in LBH through the Health and Wellbeing Board, which is chaired by the Cabinet Member for Social Services, Housing, Health and Wellbeing and Chairman of Pensions Committee, which complies with the requirements of the Health and Social Care Act 2012. The <b>Health and Wellbeing Board</b> seeks to improve the quality of life of the local population and provide high-level collaboration between LBH, the NHS and other agencies to develop and oversee the strategy and commissioning of local health and social care services.</p> <p>✓ The <b>Safer Hillingdon Partnership (SHP)</b> is the statutory Community Safety Partnership for the borough established under the Crime and Disorder Act 1998, the Police and Justice Act 2006 and Police and Crime Act 2009. The SHP has a duty to conduct an annual strategic assessment of community safety trends and agree key community safety priorities for implementation across the partnership. Performance and progress made against the annual plan is monitored and scrutinised by the SHP Board at every meeting. The relevant Cabinet Member is a member of the SHP Board. Scrutiny of the SHP Board's performance is undertaken by elected councillors sitting on the Council's External Services Policy Overview Committee.</p> <p>✓ LBH has introduced a significant number of measures to improve air quality in the borough as set out in the <b>Air Quality Action Plan</b>.</p> <p>✓ The <b>Homelessness Prevention Strategy 2017-2022</b> demonstrates the Council's commitment to preventing homelessness and supporting those who become homeless. It sets out how the Council will work with partner agencies to intervene early to prevent homelessness wherever possible and to access suitable housing and support solutions for those faced with homelessness.</p> <p>✓ LBH is on track to achieve its equality-related objectives (set in April 2018) as part of the <b>Council's Public Sector Equality Duty</b> set out in the Equality Act 2010.</p>	<p><a href="#">Constitution</a></p> <p><a href="#">Safer Hillingdon Partnership</a></p> <p><a href="#">Air Quality Action Plan</a></p> <p><a href="#">Homelessness Prevention Strategy</a></p> <p><a href="#">Promoting Equality Targets</a></p>

# Annual Governance Statement 2018/19

4. Determining the interventions necessary to optimise the achievement of the intended outcomes		
The Council's Commitment	How the Council meets these principles	Governance in action
<b>4a Determining interventions</b>	<ul style="list-style-type: none"> <li>✓ Decision makers receive accurate, relevant and timely performance and intelligence to support objective and analysis of options, intended outcomes, financial impact and associated risks informing service delivery.</li> <li>✓ LBH's <b>Constitution</b> sets out how the authority operates, how decisions are made, and the procedures that are followed to ensure that they are efficient, transparent and accountable to local people. The Constitution is reviewed at full Council meetings as required and also more comprehensively on an annual basis at each Annual General Meeting, as required.</li> <li>✓ Part 2 of the Constitution outlines the <b>roles and responsibilities</b> of the Executive, Non-executive, Mayoralty, Overview, Scrutiny and Select Committees, Standards Committee and officer functions. Part 5 of the Constitution sets out the framework governing the conduct of Members and co-opted members and comprise of:               <ul style="list-style-type: none"> <li>• A structure of the Leader of the Council, a Cabinet, Regulatory Committees and Policy Overview, Scrutiny and Select Committees;</li> <li>• A Corporate Management Team;</li> <li>• Senior Management Teams;</li> <li>• The Audit Committee, led by an Independent Chairman; and</li> <li>• The Standards Committee and a Code of Conduct for Members and Co-opted Members.</li> </ul> </li> <li>✓ Part 2, article 7.08 of the Constitution sets out the '<b>Cabinet Scheme of Delegations</b>'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet Members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Directors' responsibilities. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions.</li> <li>✓ Part 3 of the Constitution sets out the '<b>Scheme of Delegations to Officers</b>'. This governs the responsibilities allocated to officers to perform the authority's activities. Details of what decisions are taken in this way are included in the Scheme of Delegation in the Council's Constitution. Further specific delegations may be granted through recommendation in public reports to Committees.</li> <li>✓ The schemes are updated when required to reflect changes to Corporate Directors' responsibilities in line with business priorities. Each Directorate has individual Schemes of Delegations, setting out how Corporate Directors' responsibilities are sub-delegated.</li> </ul>	<a href="#">Constitution</a>

# Annual Governance Statement 2018/19

<b>4b Planning interventions</b>	<ul style="list-style-type: none"> <li>✓ The Council plans its activity at a strategic level through its HIP which aims to deliver excellence.</li> <li>✓ The effectiveness of the Council's interventions and the quality of its services is monitored through the provision of regular performance reports showing progress towards goals and targets set in the budget and business plans. Key areas are highlighted so that decision-makers can take corrective action where necessary.</li> </ul>	
<b>4c Optimising achievement of intended outcomes</b>	<ul style="list-style-type: none"> <li>✓ The <b>Business Improvement Delivery (BID)</b> programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates without reducing service delivery to residents. Through the programme, savings of £10.7 million are being delivered for 2018/19, taking total savings since 2010 to approximately £133.6 million. The BID programme delivery and expenditure is overseen by the Leader of the Council and the Deputy Chief Executive and Corporate Director of Residents Services.</li> <li>✓ The Council integrates and balances service priorities, affordability and other resource constraints, to take into account the cost of operations over the medium and longer term including revenue and capital spend budgets.</li> <li>✓ The <b>Public Services (Social Value) Act 2012</b> is considered by Procurement during every tender.</li> </ul>	<p><a href="#">HIP &amp; BID programme</a></p> <p><a href="#">Public Services Act</a></p>
<b>5. Developing the entity's capacity, including the capability of its leadership and the individuals within it</b>		
<b>The Council's Commitment</b>	<b>How the Council meets these principles</b>	<b>Governance in action</b>
<b>5a Developing the organisation's capacity</b>	<ul style="list-style-type: none"> <li>✓ Please refer to <b>principle 3a</b> for further information on <b>HIP</b>.</li> <li>✓ Please refer to <b>principle 4c</b> for further information on <b>BID</b>.</li> </ul>	<p><a href="#">HIP</a></p>
<b>5b Developing the capability of the organisation's leadership and other individuals</b>	<ul style="list-style-type: none"> <li>✓ The Leader of the Council and the Chief Executive have defined roles and maintain a shared understanding of roles and objectives. The Chief Executive leads on implementing strategy and managing service delivery.</li> <li>✓ LBH maintains a <b>Scheme of Delegation</b> setting out which decisions and powers have been delegated.</li> <li>✓ A <b>training programme for Members</b> is conducted in each municipal year. All new Members are trained on the Code of Conduct by the Borough Solicitor and Head of Democratic Services and refresher training is delivered where appropriate. Complaints about alleged breaches of the Code are handled in accordance with the requirements of the Localism Act 2011. The Standards framework includes a 'Whips Protocol' which complainants are expected to make use of first, with complaints only escalated to the Monitoring Officer and Standards Committee if they cannot be resolved through this process. LBH has put in place an induction and training programme for Members along with specific training on scrutiny, planning, audit and licensing rules.</li> </ul>	<p><a href="#">Constitution</a></p>

# Annual Governance Statement 2018/19

	<ul style="list-style-type: none"> <li>✓ LBH's <b>training and development programme</b> enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning &amp; Development pages on LBH's intranet. This helps ensure they have the skills, knowledge and behaviours to deliver the Council's priorities. This training includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework.</li> <li>✓ The <b>Hillingdon Academy</b> is now well established as a leadership programme aimed at providing the Council's future leaders, offering staff the opportunity to achieve professional qualifications and meet their Continuing Professional Development (CPD) requirements. In addition, the Council runs an all-age <b>apprenticeship programme</b>, where apprentices help deliver our vision of 'putting our residents first' while gaining essential vocational skills and qualifications.</li> <li>✓ The <b>Performance and Development Appraisal (PADA)</b> process at LBH requires all staff to record employees' key objectives and tasks, set targets for when these must be delivered and identify staff learning and development needs. There are competency frameworks for all levels of staff (updated this year), with descriptors outlining the performance that is expected at each level. Performance reviews are required to be completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support all staff and managers through the process.</li> <li>✓ LBH has been awarded the London Healthy Workplace Award and is committed to promoting the <b>physical and mental health and wellbeing of the workforce</b> through both specific interventions and as a central part of the role of all managers. There is a dedicated programme with a wide range of support and guidance for employees and their managers covering health and wellbeing initiatives and a 24/7 Employee Assistance Programme.</li> <li>✓ The Council has an open approach to external, peer review and inspection and actively considers feedback.</li> </ul>	<a href="#">Apprenticeship Programme</a>
6. Managing risks and performance through robust internal control and strong public financial management		
The Council's Commitment	How the Council meets these principles	Governance in action
<b>6a</b> <b>Managing risk</b>	<ul style="list-style-type: none"> <li>✓ LBH has established an effective <b>Risk Management Framework</b> that aids decision-making in pursuit of the organisation's strategic objectives, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations.</li> <li>✓ The <b>Risk Management Policy and Guidance</b> outlines the roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. The Corporate Risk Register (CRR) enables the identification, quantification and management of key strategic risks. Directorate Risk Registers are updated quarterly, reviewed by each Senior Management Team and the most significant risks are escalated to the CRR where appropriate. The Head of Business Assurance has overall responsibility for the facilitation of the Council's Risk Management Framework and work in this area is ongoing. LBH's Risk Management framework is reviewed annually by the Business Assurance team, Corporate Management Team and the Audit Committee.</li> </ul>	<a href="#">Risk Management Policy</a>

# Annual Governance Statement 2018/19

	<ul style="list-style-type: none"> <li>✓ A <b>Corporate Risk Management Group (CRMG)</b>, chaired by the Corporate Director of Finance, reviews the CRR on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The CRR is presented to the Audit Committee in the following quarter. Where appropriate, the MTFE embraces the potential financial impact of significant risks.</li> <li>✓ <b>Risk Management training</b> for staff and Audit Committee Members is available via an e-learning training module and compulsory for managers as part of the induction process. Completion rates have been steady and Business Assurance continues to raise awareness and promote the module via staff publications.</li> <li>✓ An updated combined <b>GDPR training programme</b> was rolled out to staff in March 2018 to raise awareness and train staff on the new data protection requirements. This training forms part of the mandatory induction process for new staff and was included as a Performance and Development Appraisal objective.</li> <li>✓ The Council's <b>health and safety management system</b> assists in managing health and safety for the council's undertakings, integrating health and safety and the assessment of risk into the Council's daily business.</li> </ul>	
<b>6b Managing performance</b>	<ul style="list-style-type: none"> <li>✓ The Council puts in place <b>Key Performance Indicators (KPIs)</b> to monitor service delivery whether services are produced internally or through external providers. Reports compiling KPIs are submitted to SMTs, CMTs and Members to support transparency and resource allocation to address challenges.</li> <li>✓ The Council ensures that external companies who deliver services have an understanding of expected contract performance, and monitoring takes place throughout the contract period.</li> </ul>	
<b>6c Effective overview and scrutiny</b>	<ul style="list-style-type: none"> <li>✓ Part 2, articles 6 and 8 and Part 4E of the Constitution set out how the Council's non-executive decisions by Members are taken. <b>Policy Overview, Scrutiny and Select Committees</b> undertake regular monitoring of services, performance, the budget and an annual programme of major, Member-led service reviews involving witness testimony aimed at influencing Executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained elected Councillors, in accordance with the Council's ethical standards.</li> </ul>	<a href="#">Policy Overview, Scrutiny and Select Committees</a>
<b>6d Robust internal control</b>	<ul style="list-style-type: none"> <li>✓ LBH has robust internal control processes which support the achievement of its objectives while managing risks. LBH's approach is set out in the <b>Annual Corporate Risk Management report</b>, and <b>Internal Audit Plan</b>.</li> <li>✓ An <b>Independently Chaired Audit Committee</b> operates to oversee financial reporting, provide scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference which are generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities 2005'.</li> <li>✓ LBH maintains policies and arrangements in respect of <b>counter fraud and anti-corruption</b> which include: Anti-Fraud and Anti Corruption; Whistleblowing; Anti Money Laundering and Anti Bribery Policies.</li> </ul>	<a href="#">Audit Committee Terms of Reference</a>

# Annual Governance Statement 2018/19

	<ul style="list-style-type: none"> <li>✓ An <b>assessment of the overall effectiveness of the framework of governance</b>, risk management and control is provided by the Council's Internal Audit in the Business Assurance (&amp; Head of Internal Audit) Annual Opinion.</li> <li>✓ LBH has <b>robust expenditure controls</b> in place to facilitate compliance with Standing Orders and financial regulations. This includes a comprehensive capital release process for the approved MTFF Capital Programme and wider expenditure control processes which are referenced in <b>principle 4a</b>.</li> <li>✓ The Head of Internal Audit has additional responsibilities outside of internal auditing. Safeguards to address any potential impairment to organisational independence of the internal audit activity or the individual objectivity are in place and include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes. Internal Audit have conducted 3 assurance reviews related to the areas of additional responsibility and the Head of Internal Audit was not included in the reviewing process to obtain assurance.</li> </ul>	
<p><b>6e</b> <b>Managing data</b></p>	<ul style="list-style-type: none"> <li>✓ The Council is committed to safeguarding the personal data it holds and sharing this data only in circumstances required or permitted by law. Personal data is processed in accordance with the <b>General Data Protection Regulations (GDPR)</b> and the Data Protection Act 2018.</li> <li>✓ All personal information LBH keeps is stored safely, only accessed by people who need to access it, used safely and responsibly, and disposed of safely and securely when it is no longer required. This also includes transporting data, either physically or electronically.</li> <li>✓ A corporate officer group, the <b>Hillingdon Information Assurance Group (HIAG)</b>, chaired by the Senior Information Risk Owner (the Head of Business Assurance) on behalf of the Corporate Management Team, meets every quarter to review progress on the agreed Information Governance Improvement Action Plan (IGIAP). Relevant policies, procedures and guidelines for staff are updated in line with the IGIAP. Where identified, learning from any data protection incidents that have occurred is integrated into the IGIAP. As a result of the introduction of the GDPR in May 2018, LBH reviewed all of its data protection policies and procedures.</li> <li>✓ Following the introduction of the <b>General Data Protection Regulation (GDPR)</b> LBH updated its data protection procedures and training programme, which was rolled out to all staff and Members in March 2018. The training programme which included legislative changes and revised working practices was mandatory and completion rates were monitored at Corporate Director level. The revised training programme forms part of the mandatory induction process for all new staff and included as a Performance and Development Appraisal objective.</li> <li>✓ The Corporate Director, Social Care, is the appointed <b>Caldicott Guardian</b> and plays a key role in ensuring that LBH satisfies the highest practical standards for handling person identifiable information and embedding the 7 Caldicott Principles within practice.</li> <li>✓ The Council <b>regularly reviews policies</b> relating to records management, data quality, and data protection and information security. These policies are accessible by all staff via the intranet.</li> </ul>	<p><a href="#">GDPR Data Protection Policy</a></p> <p><a href="#">Information Governance Policy</a></p> <p><a href="#">HIAG Terms of Reference</a></p> <p><a href="#">The United Kingdom Caldicott Guardian</a></p>

# Annual Governance Statement 2018/19

	<ul style="list-style-type: none"> <li>✓ LBH passed the Code of Connection Audit in October 2018 ensuring our ICT Infrastructure is secure in order to gain access to the <b>Public Services Network (PSN)</b>. The PSN enables specific teams across the Council to directly access Government data which includes high risk data about individuals, such as social care issues.</li> <li>✓ LBH is committed to sharing appropriate data safely with agencies; where this improves effective and efficient service delivery, and is compatible with the rights of individuals. Further to this, LBH is compliant with the <b>Data Security and Protection Toolkit</b> requirements in order to access systems and data provided by the NHS.</li> <li>✓ LBH conducts <b>Data Protection (DP) compliance checks</b> throughout the Civic Centre and uses communication campaigns; email reminders signposting to information protection principles and guidance. The DP compliance checks and raising awareness provides assurance over the Council's adherence to the GDPR and to remind staff of their responsibility to take due care to protect information. Where data protection breaches occur, managers take appropriate remedial action which is then documented under the staff supervision procedures.</li> <li>✓ The Council makes information available to the public via the information access regimes provided for by the <b>Freedom of Information Act 2000</b> and the <b>Environmental Information Regulations 2004</b>. Individuals may access their own personal data by exercising the right of subject access under the Data Protection Act 2018.</li> </ul>	<p><a href="#">DSP Toolkit Guidance</a></p> <p><a href="#">FOI</a></p>
<p><b>6f Strong public financial management</b></p>	<ul style="list-style-type: none"> <li>✓ The Chief Finance Officer (CFO) (the Corporate Director of Finance) ensures that appropriate advice is given on all financial matters, proper financial records and accounts are kept and oversees an effective system of internal financial control. The CFO ensures well developed financial management is integrated at all levels of planning and control including management of financial risks, systems and processes. The Constitution (Part 4) details the financial regulations which underpin the financial arrangements.</li> <li>✓ Please refer to <b>principle 4c</b> for further information on <b>BID</b>.</li> <li>✓ In order to monitor the MTFF position and manage financial risk <b>comprehensive budget monitoring</b> is undertaken across the Council on a <b>monthly</b> basis and formally reported to Cabinet. Please refer to <b>principle 3a</b> for further information on the <b>MTFF</b>.</li> </ul>	<p><a href="#">Constitution</a></p>
<p><b>7. Implementing good practices in transparency, reporting and audit to deliver effective accountability</b></p>		
<p><b>The Council's Commitment</b></p>	<p><b>How the Council meets these principles</b></p>	<p><b>Governance in action</b></p>
<p><b>7a Implementing</b></p>	<ul style="list-style-type: none"> <li>✓ The Council follows the <b>Local Government Transparency Code 2015</b>, which includes requirements and recommendations for local authorities to publish certain types of data.</li> </ul>	<p><a href="#">Council Spending</a></p>



# Annual Governance Statement 2018/19

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

# Annual Governance Statement 2018/19

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## 6. Review of Effectiveness

- 6.1 The Council has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment. It is also informed by the Business Assurance Annual Internal Audit Report and Head of Internal Audit Opinion Statement, as well as comments and observations made by the Council's independently appointed external auditors (Ernst & Young), other review agencies and inspectorates.
- 6.2 The CIPFA/SOLACE 2016 Framework '*Delivering Good Governance in Local Government*' (Chapter 5), sets out seven principles of good practice. The review of effectiveness has considered each of the principles, including the sub-principles and behaviours and actions that demonstrate good governance in practice.
- 6.3 The review has also been informed by a range of management information and improvement action, including:
- 6.3.1 A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees as well as the Audit Committee.
  - 6.3.2 The role and responsibilities of the Corporate Director of Finance, detailed in the Finance Schemes of Delegation. As a key member of the Corporate Management Team leadership, his role is to act as, and exercise the functions of, the "Chief Finance Officer" meaning the officer designated under section 151 of the Local Government Act 1972. As such he is actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.
  - 6.3.3 The work of the external auditors as reported in their Annual Audit Letter. They carry out auditing of the Council's activities in accordance with the National Audit Office Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014. Their key responsibilities are to give an opinion on LBH's financial statements and assess arrangements for securing economy, efficiency and effectiveness in its use of resources.
  - 6.3.4 The work of Business Assurance, which develops its quarterly Internal Audit plans after assessment of risk and priorities including discussions with senior managers and reported quarterly to the CMT and the Audit Committee.
  - 6.3.5 Management Assurance Statements (MASs) were completed by all Deputy Directors and Heads of Service covering the financial year 2018/19. The MASs provide confirmation the control environment is operating effectively to safeguard delivery of services and that governance issues other than those identified in Section 3 have been raised and dealt with appropriately.
  - 6.3.6 LBH continued to maintain effective financial management throughout the financial year with unallocated reserves of £41.6 million as at 31<sup>st</sup> March 2019.
  - 6.3.7 LBH has a clear commitment to a capable and fit for purpose procurement function. Procurement ensures a best value approach to quality and expenditure commitment. By engaging with groups, Procurement supports the delivery of financial and service requirements to meet corporate objectives with a 'Residents First' approach.
- 6.4 The Head of Internal Audit has provided a 'reasonable' level of assurance on the Council's internal control environment for 2018/19.

# Glossary

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**ACCRUAL** - A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end of the period.

**ACCUMULATED ABSENCES ACCOUNT** - Absorbs the differences arising from the statutory requirement to neutralise the impact on the General Fund Balance of accruing for compensated absences earned but not taken in year.

**ACTUARIAL VALUATION** - A valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

**ACTUARY** - An independent professional who advises on the financial position of the pension fund.

**AGENCY SERVICES** - The provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

**AMORTISED COST** - The initial measurement will be at fair value, normally the amount of the originating transaction such as the receipt or loan advance less transaction costs. The effective interest rate is then calculated to the amount in the balance sheet at initial measurement. The result in the balance sheet carrying amount (the amortised cost) and a profile of interest charges that might be different from the amounts specified in the contract as being for interest and principal.

**ASSET** - Something that will be used by the Council over a long period of time and has a lasting value (e.g. land, buildings, and roads). See also **COMMUNITY ASSETS, NON CURRENT ASSET, INFRASTRUCTURE ASSETS, ASSETS HELD FOR SALE, NON-OPERATIONAL** and **OPERATIONAL ASSETS**.

**ASSETS HELD FOR SALE** - Assets that are being actively marketed for sale and are expected to be sold within the next financial year.

**BAD DEBT PROVISION** - Amounts set-aside in the accounts towards potentially irrecoverable debts. This amount is netted against Debtors in the Consolidated Balance Sheet.

**BALANCES** - Unallocated reserves held to resource unpredictable expenditure demands.

**BUDGET** - A statement of the Council's plans for services expressed in money shown over one or a number of years.

**CAPITAL ADJUSTMENT ACCOUNT** - The Capital Adjustment Account represents the balance of capital resources set aside to finance capital expenditure awaiting the consumption of those resources (i.e. depreciation or impairment).

**CAPITAL CHARGE** - A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

**CAPITAL EXPENDITURE** - Spending on assets (e.g. land, buildings, roads etc.) that adds to and not merely maintains the value of an existing fixed asset.

**CAPITAL RECEIPTS** - The proceeds from the sale of land, buildings or other assets. Capital receipts can be used to pay for new capital expenditure, within rules set down by the Government, or to repay outstanding loans.

**CASH EQUIVALENT** - Amounts held as short term deposits which are readily convertible into cash.

**CIPFA** - The Chartered Institute of Public Finance and Accountancy is the professional accounting body that specialises in the public services.

**COMMUNITY ASSETS** - Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**CONTINGENCY** - Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

# Glossary

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**CONTINGENT ASSET** - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

**CONTINGENT LIABILITY** - A contingent liability is either:

a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or

b) Past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

**CORPORATE AND DEMOCRATIC CORE** - The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities with a responsibility for making choices in the use of taxpayers' money. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

**COUNCIL TAX** - The local tax based on relative market values of residential property, which helps to fund local services.

**CREDITORS / PAYABLES** - Amounts owed by the Council for goods and services received where payment has not been made at the date of the balance sheet.

**CREDIT RISK** - Risk that other parties might fail to pay amounts due to the Council

**CURRENT ASSET** - An asset held, which will be consumed or cease to have value within the next financial year; examples are stocks and debtors.

**CURRENT LIABILITY** - An amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

**CURRENT SERVICE COST** - The increase in the present value of Pension Fund Liabilities expected to arise from current year service.

**DEBTORS / RECEIVABLES** - Amounts owed to the Council for goods and services provided but not received at the date of the balance sheet.

**DEDICATED SCHOOLS GRANT** - A specific grant for the funding of schools and which is ring fenced to the Schools Budget.

**DEPRECIATION** - The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

**DIRECT REVENUE FINANCING (revenue contributions to capital)** - Resources provided from the Council's revenue budget to finance the cost of capital projects.

**DISTRICT AUDITOR** - An auditor employed directly by the Audit Commission to audit the accounts of local authorities.

**EARMARKED RESERVES** - Amounts set aside for a specific purpose or a particular service or type of expenditure.

**EFFECTIVE INTEREST RATE** - The rate of interest that will discount the estimated cash flows that take place over the life of the instrument.

**EMOLUMENTS** - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

# Glossary

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**EXCEPTIONAL ITEMS** - Material items that fall within the ordinary activities of the Council that need to be disclosed in order to present the accounts fairly.

**EXTRAORDINARY ITEMS** - Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

**FAIR VALUE** - the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**FEES AND CHARGES** - Income raised by charging users of services.

**FINANCE LEASE** - A method of paying for capital expenditure where a rent is paid for an asset during its useful life. Finance Leases are treated as capital. See **OPERATING LEASE**.

**FINANCIAL YEAR** - The period covered by a set of financial accounts - the Council's financial year commences 1 April and finishes 31 March the following year.

**GENERAL RESERVE** - amounts remaining unspent on revenue account after taking account of all expenditure and income for the year. The General Reserve is required to enable the Council to meet potential business risks in the future so that services will not be affected financially should unexpected events occur.

**GOING CONCERN** - The concept that an entity will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assumes no intention to curtail significantly the scale of operations.

**GOVERNMENT GRANTS** - Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the Council.

**GROSS EXPENDITURE** - The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

**IMPAIRMENT** - A reduction in the value of a fixed asset below its previously assessed value in the balance sheet.

**INCOME** - Amounts due that has been or is expected to be received.

**INFRASTRUCTURE ASSETS** - Fixed assets that have no alternative use and are intended to be held in perpetuity. Examples of infrastructure assets are highways and footpaths.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)** - Statutory guidelines by which the accounts have to be prepared, implemented for the first time in the 2010/11 accounts.

**INVENTORIES** - The amount of unused or unconsumed stocks held in expectation for future use.

**INVESTMENT PROPERTIES** - Assets held solely for capital appreciation or to earn rental and not to meet service objectives.

**INVESTMENTS** - Short-term investments are those maturing within one year if the balance sheet date, any investments maturing more than one year after the balance sheet date are treated as long-term investments.

**LOANS AND RECEIVABLES** - Financial assets (excluding derivatives) that have fixed or determinate payments and that are not quoted in any in any active market. Loans and receivables are carried at amortised cost. The income and expenditure account is charged with interest receivable, impairment losses and any gain or loss on "de-recognition". Movements in fair value during the life of the asset are not recognised.

**LIABILITIES** - Money owed to individuals or organisations that will be paid at some time in the future.

# Glossary

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**LIQUIDITY RISK** - The risk that the Council might not have funds available to meet its commitments to make payments.

**MARKET RISK** - The risk that the Council will loss out financially as a result in market factors such as interest rates or stock market movements.

**MINIMUM REVENUE PROVISION - (MRP)** - The minimum amount, which must be charged each year to the Council's revenue account to set aside funds to repay the principal sum of borrowing for capital purposes.

**NATIONAL NON-DOMESTIC RATE (NNDR)** - A levy on businesses based on a national rate in the pound multiplied by the ratable value of the premises occupied. NNDR is redistributed among all local authorities and police authorities on the basis of population.

**NET BOOK VALUE** - The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**NET EXPENDITURE** - Gross expenditure less specific service income but before deduction of revenue support grant.

**NET CURRENT REPLACEMENT COST** - The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**NET REALISABLE VALUE** - The open market value of the asset in its existing use (open market value in the case of non-operational assets), or sale proceeds for stocks and stores less the expenses to be incurred in realising the asset.

**NON-CURRENT ASSET** - An asset that has value beyond one financial year.

**NON-DISTRIBUTABLE COST** - These include overheads for which no user now benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

**NON-OPERATIONAL ASSETS** - Non Current assets held by the Council not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets under construction and assets that are surplus to requirements, pending sale or redevelopment.

**OPERATIONAL ASSETS** - Non Current Assets held, occupied, used or contracted to be used on behalf of the Council or consumed by the Council in the direct delivery of the services for which it has a responsibility, whether statutory or discretionary or for the service or strategic objectives of the Council.

**OPERATING LEASE** - A lease under which the asset can never become the property of the lessee.

**OUTTURN** - Actual income and expenditure for a financial year.

**PAST SERVICE COST** - The increase in present value of Pension Fund liabilities arising in the current year from previous years' service.

**PENSION FUND** - The Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer and employees and from investment income.

**PENSION INTEREST COSTS** - Expected increases in present value of Pension Fund liabilities because benefits are due one year sooner.

**POST BALANCE SHEET EVENTS** - Those events, both favorable and unfavorable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

**PRECEPT** - The charge made by one authority on another to finance its net expenditure.

# Glossary

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**PRIOR YEAR ADJUSTMENTS** - Material adjustments applicable to prior years arising from changes in accounting policies or to correct errors.

**PRIVATE FINANCE INITIATIVE (PFI)** - A central government initiative that aims to increase the level of funding available for public services by attracting private involvement. The Council has one such scheme relating to the provision of Barnhill School. The school has been developed and its ancillary services are provided by a private-company with which the Council has a long-term contract.

**PROVISION FOR DISCOUNT AND PREMIUMS ON LOAN REDEMPTION** - A provision to spread over an appropriate period discounts received and premiums paid when loans from the Public Works Loan Board are prematurely repaid.

**PROVISION** - An amount, set-aside in the accounts, for liabilities that have to be met but where timing is uncertain.

**PRUDENCE** - The concept that revenue is not anticipated but is recognised only when realised in the form of cash or other assets and full and proper allowance is made for all known and foreseeable losses and liabilities.

**PUBLIC WORKS LOAN BOARD (PWLB)** - A government agency that provides long term and medium term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**RELATED PARTY** - Relationships between a senior officer or elected member or their families with another body that has, or might develop, a business relationship with the Council.

**RESERVES** - Money set aside by the authorities to meet particular expenditure in future years, which do not fall within the definition of provisions.

**REVALUATION RESERVE** - a new account opened on 1<sup>st</sup> April 2007 that records all accumulated gains from fixed assets held by the Council offset by that part of depreciation relating to the revaluation.

**REVENUE EXPENDITURE** - The day-to-day running costs incurred by the Council in providing services, for example payment of salaries to employees or purchase of materials.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE** - A charge arising from capital expenditure but where there is no tangible asset. An example is grants given for private property improvement. The Council is permitted to borrow for such expenditure

**REVENUE SUPPORT GRANT** - A grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

**SERCOP** - Service Reporting Code of Practice

**SOLACE** - Society of Local Authority Chief Executives

**SPECIFIC GRANTS** - These are grants paid by various government departments outside the main formula. They include ring-fenced grants and specific formula grants.

**SURPLUS ASSETS** - Assets which are no longer in use by the Council but which are not being actively marketed and are not expected to be sold within the next financial year.

**TAXBASE** - The number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its Council Tax, and when central government calculates entitlement to Formula Grant.

**TRANSFER VALUE** - A payment one superannuation fund makes to another when a member changes employment.

**TRUST FUNDS** - Money held in trust by the Council for a specified purpose.

**USABLE RESERVES** - Balances held by the Council which can be used to meet service expenditure.

# Glossary

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**UNUSABLE RESERVES** - Balances held by the Council which cannot be used to meet service expenditure

**USEFUL LIFE** - The period over which the Council will derive benefits from the use of a fixed asset.

**VIREMENT** - The permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head, i.e. an authorised switch of resources between budget heads.

**WORKS IN PROGRESS** - Cost of work done on an uncompleted project at the balance sheet date.

**YIELD** - The amount of cash (in percent terms) of the return on investing activities