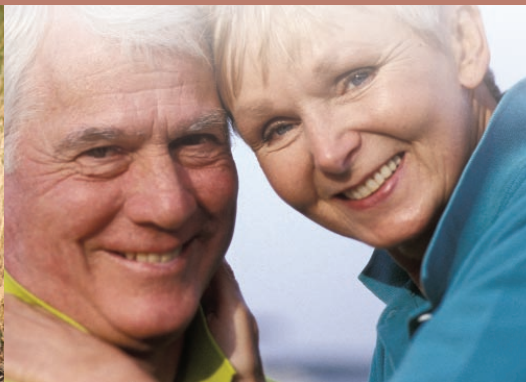


Working towards a better future

Hillingdon's Revenue and Capital Budgets 2003-2004



Statement of Accounts for the Year ended 31st March 2004

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1 Explanatory Foreword

Introduction

The annual accounts of the London Borough of Hillingdon for the year ended 31st March 2004 are set out on the following pages. The various statements include, where relevant, comparative figures relating to the previous financial year and supporting notes.

Financial Statements

The various financial statements that follow are prepared on an accruals basis and follow best practice recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Code of Practice on Local Authority Accounting in Great Britain. Further details of these requirements are detailed in the Statement of Accounting Policies. They summarise the overall financial position of the Council and in particular include the following accounts, statements, and funds.

Consolidated Revenue Account (page 20)

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

Consolidated Balance Sheet (page 29)

This sets out the assets and liabilities of the Council as at the 31st March 2004, but excludes the assets and liabilities of the Pension and Trust Funds.

Statement of Total Movement in Reserves (page 40)

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

Cash Flow Statement (page 44)

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

The Housing Revenue Account (page 48)

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

The Collection Fund Account (page 52)

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

Pension Fund Accounts (page 55)

This Fund is not included within the Council's Consolidated Balance Sheet, but is maintained separately. It provides for pensions and other benefits to Council employees, excluding teachers who have a separate national scheme.



2 Summary of the 2003/04 Financial Year

Revenue Budget

Hillingdon's net expenditure budget for 2003/04 was set at £269.8m which was a 10.8% increase on the previous year. The budget included a £1m addition to the Council's general reserves. Offsetting this is an increase in government grant of £16.367m, a 9.9% increase in cash terms, from 2002/03. This increase however is not a meaningful comparison on 2002/03 because the new Formula Grant includes sums that were previously received as specific grants in addition to the Revenue Support Grant. This has resulted in an increase of Council Tax of 13.52%. The 2003/04 budget contains growth of £17.7m and savings of £3.4m. Major items of additional expenditure agreed in the 2003/04 budget were:

- Requirement for schools to achieve the passporting objective £10.7m
- Funding to cover delayed discharges of residential placements, £1.0m
- Provision for loss of specific grants in Social Services, £1.9m
- General provision for increase in Environmental Services, £0.9m
- Increase in members allowances, £0.7m

During 2003/04 Cabinet received regular financial monitoring reports to enable it to ensure spending was being kept within approved budgets. The actual outturn for the year was £266.8m, which when compared to the budget excluding the planned addition to balances, showed an underspend of £1.9m (0.71%). The main variances were as follows:

Housing

- Additional costs on Housing Benefits (£347k)
- Savings on Homelessness due to the use of Private Sector Leasing accommodation (£707k)
- Savings on other housing services (£76k)

Education

- Savings on support services salaries budget in respect of special educational needs (£283k)
- Increased expenditure on premature retirement compensation (£250k)
- Compensating savings on support and other services including Lifelong Learning (£266k)
- Lower costs on Ruislip High School PFI scheme and asset management activities (£102k)

Central Services

- Refund in respect of the Council's rate bills following a review of the current rating list (£1,620k)
- Additional expenditure on agency staff to cover staff vacancies in Legal and Finance Services £469k

The overall position for the year resulted in the General Fund useable balances increasing from £3.6m at the beginning of the year to £6.5m at the end of the year.

Chart 1
Net Expenditure on Council Services

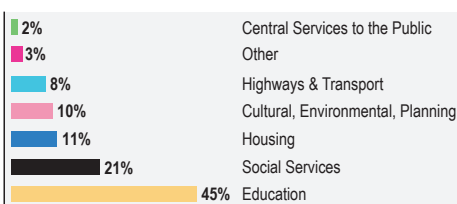


Chart 1 shows the distribution of 2003/04 net expenditure between the different services of the Council.

Chart 2
Sources of Councils Revenue Income 2003/04

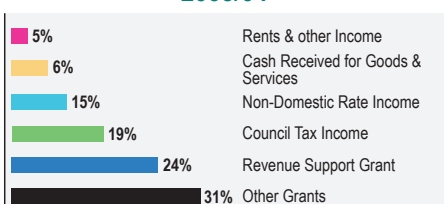
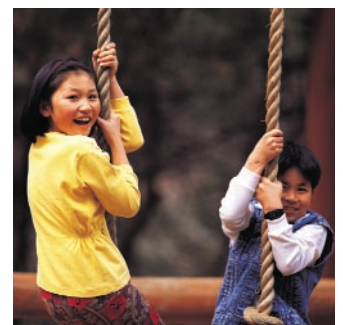


Chart 2 shows the source of the Council's Revenue Income for 2003/04.



“The London Borough of Hillingdon's net expenditure budget for 2003/04 was set at £269.8m”



2 Summary of the 2003/04 Financial Year

Capital Budget

Capital Investment for the year totalled £39.1m (page 31). Capital receipts in the year amounted to £22.4m (page 42), of which £13.4m had to be set aside to repay debt. The remaining £9m was added to balances brought forward and £5.8m was applied to funding in the year. Long-term debt outstanding decreased during the year by £2m to £72.5m (page 34). The main source of borrowing is the Public Works Loan Board (£48.5m).

Chart 3
Capital Expenditure
2003/04

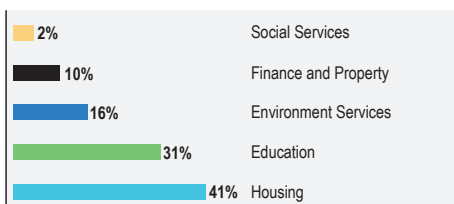


Chart 3 shows the breakdown of the total capital expenditure of £39.1m for 2003/04 split between the service areas.

Chart 2
Sources of Finance for Capital 2003/04

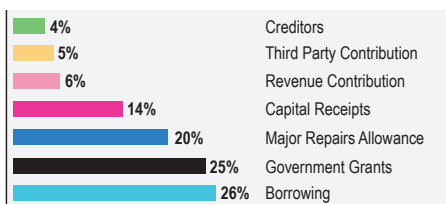


Chart 4 shows the major sources of financing for Capital Expenditure. In 2003/04.

Collection Fund

Income from taxpayers amounted to £108.3m, which includes £14.9m in respect of Council Tax benefits. Business rate income collectable to be paid over to the national pool amounted to £227.8m. At the end of the year, the Collection Fund had a deficit of £0.38m respect of Council Tax. This will be distributed in future financial years to the Council and the Greater London Authority, in proportion to the value of the respective demands on the Collection Fund. The Fund also had a surplus of £0.015m relating to prior year community charges that will be transferred to the General Fund in future years. The Council Tax collection rate for 2003/04 was 95.5% compared to 95.2% in 2002/03.

Balances

Excluding earmarked balances, the General Fund balance at 31st March 2004 is now £6.5m, an increase of £2.9m on the previous year. This comprising the £1m budgeted addition to reserves plus the £1.9m underspend. A further £5.268m balances are earmarked as schools delegated funds. The statutory parking earmarked balance is now £0.9m, a decrease of £0.28m on last year.

Accounting for Pensions

In 2003/04, the Council has changed its treatment of pension costs, as it now has to adopt in full the requirements of FRS17 Retirement Benefits. Details of the FRS17 disclosures are shown in the Statement of Accounting Policies (page 15), Revenue Account (Note 7, page 24) and in the Balance Sheet (Note 23, page 38).

The latest annual performance review of the Council's pension fund, carried out independently by Russell/Melon CAPS (Combines Actuarial Performance Services) Ltd, shows that for the year ended 31 March 2004 the funds return was 28.1%. This exceeded the benchmark return of 26.1% by 2%. The main contributing factors were favourable stock selection in UK equities and good strategy in UK gilts and UK bonds. Out of the 100 UK local authority pension schemes included in the review Hillingdon was ranked 3rd. Further information on London Borough of Hillingdon's Pension Fund is shown in the Pension Fund (pages 56 to 63).



“the Council has changed its treatment of pension costs, as it now has to adopt in full the requirements of FRS17 Retirement Benefits”

Summary of the 2003/04 Financial Year

Treasury Management

During 2003/04, long-term debt was reduced by £11m from £85m to £74m. These totals include long-term debt due within a year, which is classified as temporary borrowing in the Consolidated Balance Sheet. The average debt portfolio interest rate fell from 7.93% to 6.22%. Interest paid in the year was £5.16m, a reduction of £2.39m from the previous year. The steady reduction in the average rate reflects the strategy of repaying higher rated debt before maturity and the policy of controlling the amount of debt that has to be refinanced each year.

Investments as of 31 March 2004 stood at £6.6m (£6m at 31 March 2003) whilst the average for the year was £21.42m (£36.8m in 2003/04). The fall in average investments reflects the policy to use internal funds for new expenditure. Total interest earned on Council funds in 2003/04 was £619k. The average rate of return was 3.73%, 0.25% higher than the benchmark 7-day LIBID return.

£30m debt was repaid in the year at an average rate of 8.8% and £19m borrowed for 34-41 years at an average fixed rate of 0.95% for 2003/04 followed by a variable rate of 4.52%. The replacement of higher rated loans with significantly lower rated loans reduces debt charges in the form of reduced interest costs for 2003/04 and for future years. The proportion of the premium relating to the General Fund for the premature repayment is charged to the General Fund on a reducing balance basis at 4% as part of the Minimum Revenue Provision (MRP).

Hillingdon Homes Ltd

In May 2003, the Council transferred responsibility for the management of its housing stock to Hillingdon Homes Ltd, an Arms Length Management Organisation (ALMO), wholly owned by the Council.

A summary of the Hillingdon Homes Ltd 2003/04 accounts is attached on page 64.

Outlook

The London Borough of Hillingdon's budget requirement for 2004/05, as agreed at Council on 26 February, is £285.667m. This includes a contingency provision of £2.4m and use of £0.8m in reserves. This represents an increase of 5.88% on the budget requirement for 2003/04.

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

The 2004/05 budget included growth items totalling £13.3m, and budget reductions of £3.9m. Major items of additional expenditure agreed as part of the budget for 2004/05 included:

- Passporting of the increase in funding to schools: £9.4m
- Performance improvements and modernisation in Social Services: £1.2m
- Growth in Youth and Library Services of £0.5m
- Additional financing costs of increased capital programme expenditure: £0.3m



“the Council still managed to achieve the second lowest increase in council tax of all outer London Boroughs.”



Statement of Responsibilities for the Statement of Accounts

1. The Authority's Responsibilities

The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Director of Finance.
- To manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets.
- Approve the statement of accounts

2. The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's statement of accounts that present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2004.

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

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice

The Director of Finance has also:

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

3. Director of Finance's Approval of Accounts

I certify these accounts present fairly the financial position of the London Borough of Hillingdon, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('The Code of Practice'), as at 31st March 2004 and its income and expenditure for the year then ended.

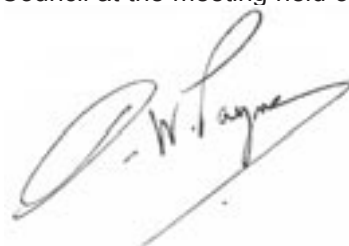
Christopher Neale
DIRECTOR OF FINANCE
 22nd July 2004



Council Certificate for the Approval of the Accounts

I confirm that these accounts were approved by the Council at the meeting held on 22nd July 2004.

Signed on behalf of London Borough of Hillingdon



Councillor D. Payne
MAYOR OF HILLINGDON
 22nd July 2004



4 Statement on Internal Control

1. Scope of Responsibility

Hillingdon is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently, and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims, and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Hillingdon's policies, aims, and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically.

Hillingdon's system of internal control has been in place for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts.

3. The Internal Control Environment

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

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

Hillingdon's priorities are set out in the Leader's Statement, the Community Plan 2003 "Working together for a better future" and the annual Best Value Performance Plan (BVPP). These aims and objectives flow through to department's individual service plans to ensure that all service plans reflect corporate priorities.

The Council has recently concluded negotiations for a local public service agreement with central government to deliver specified improvements in its major service areas by 2006. Targets include improving school attendance and reducing truancy, improving the quality of life and independence of older people and to improve the street scene.

ii) Facilitation of policy and decision-making

The Council adopted a Code of Corporate Governance in October 2002 based on a CIPFA/SOLACE framework. The Council's adherence to this Code was reviewed by Senior Management and Internal audit and their findings were reported to Cabinet in October 2003. The review concluded that overall the level of adherence to the code is high. However developing the role of scrutiny, the limited evidence of an outsourcing culture and the efficiency of handling Member enquires, were areas where improvements could be made that were drawn to Cabinet's attention.

iii) Effective Risk Management

During 2003/04 Hillingdon has developed its risk management policy. By including risk management in the budget planning process and the Committee reporting process it has tried to ensure that risk management is embedded across the Council. A comprehensive risk register, which identifies the notable risks faced by the Council at both departmental and corporate level, has been developed.



“Performance against these objectives is reported to all management teams, to the Management Board, and to the Cabinet”



iv) Ensuring economical, effective and efficient use of resources.

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

v) Financial Management

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

During 2003/04 this included a comprehensive budget setting system for both revenue, capital and financial management guidelines with which all budget managers have to adhere. Also introduced were project management procedures to ensure effective management of the capital programme and clearly defined capital expenditure guidelines.

vi) Performance Management

Performance against Council objectives and targets is reported to all management teams and to the Management Board. The quarterly reporting of progress to the Cabinet is an effective mechanism for monitoring delivery and recording achievements of the Leader's Statement. Hillingdon is also subject to external reviews, including audits of the Best Value Performance Indicators, the Social Services Inspectorate and the annual Comprehensive Performance Assessment.

4. Review of Effectiveness

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

An assurance framework to help evidence internal control was introduced in 2002/03. This framework was developed during 2003/04 to provide the necessary evidence of an effective system of internal control. This includes the following:

i) The Authority and the Executive

Performance against Council objectives and targets is regularly reviewed by management teams, Management Board and the Executive. Decision making is carried out in accordance with the Council's Constitution. A Forward Plan lists all the decisions proposed to be taken by the Executive of the Council which ensures that all key decisions are identified.

The risk register is subject to quarterly review by the Council's Management Board and departmental risks have been reviewed by Cabinet Portfolio holders. These reviews require Management Board to continually agree the top risks faced by the Council and ensure that controls are developed to manage these risks. The risk management policy is backed up by a training programme and a risk management manual. The Council is seeking to continuously improve its risk management arrangements to ensure they are fully embedded across the Council.

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



“The risk register is subject to a quarterly review by the Council’s management board and departmental risks have been reviewed by the Cabinet Portfolio holders”



ii) Overview and Scrutiny group

The Overview and Scrutiny process has been designed to provide an opportunity to investigate decisions made by the Council's Cabinet, put forward recommendations for how the Council can carry out its functions and also consider health provision within the local area. This is done by undertaking a number of specific reviews over the course of a year and monitoring selected areas of Council performance.

Overview and Scrutiny in Hillingdon consists of 6 committees and their work is pulled together by the Co-ordinating Committee, which is made up of the chairmen of the other committees.

iii) Internal Audit

The Internal Audit Service reports to the Director of Finance. It operates to the Code of Practice issued by CIPFA and adopts recommended practices promoted by the Institute of Internal Auditors and other relevant bodies. One of the roles of the Internal Audit Service is to review, appraise and report on the soundness, adequacy and application of internal controls. Their conclusions, based on findings arising from analysis and testing, are included in internal audit reports presented to management.

The Head of Internal Audit provides an annual independent view on the adequacy and effectiveness of the internal control systems. The 2003/04 Internal Audit Annual Report, reported to Corporate Services Overview and Scrutiny Committee in July 2004, states that in general systems of internal control were operating satisfactorily. Although areas of weak control do exist they were not considered to be significant and recommendations have been made to strengthen the control environment. Further details of the areas of weak control are provided in section 5 below.

iv) Other Reviews

The Council's external auditor, the Audit Commission, undertake three main elements of audit work: accounts, financial aspects of corporate governance and performance management. Following conclusion of the audit of the 2002/03 Statement of Accounts they issued an unqualified opinion in December 2003. On financial management they concluded that arrangements are adequate although they emphasised the need for further contributions to balances. A major step in this direction has been achieved through the addition of £2.9m to General Fund balances in 2003/04.

Social Services Inspectorate provides an overall view of Social Services departments' performance. The Performance Review Report issued in 2003 highlighted improvements observed since the previous annual review, areas for improvement and capacity for improvement.

The Council have been advised on the implications of the result of the review of the internal control system's effectiveness by Officers, the Executive and the Overview and Scrutiny Co-ordinating Committee, and plan to address weaknesses and ensure continuous improvement of the system is in place.



“The Performance Review Report issued in 2003 highlighted improvements observed since the previous annual review, areas for improvement and capacity for improvement”

5. Significant Internal Control Issues

The review of the internal control system's effectiveness raised the following issues that are being addressed.

i) Proper and timely funding for asylum related costs has been highlighted as a key risk on the corporate risk register. The Council are petitioning the relevant government departments to introduce a more reliable funding regime, as the current system creates uncertainty about resources in the Council's medium term financial strategy.

ii) Internal Audit, in their annual report, identified three schools as having significant control weaknesses, mainly in respect of budgetary and financial control. Internal Audit is working with these schools and the LEA to rectify the problem.

iii) Based on the systems audits undertaken during 2003/04 Internal Audit also reported where controls could be strengthened across key areas, including Payroll, Sundry Debtors, Council Tax and VAT. They identified weaknesses in the sundry debtors' procedures followed by service departments, which reduce the effectiveness and efficiency for the collection, monitoring and recovery of outstanding debt. They also highlighted the need for a fundamental review of the processes for the verification of the Council Tax Single Person Discount claims to ensure discounts are only applied where appropriate. Internal audit noted that the previous control weaknesses in the revenues and benefits IT system were resolved during 2003/04 following the implementation of a new IT system. Recommendations to address any weaknesses have been made and progress on implementing the changes will be monitored.

iv) The Audit Commission highlighted weaknesses in reconciling some control accounts and subsidiary bank accounts. In order to address this issue the Council has developed a monthly digest to monitor the reconciliation of control accounts. The Audit Commission also raised concerns about the need to ensure all procedures are documented. This is being addressed through the process management work of the Hillingdon Improvement programme.

v) During 2003/04 the level of general balances rose 80% to £6.5m However this is still less than the level of balances recommended by CIPFA.

Cllr Ray Puddifoot
Leader of the Council

Dorian Leatham
Chief Executive

Christopher Neale
Director Of Finance



Independent auditor's report to the London Borough of Hillingdon

We have audited the financial statements on pages 15 to 63 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 15 to 19 and the Pension Fund accounts, on pages 55 to 63, which have been prepared in accordance with the accounting policies applicable to pension funds set out on page 57.

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

Respective Responsibilities of the Director of Finance and Auditor

As described on page 8, the Director of Finance is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements present fairly:

- the financial position of the Council and its income and expenditure for the year
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year

We review whether the statement on internal control on pages 9 to 12 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

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



Audit Certificate and Opinion

Basis of audit opinion

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

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

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

Opinion

In our opinion the financial statements present fairly the financial position of London Borough of Hillingdon as at 31 March 2004 and its income and expenditure for the year then ended.

Opinion on the Pension Fund accounts

In our opinion, the financial statements present fairly the financial transactions of London Borough of Hillingdon Pension Fund during the year ended 31 March 2004, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Certificate

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

Martin Searle

Audit Manager
Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4QP
30 November 2004



The Accounts have been prepared in accordance with the 2003 Code of Practice on Local Authority Accounting, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), Statements of Standard Accounting Practice (SSAP), and Financial Reporting Standards (FRS).

Any departures from recommended practices are stated within this section and/or within the notes to the accounts.

1. Fixed Assets

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

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

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

Plant and machinery forming an integral part of the property is included in the valuation of the buildings. Other plant and machinery has been given a value on the basis of historic costs.

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

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

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



“Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the authority for a period of more than one year”



2. Capital Receipts

Receipts from the disposal of fixed assets is accounted on an accruals basis. Legislation prescribes that certain proportions of these capital receipts must be set aside, as a Provision for Credit Liabilities, to repay loan debt. Such receipts that are not set aside for the repayment of external loans, and have not been used to finance capital expenditure, are included in the balance sheet as Useable Capital Receipts.

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

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

3. Depreciation

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

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

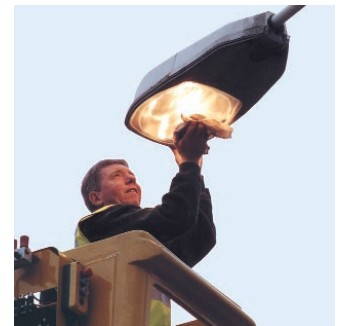
Depreciation is calculated using the straight line method based on the following useful lives:

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

4. Charges to Revenue

Services revenue accounts, central support services, and statutory trading accounts are charged with a capital charge for all fixed assets used in the provision of services. The total capital charge is made up of depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. For 2003/04, the notional rates of interest set by CIPFA were 3.5% for assets at current value and 4.25% for assets at historic costs. The aggregate charge to individual services is determined on the basis of the capital employed in each service. The capital financing charge to services is credited to the asset management revenue account and the depreciation credited to the contribution to capital financing reserve. This ensures that capital charges have a neutral impact on the amounts required to be raised from local taxation.

The Council's policy has been amended in 2003/04 so that the charge is calculated on the opening value of the asset as at 1st April 2003. No adjustment to the capital charge is made for disposals and additions of assets made during the year. This change is to enable a timely closure of the accounts and it has resulted in a one off reduction in capital charges across all services of £637k



“Some land and property may be sold at a discount or at nil value to housing associations in return for nomination rights”



Amounts are set aside from revenue for the repayment of external loans, to finance capital expenditure, or as transfers to other earmarked reserves. These are disclosed separately as appropriations on the face of the consolidated revenue account, below net operating expenditure.

Regulations issued in August 2000 allowed premiums to be treated as a charge against an authority's statutory provision for credit liabilities. In 2003/04, the Council incurred premiums of £1.9m in redeeming loans. In line with CIPFA guidance, this has been written off as a loss on the early settlement of borrowing (page 16). An equivalent sum was credited to the Consolidated Revenue Account as an appropriation from the Capital Financing Reserve (see page 42), and the authority's credit ceiling has been increased in compliance with the Government's new regulations.

5. Deferred Charges

Deferred charges represent expenditure that may properly be capitalised, but which does not represent tangible fixed assets, for example, housing association grants, capital expenditure on foundation schools, and housing improvement grants. Deferred charges are amortised to revenue over a period reflecting the benefit gained by services from the expenditure. Following a review of amortisation periods in 2002/03, the period for writing back Housing Association Grants has been reduced from 25 years to 5 years.

6. Leasing

Where assets are acquired under finance leases, these are also capitalised in the authority's accounts, on the basis of the finance lease together with the liability to pay future rentals. Finance costs, including interest payable on finance leases, are charged to the asset management revenue account. The Council has three finance leases with the Ealing Family Housing Association for 102 dwellings. Further details are provided in Note 21 to the Consolidated Balance Sheet. The Council also has acquired vehicles and plant under operating leases.

7. Long Term Contracts

The Council has entered into two long-term contracts for the provision of older peoples' residential and nursing care. In addition, the Council has one Private Finance Initiative contract to build and facilities manage the Barnhill Community High School. Further details of these contracts are provided in Note 15 (page 27) to the Consolidated Revenue Account.

8. Debtors and Creditors

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS18. Sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

9. Grants

Grants and subsidies have been credited to the appropriate revenue and capital accounts. Accruals have been made for sums known to be receivable for the year, where the receipt was outstanding at 31st March 2004. The final claims for grants included in the accounts are subject to audit, which is currently ongoing.

10. Stocks and Work in Progress

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



“The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS18”

11. Costs of Support Services

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

The basis of allocation is as follows:

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

12. Provisions and Reserves

The Council is required to set aside money to cover future known or anticipated liabilities and each reserve or provision should be clearly identifiable as to its purpose and usage. Provisions will cover events likely to occur but uncertain as to the actual sums involved or the event date whilst reserves cover sums set aside for other purposes falling outside this definition.

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

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

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

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

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

13. Pensions

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

The assets of each scheme have been measured at their fair value as at 31 March 2004. The attributable scheme liabilities have been measured on an actuarial basis using the projected unit method. This was undertaken by the Council's external actuaries, Hyman Robertson. The deficit in the scheme is the shortfall of the value of the assets in the scheme below the present value of the scheme liabilities.

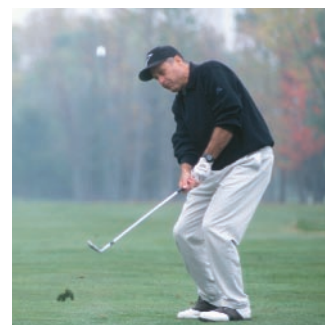
The current service costs and gains and losses on settlements and curtailments have been included within the Net Cost of Services (page 21). The net of the interest cost and the expected return on assets has been included within the Net Operating Expenditure (page 21).

Actuarial gains and losses arising from updating the latest actuarial valuation to reflect conditions as at 31st March 2004 have been recognised in the movement to the pension reserve (page 43).

The Annual Report and Accounts of the Pension Fund are shown on pages 55 to 63. Pensions for teachers are provided through a separate scheme operated by Central Government.



“The attributable scheme liabilities have been measured on an actuarial basis using the projected unit method”



14. Investments

Investments are shown in the Consolidated Balance Sheet at cost, but market values are shown in the supporting notes.

15. Redemption of Debt

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

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

- a. Maturity loans where the principal is repaid in full on the date the loan matures. In the interim, interest payments are made every six months.
- b. LOBO (lender's option, borrower's option) loans where the principal is borrowed at a fixed rate of interest for a specified period of time, after which the lender has the option to change the rate of interest and the borrower has the option to continue with the loan at the new rate or the principal is repaid in full before the maturity date. If the lender does not change the rate, the principal is repaid in full on the date the loan matures. In the interim, interest payments are made every six months.

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

16. Prior Period Adjustment

In 2003/04, the Council has changed its treatment of pension costs, as it now has to fully adopt the requirements of FRS17 Retirement Benefits. This requires that the employer recognise an asset or liability based on the balance of assets and actuarial liabilities in the fund. The previous policy was to recognise liabilities in relation to retirement benefits only when the employer's contributions became payable to the pension fund or payments fell due to the pensioners for which the Council were directly responsible. The change has the following effects on the results of the prior and current periods:

- The overall amount to be met from Government grants and local taxation has remained unchanged but the costs disclosed for individual services in the Consolidated Revenue Account 2003/04 are £2.71m higher (£3.67m in 2002/03) after the replacement of employer's contributions by current service costs. Net Operating Expenditure is 0.97% (1.46%) higher than it would otherwise be (page 21).
- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority as at 31st March 2003 by £134m (11%), and as at 31st March 2004 by £85m (7%).

The Council has revised the treatment of the insurance reserve so it is now shown as a provision. In line with FRS3, this has been included in the accounts as a prior period adjustment. The impact of the change on the prior year statements is to reduce the net equity by £2.9m. The change of accounting policy was implemented to comply fully with FRS12.



“This assists in the restructuring of the authority's debt portfolio and although in the short term a premium charge may occur, in the long term finance costs can be significantly reduced”

Consolidated Revenue Account

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



7 Consolidated Revenue Account

	Year ended 31 March 2004		Net Expenditure £000's	Year ended 31 March 2003		Net Expenditure £000's	
	Notes	Expenditure £000's		Income £000's	Expenditure £000's		Income £000's
EXPENDITURE ON SERVICES							
Central services to the public		22,240	16,989	5,251	19,769	14,107	5,662
Cultural, environmental, and planning services		47,174	15,163	32,011	46,742	13,666	33,076
Education services		194,260	47,027	147,233	183,096	43,671	139,425
Highways, roads, and transport services		35,122	10,920	24,202	38,897	10,196	28,701
Housing services		161,205	127,367	33,838	164,340	113,090	51,250
Social services		119,318	50,574	68,744	110,196	46,966	63,230
Court services		551	0	551	584	0	584
Probation services		1	0	1			0
Corporate and democratic core		5,812	248	5,564	4,920	0	4,920
Non-distributed costs		10,346	7,353	2,993	9,520	6,212	3,308
NET COST OF SERVICES		596,029	275,641	320,388	578,064	247,908	330,156
Precepts and levies		308	0	308	311		311
Net loss on trading undertakings	1	9,540	9,382	158	9,366	9,292	74
Asset management revenue account	3	0	44,679	(44,679)		72,805	(72,805)
Losses on repurchase/early settlement of borrowing		1,870	0	1,870	1,207		1,207
Interest and investment income		0	619	(619)		1,310	(1,310)
Pension Interest Cost and expected return on pensions assets		4,509	0	4,509		2,065	(2,065)
NET OPERATING EXPENDITURE		612,256	330,321	281,935	588,948	333,380	255,568
Surplus of HRA transferred to HRA balances				4,138			2,512
Contribution to other earmarked reserves				(280)			(189)
Contribution to pensions reserve				(8,822)			(3,213)
Contribution to Capital Financing reserves				(10,994)			(8,910)
AMOUNT TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXPAYERS				265,977			245,768
FINANCED BY:							
Revenue Support Grant				(110,921)			(89,936)
Council Tax Income				(87,714)			(77,842)
Non-domestic Rate Income	17			(71,158)			(75,745)
INCOME FROM GENERAL GRANTS AND LOCAL TAXPAYERS				(269,793)			(243,523)
(SURPLUS) / DEFICIT FOR THE YEAR				(3,816)			2,245
Balance at beginning of the year				(7,905)			(10,150)
GENERAL FUND BALANCE AT END OF THE YEAR				(11,721)			(7,905)
Comprising:							
Balance excluding school budgets	18			(6,453)			(3,645)
School budgets balance	18			(5,268)			(4,260)

1. TRADING SERVICES

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

	Expenditure £000's	Income £000's	2003/04 Deficit/(Surplus) £000's	Expenditure £000's	Income £000's	2003/04 Deficit/(Surplus) £000's
TRADING UNDERTAKINGS						
Fleet management	2,989	2,958	31	2,467	2,458	9
Passenger services	2,642	2,516	126	2,306	2,258	48
Engineering consultancy	1,213	1,242	(29)	1,180	1,199	(19)
Harlington road depot canteen	962	1,038	(76)	1,045	1,025	20
Building cleaning	924	907	17	876	898	(22)
Property consultancy	810	721	89	1,492	1,454	38
	9,540	9,382	158	9,366	9,292	74

In addition, the following trading services are included in the relevant service heading in the Consolidated Revenue Account under Best Value guidance.

OTHER TRADING SERVICES

Industrial estates	311	307	4	329	372	(43)
Uxbridge market	34	224	(190)	43	207	(164)
Park lodge farm	742	702	40	395	404	(9)
Building maintenance	-	-	-	3,639	3,383	256
Highways, sewers, and street lighting	3,407	3,348	59	3,324	3,362	(38)
Grounds maintenance	2,585	2,585	0	2,190	2,190	0
On-street car parking	292	292	0	806	806	0
	7,371	7,458	(87)	10,726	10,724	2

The Building Maintenance Service transferred to Hillingdon Homes Ltd in 2003/04.

2. EXTERNAL AUDIT COSTS

The Audit Commission provides external audit services to the Council. During 2003/04, the Council incurred the following fees relating to external audit and inspection.

	2003/4 £000's	2002/03 £000's
Final Account Audit (in accordance with Section 5 of the Audit Commission Act 1998)	493	299
Public Inspection Audit	16	12
Statutory Inspection Audit	184	207
Grant Claims and Returns	148	211
Total External Audit Costs	841	729

3. TRANSACTIONS ON THE ASSET MANAGEMENT REVENUE ACCOUNT

The asset management revenue account shows the difference between the charges made to services for the use of assets and the cost of borrowing to fund capital expenditure. The charges to services are based on the value of each asset and consist of depreciation, where appropriate, together with a notional interest charge. The balance on the account is then transferred back to the consolidated revenue account to ensure that the notional charges for capital do not impact on the level of council tax. For 2003/04, the notional interest rate has reduced from 6% to 4.625% for assets at current value and 4.625% for assets at historic cost.

	2003/4		2002/3	
	£000's	£000's	£000's	£000's
INCOME				
Capital charges - General Fund	(30,769)		(42,813)	
- Housing Revenue Account	(35,980)		(55,893)	
- Other	(40)		(52)	
Transfer from government grants deferred account	(4,241)		(4,446)	
		(71,030)		(103,204)
EXPENDITURE				
Provision for depreciation	21,183		22,844	
External interest charges	5,168		7,555	
		26,351		30,399
Balance to consolidated revenue account		(44,679)		(72,805)

4. PUBLICITY

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

	2003/4 £000's	2002/03 £000's
Press section : - Salaries	254	232
- Other costs	110	105
Staff recruitment	1,225	1,172
Net expenditure on 'Hillingdon People'	2	(6)
	1,591	1,503

5. AGENCY SERVICES

The Council provides agency services through the London Airport Health Control to British Airport Authority. The cost of this service in 2003/04 was £2,117k (£2,112k in 2002/03) which is fully reimbursable and is not included in the Consolidated Revenue Account on page 21.

6. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE COMPANIES

In May 2003, the Council transferred responsibility for the management of its housing stock to Hillingdon Homes Ltd, an arms length management company, wholly owned by the Council. The Council retains ownership of the housing stock and has statutory responsibility for the Housing Revenue Account. Transactions with the company are already incorporated in the Council's accounts in the form of payments to and receipts from the company. The accounts of the Hillingdon Homes Ltd are therefore not consolidated into the Council's accounts. A summary of Hillingdon Homes Ltd' accounts is shown on page 59 for information.

The Council is a partner in the London Housing Consortium, a joint venture that provides specialist architectural services to assist with housing design, improvement, repair and maintenance. It also develops and manages bulk quotation arrangements for the procurement of building components and services. Any surplus or deficit is distributed between full member authorities, currently 9 Local Authorities and 1 Housing Association, in subsequent years. In 2003/04 the disbursement of surpluses to Full Members totalled £1.6m

7. PENSION SCHEMES

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

The authority participates in two Local Government Pension Schemes:

- The Local Government Pension Scheme, administered by the London Borough of Hillingdon
- The Local Government Pension Scheme, run by the London Pension Fund Authority.

Both these schemes are funded schemes, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. During 2003/04 the Council contributed £8.38m to the Hillingdon Pension Fund.

Teachers employed by the authority are members of the Teachers' Pension Fund, administered by the Department of Education and Skills. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. During 2003/04 the employers' contribution rate was 13.5% (8.35% in 2002/03) resulting in an employers' contribution of £6.927m (£5.824m in 2002/03).

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable to the Pension Fund in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account (CRA) after Net Operating Expenditure. The following transactions have been made in the CRA during the year to make this adjustment:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	31 March 2004 £000s	31 March 2003 £000s	31 March 2004 £000s	31 March 2003 £000s
Net Cost of Services				
Current service costs	10,000	10,500	12	16
Past service costs	400	300	0	0
Settlements and curtailments	1,200	1,300	0	0
Total Net Cost Of Services	11,600	12,100	12	16
Net Operating Expenditure				
Interest costs	(26,800)	(25,600)	(425)	(497)
Expected return on assets in the scheme	22,400	27,700	316	462
Total Net Operating Expenditure	(4,400)	2,100	(109)	(35)
Amounts to be met from Government Grants and Local Taxation:				
Movement on pension reserve	7,200	14,200	(97)	(19)
Actual amount charged against council tax for pensions in the year:				
Employer's contributions payable to scheme	7,300	6,700	11	17
Contributions in respect of unfunded benefits	0	0	13	0

Note 23 to the Consolidated Balance Sheet (page 38) contains details of the assumptions made in estimating the figures included in this note. Note 4 to the Statement of Total Movements in Reserves (page 43) details the costs that have arisen through the year.

8. MINIMUM REVENUE PROVISION

Although services are charged with depreciation these charges are credited out through the Capital Financing Reserve and do not impact on the amount required to be raised from local taxation. The depreciation charge is replaced by the Minimum Revenue Provision (MRP), which is a statutory charge that the Council has to set aside for the redemption of external debt. In 2003/04 MRP of £2,593k had to be financed from council tax and £350k from housing rents. Further details of the Capital Finance Reserve is shown in Note 2 to the Statement of Total Movement in Reserves (page 37).

	2003/4 £000's	2002/03 £000's
General Fund MRP - 4% of credit ceiling	2,593	2,445
HRA MRP - 2% of credit ceiling	350	511
Total MRP	2,943	2,956
Less depreciation charged to General Fund	(12,710)	(14,653)
Net contribution to Capital Financing Reserve	(9,767)	(11,697)

9. LEASES

During 2003/04 the Council made payments totalling £718k (£578k 2002/2003) under operating leases for vehicles and plant. At the end of the year the undischarged future financial obligations under the operating leases were £3,556k (£1,879k for 2002/03). Of this total, £821k is due within a year, £2,369k is due between 2005/6 and 2008/09 and the remaining £366k due beyond 31st March 2009.

The Council leases 102 dwellings from the Ealing Family Housing Association under finance leases. The finance lease payments for 2003/04 amounted to £1,118k. (£915K 2002/03)

10. MEMBER ALLOWANCES

During 2003/04, the total allowances paid to members was £1,049k (£945k 2002/2003).

11. OFFICER EMOLUMENTS

The number of employees in 2003/04 whose remuneration, excluding pension contributions, was £50k or more, are detailed below in bands of £10k. The number of employees included in the totals that exceeded the £50k threshold due to lump sum termination payments are indicated in brackets. These employees left the employment of the Council during the financial year. The rise in the number of officers being reported is due to pay increases bringing more bands above the £50k lower bracket and is not a result of an influx of new staff.

Remuneration Band	2003/4 Number of employees		2002/3 Number of employees	
	Total	Due to Lump Sum	Total	Due to Lump Sum
£50,000 - £59,999	55	(1)	25	0
£60,000 - £69,999	21	(2)	14	(1)
£70,000 - £79,999	5	0	2	(1)
£80,000 - £89,999	0	0	3	0
£90,000 - £99,999	4	0	2	(1)
£100,000 - £110,999	3	0	1	0
	88	(3)	47	(3)

12. SECTION 137 EXPENDITURE

Under section 137 of the Local Government Act 1972 (as amended by sSection 36, Local Government and Housing Act 1989), the Council is empowered to incur expenditure up to a limit (product of £3.55 multiplied by the relevant population), which in its opinion is of benefit to local taxpayers and which cannot be justified under any other local authority power.

	2003/4 £000's	2002/03 £000's
Expenditure Limit	917	917
Expenditure:		
Local bus service support	0	1
Careline service	225	200
Grants to the voluntary sector	120	101

13. RELATED PARTY TRANSACTIONS

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

All such material related party transactions are disclosed below.

Members and Chief Officers

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

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

ORGANISATION	NAME	PAYMENT £000
The Metric	Cllr D Chand	143
Hillingdon Race Equality Council	Cllr D Chand	47,000
	Cllr G Cooper	
Central Middlesex Relate	Cllr A Burles	13,000
Hillingdon Aids Response Trust	Cllr R Barnes	10,000
CAB	Cllr G Cooper	361,000
	Cllr J Duncan	
Hillingdon Association of Voluntary Services	Cllr G Courtenay	58,000
	Cllr J Major	
Hillingdon Narrowboats Association	Cllr G Courtenay	39,000
	Cllr P Ryerson	
Greater London Enterprise	Cllr M Cox	24,000
Homestart Hillingdon	Cllr M Cox	22,000
Hillingdon Law Centre	Cllr P Jarjussey	50,000
Hillingdon Women's Centre	Cllr P Sethi	19,000
Hillingdon Asian Women Communication Services	Cllr P Sethi	8,000
William Byrd Swimming Pool Trust	Cllr M Way	15,000
London Grid for Learning	P O'Hear - Education	127,000
Life Education Centres (Hillingdon) Ltd	P O'Hear - Education	47,000
Victim Support Hillingdon	Cllr C Dann	12,000
Hillingdon Outdoor Activity Centre	Cllr C Dann	48,000
Trinity Mirror Southern Ltd	Cllr M Usher	5,000
Project 2041	Cllr A Burles	23,000
London Youth Games Ltd	Cllr M Cox	5,000
	Cllr A Retter	34,357
	Cllr R Marshall	
	Cllr P Filgate	

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

Hillingdon Homes Ltd.

During 2003/04 payments totalling £24.139m were made to Hillingdon Homes Ltd, a subsidiary of the Council. The following Councillors are on the Board of Hillingdon Homes Ltd:

Cllr A Retter	Cllr R Marshall	Cllr H Higgins
Cllr L Allen	Cllr P Filgate	

The Pension Fund

The Pension Fund is considered a related party. The employer's contribution to the pension fund in 2003/2004 was £8,377k (2002/03 £7,037k).

Government Grants

The Council received a number of grants from the Central Government which is considered a related party. These are detailed on page 42 in note 5 to the Cash Flow Statement.

Precepts

In 2003/04, the following precepts and levies are considered related party transactions:

Greater London Authority Precept	£21.2m
West London Waste Authority Levy	£ 5.6m

14. BUILDING CONTROL TRADING ACCOUNT

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

		2003/04 (£)			2002/03 (£)		
		Chargeable	Non Chargeable	Total Building Control	Chargeable	Non Chargeable	Total Building Control
Expenditure							
Building control costs	1	518,332	331,394	849,726	478,580	319,053	797,633
Directorate costs		64,812	41,437	106,249	70,344	46,896	117,240
Corporate costs	2	81,147	51,881	133,028	91,319	60,880	152,199
TOTAL EXPENDITURE		664,291	424,712	1,089,003	640,243	426,829	1,067,072
TOTAL INCOME		739,336	20,300	759,636	721,447	12,386	733,833
Surplus/(Deficit) for Year		74,045	(404,412)	(329,367)	81,204	(414,443)	(333,239)

Notes

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

15. LONG TERM CONTRACTS

- a. On the 1st of April 2000, the Council entered into a 12 year contract with Care UK Community Partnerships Ltd for older people residential and nursing care. The estimated gross cost for the remaining eight years of the contract is £25.8m.
- b. On 29th February 2000, the Council entered into a 10 year contract with Lifestyle Care Plc for older people residential and nursing care. The estimated gross cost for the remaining six years of the contract is £16.5m.
- c. In December 1999, the Council entered into a 25 year contract with a private sector partner, Jarvis (Barnhill) Limited, to build and provide facilities management at the Barnhill Community High School under a private finance initiative arrangement. The school opened in September 1999 and the net present value of outstanding contract payments to be made over the remaining 20 years of the contract, assuming satisfactory performance, totals £27m. The contract runs until September 2024.

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

- d. The Council has three 20 year finance leases with the Ealing Family Housing Association for 102 dwellings. The estimated gross cost for the remaining six years of the contract is £2.4m.

16. POOLED BUDGET AGREEMENTS

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

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

The Learning Disability Partnership Board

Funding	2003/4 £000's	2002/03 £000's
Contribution from Primary Care Trust	8,107	7,961
Contribution from the Council (Social Services)	10,441	10,224
Income from client charges and grants	3,780	1,252
Allocation of overspend		
- PCT	295	284
- Council (Social Services)	295	284
GROSS EXPENDITURE	22,918	20,005

At the year end there was a debtor due from the PCT of £295k, in respect of the overspend. This has been offset against balances owing to the PCT by an offset agreement. There was no capital expenditure incurred as part of this partnership.

17. NON-DOMESTIC RATE INCOME

Non domestic rates are collected by the Council on behalf of Central Government and paid into a central pool. The final payment to the NNDR pool in 2003/04 was £227.77m and the Collection Fund Account (page 52) accounts for this. The Council received a payment from the pool of £71.2m in 2003/04 as part of the Government Revenue Support Grant Settlement.

18. GENERAL FUND BALANCE

Further analysis of the balances are shown in the Statement of Total Movements in Reserves on page 41.

19. LOCAL AUTHORITY (GOODS AND SERVICES ACT) 1970

The Council is empowered by this Act to provide goods and services to other public bodies. The Council provides payroll services to Hillingdon Homes Ltd and foundation and voluntary schools. The income and expenditure in respect of this service is included in the Consolidated Revenue Account.

Consolidated Balance Sheet

This statement summarises the Council's financial position as at 31st March 2004. It sets out the assets and liabilities of the Council and shows the balances and reserves. It excludes the Pension and Trust Funds but does include the Council's asset or liability in the Local Government Pension Scheme.



Consolidated Balance Sheet

FIXED ASSETS	Notes	At 31st March 2004		At 31st March 2003	
		£000's	£000's	£000's	£000's
Operational Assets	1				
Council dwellings		781,672		767,470	
Other land and buildings		322,139		318,658	
Vehicles, plant, and equipment		6,342		6,117	
Community assets		8,375		7,656	
Infrastructure assets		137,725	1,256,253	137,553	1,237,454
Non Operational Assets	1		24,569		25,523
Deferred charges	4		22,015		18,701
Long term investments	5		76		76
Long term debtors	6		1,745		2,344
Total Long Term Assets			1,304,658		1,284,098
Current Assets					
Stocks and works in progress	7	447		958	
Debtors and payments in advance	8	75,713		75,803	
Short term investments	5	6,600		6,000	
Cash in hand		0	82,760	5,712	88,473
Current Liabilities					
Temporary borrowing		2,016		19,180	
Creditors and receipts in advance	9	67,823		78,170	
Bank overdraft		4,594	74,433	0	97,350
Total Assets Less Current Liabilities			1,312,985		1,275,221
Provisions	13		2,757		2,947
Long term borrowing	10		72,491		74,507
Deferred liabilities			2,410		3,763
Assets related to defined benefit pension schemes			84,572		134,500
Total Assets Less Liabilities			1,150,755		1,059,504
Fixed asset restatement reserve	11		888,526		878,093
Capital Financing Reserve	11		216,353		208,099
Useable Capital Receipts Reserve	11		10,265		3,653
Deferred Credits			453		646
Government Grants Deferred Account			93,068		84,474
Pension Reserve	11		(84,572)		(134,500)
Fund Balances and Reserves	11		26,662		19,039
Total Net Worth			1,150,755		1,059,504

The assets and liabilities of the Pension Fund and various trust funds administered by the Council are excluded from the above balance sheet as they are not statutory services.

Christopher Neale
Director of Finance
22nd July 2004



1. MOVEMENT OF FIXED ASSETS 2003/04

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Non Operational Assets	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross book value as at 1 April 2003	791,935	339,578	16,385	170,015	7,656	25,523	1,351,092
Accumulated depreciation and impairment	(24,465)	(20,920)	(10,268)	(32,462)	0	0	(88,115)
Net book value as at 1 April 2003	767,470	318,658	6,117	137,553	7,656	25,523	1,262,977
Additions	11,756	9,260	2,665	4,423	1,097	274	29,475
Revaluations	28,780	234	0	0	(330)	2,067	30,751
Impairments	0	0	0	0	0	(2,119)	(2,119)
Disposals	(17,861)	(81)	(1,139)	0	(48)	(1,176)	(20,305)
Depreciation on assets sold	0	44	1,134	0	0	0	1,178
Depreciation for year	(8,473)	(5,976)	(2,435)	(4,251)	0	0	(21,135)
Net book value as at 31 March 2004	781,672	322,139	6,342	137,725	8,375	24,569	1,280,822

STATEMENT OF SOURCES OF FINANCE

Capital expenditure of £39.1m has been incurred in 2003/04 on fixed assets and deferred charges. The expenditure on fixed assets is recognised as an addition in the movement of fixed assets. The sources of finance used to fund such expenditure are detailed below.

FINANCING	Year Ended 2003/04	EXPENDITURE	Year Ended 2003/04
	£000's		£000's
Borrowing	10,955	Fixed assets	29,475
Government grants	10,647	Deferred charges	9,657
Capital receipts	5,827		
Major repairs allowance	8,473		
Revenue contributions	2,745		
Third party contributions	2,188		
Creditors	(1,703)		
	<u>39,132</u>		<u>39,132</u>

2. VALUATION OF FIXED ASSETS CARRIED AT CURRENT VALUE

The freehold and leasehold properties which comprise the authority's property portfolio have been valued as at 1 April 2003 by the Estate and Valuation Service of the Authority. Revaluations are made on a rolling five year period. The only external valuation included is of council dwellings which were valued as at 1st April 2001 by Drivers Jonas and have been uplifted as at 31st March 2004 to take account of movements in market values. A valuation certificate has been given by the estates manager that the properties have been valued in accordance with the appraisal and valuation manual of the Royal Institute of Chartered Surveyors, and with guidance notes issued by the Chartered Institute of Public Finance and Accountancy. Property inspections in accordance with the rolling valuation programme were carried out between April 2003 and March 2004.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Investment Properties	Total
	£000's	£000's	£000's	£000's	£000's
Value at historical cost	0	0	17,911	0	17,911
Valued at current value in:					
2003/2004	781,672	322,139	0	24,569	1,128,380
2002/2003	767,470	318,658	0	25,523	1,111,651
2001/2002	644,816	322,880	0	26,648	994,344
2000/2001	566,498	369,131	0	21,364	956,993
1999/2000	533,369	365,254	0	26,171	924,794
1998/1999	433,942	324,789	0	22,906	781,637
1997/1998	386,725	324,148	0	24,112	734,985

3. DEPRECIATION

Depreciation is charged on all fixed assets (other than non-depreciable land and non-operational assets) where the useful life of the asset has been ascertained. Depreciation is calculated using the straight line method based on the following useful lives:

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

Depreciation of council dwellings is provided at the level of Maintenance Repairs Allowance in line with CIPFA recommended practice.

4. DEFERRED CHARGES

	Improvement Grants	2003/4 Other	Total	2002/3 Total
	£000's	£000's	£000's	£000's
Balance as of 1 April 2003	0	18,701	18,701	39,845
Expenditure	2,672	6,985	9,657	10,034
Charged to revenue in year	(2,672)	(3,671)	(6,343)	(6,374)
Charged to Capital Financing Reserve			0	(24,804)
Balance as of 31 March 2004	0	22,015	22,015	18,701

Following a review of amortisation periods in 2002/03, the period for charging Local Authority Social Housing Grants (LASHG) to revenue was reduced from 25 years to 5 years. This resulted in an additional charge to the Capital Finance Reserve in 2002/03 of £24.8m in respect of LASHG expenditure.

5. INVESTMENTS

	Book Value at 31st March 2004 £000's	Market Value at 31st March 2004 £000's	Book Value at 31st March 2003 £000's	Market Value at 31st March 2003 £000's
Loans to other local authorities and Public organisations	0	0	0	0
Loans to non public organisations	6,600	6,600	6,600	6,600
Government securities (long term)	96	96	76	89
	6,696	6,696	6,076	6,089

6. LONG TERM DEBTORS

	At 1st April 2003 £000's	New Advances £000's	Repayments £000's	At 31st March 2004 £000's
Housing advances and associations	228	0	(166)	62
Sale of council houses	646	0	(187)	459
Other loans and advances	1,470	464	(710)	1,224
	2,344	464	(1,063)	1,745

7. STOCKS AND WORK IN PROGRESS

	At 31st March 2004 £000's	At 31st March 2003 £000's
Stocks:		
- Building maintenance/highways	277	226
- Printing and stationery	23	30
- Other stocks	39	276
	339	532
Work In Progress:		
- Other rechargeable works	108	426
	447	958

8. DEBTORS

	At 31st March 2004 £000's	At 31st March 2003 £000's
Government departments	30,678	36,007
Other public bodies	1,259	1,181
Hillingdon homes	10,373	0
Housing rents	3,600	5,802
Non-domestic ratepayers	19,591	16,912
Community chargepayers	86	87
Council taxpayers	11,631	10,783
Sundry debtors	20,462	22,204
Car and other loans	60	60
	97,740	93,036
Less: Provision for doubtful debts	(22,027)	(17,233)
	75,713	75,803

9. CREDITORS

	At 31st March 2004 £000's	At 31st March 2003 £000's
Government departments	14,211	19,411
Other public bodies	4,685	4,571
Hillingdon homes	675	0
Housing rents prepaid	938	670
Sundry creditors	39,346	44,764
Non-domestic ratepayers	5,924	7,012
Council taxpayers	2,044	1,742
	67823	78,170

10. LONG TERM BORROWING

	At 31st March 2004 £000's	At 31st March 2003 £000's
SOURCES OF BORROWING	48,491	69,048
Public works loan board	24,000	5,459
Other loans	72,491	74,507
ANALYSIS OF LOANS BY MATURITY	6,017	10,016
Maturing in 1-2 years	21,526	24,601
Maturing in 2-5 years	15,721	25,610
Maturing in 5-10 years	29,227	14,280
	72,491	74,507

£2,016k (£11,015k in 2002/2003) of long term PWLB borrowing will be maturing within one year so has been included in short term borrowing.

11. FUND BALANCES AND RESERVES

	At 31st March 2004 £000's	At 31st March 2003 £000's
General Fund :		
- Working balance	6,453	3,645
- Schools delegated funds	5,268	4,260
Earmarked Reserves		
- Parking fund	913	1,193
Housing Revenue Account	14,394	10,256
Collection Fund		
- Council	(381)	(329)
- GLA	15	14
	26,662	19,039

Reserves

Further analysis of all reserves is given in the Statement of Total Movement in Reserves on page 41. Deferred Credits and Government grants deferred were previously recognised as long term liabilities and are now recognised as reserves in line with the SORP

Schools Delegated Funds

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

12. PROVISION FOR CREDIT LIABILITIES (Memorandum account)

The Provision for Credit Liabilities (PCL) shows the statutory amounts the Council has to set aside each year from revenue and from new capital receipts, in order to meet credit liabilities (borrowing requirements). The PCL is shown as a memorandum account below as the actual transactions now form part of the capital financing reserve.

	2003/04 £000's	2002/03 £000's
Balance brought forward	0	0
Amount set aside for Minimum Revenue Provision (note 8)	2,943	12,414
Reserved capital receipts	13,420	2,955
	16,363	15,369
Applied to premiums on debt redemption	(1,870)	(1,207)
Amounts applied to repay loans	(14,493)	(14,162)
Balance carried forward	0	0

13. PROVISIONS

The Council has external insurance for major risks such as buildings, liability indemnity and motor vehicles. The policy has an excess clause that requires the Council to meet the first part of each claim before the insurance company becomes liable to make payments, for 2003/04 the excess level was £85,500. The Council self funds liability claims which fall under the Insurance Policy excess. The Council has created an Insurance Fund provision of £2.085m (£2.9m 2002/03) to provide for outstanding liability claims against the Council as at 31 March 2004. For 2003/04 the provision has been calculated using a discounted cashflow basis at a discount rate 5.84%.

In previous years the Council's auditor qualified the claims for the costs incurred by the Council in support of individuals seeking asylum within the borough. The qualification was due to uncertainty as to whether the expenditure claimed met the Audit Commission's criteria for eligibility.

In view of this possibility recurring for the audits for the years 2002/03 and 2003/04, both of which are outstanding, the Council has made a provision for £0.672m to provide against any expenditure that may be disqualified. This is a precautionary measure and based on the 2001/02 grant claim the Council believes that it will receive the grant claim in full

14. PRIOR PERIOD ADJUSTMENTS

In line with CIPFA requirements, the Council has fully implemented FRS17 in 2003/04 which represents a change to the accounting treatment applied in prior years. Further details of the changes are shown in Note 7 to the Consolidated Revenue Account (page 24), Note 23 to the Consolidated Balance Sheet (page 38), and in the Accounting Policies (page 19).

The Council has revised the treatment of the insurance reserve so it is now shown correctly as a provision. In line with FRS3, this has been included in the accounts as a prior period adjustment. Comparative figures have been adjusted in the Consolidated Revenue Account to show an increase in service costs of £2.9m with a corresponding reduction in transfers to earmarked balances. The effect on comparative figures in the balance sheet is a reduction in Fund Balances and Reserves of £2.9m, with a corresponding increase in provisions of £2.9m.

15. ANALYSIS OF NET ASSETS EMPLOYED

	As at 31 March 2003 £000's	As at 31 March 2003 £000's
General Fund	346,815	277,743
HRA	803,716	781,761
Total	1,150,531	1,059,504

16. EURO COSTS

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

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

17. INFORMATION ON ASSETS HELD

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

	Number as at 31.3.2004	Number as at 31.3.2003
Council Dwellings	11,335	11,516
Operational Buildings		
Civic centre	1	1
Other offices	8	8
Depots	2	2
Nurseries and playgroups	9	9 *
Social services day centres	17	17 *
Social services homes and hostels	21	22 *
Primary schools	47	47
Secondary schools	2	2
Special schools	5	5
Other education establishments	31	31
Sports centres	5	5
Swimming pools	4	4
Golf courses	4	4
Youth centres	4	4
Community centres	12	12
Meeting halls	8	8
Libraries	17	17
Theatres and museums	2	2
Citizens advice bureau	1	1
Public conveniences	12	12
Multi storey car parks	2	2 *
Car parks	19	19 *
Cemeteries	9	9 *
Crematorium	1	1 *
Playgrounds and playing fields	10	10
Farms and other land	14	14
Allotments	34	34
Other operational establishments	7	4
Operational Equipment		
Vehicles	11	16
CCTV	11	9
Computer terminals	3,000	2,900
Heavy plant	10	9
Infrastructure Assets		
Highways (kilometres)	736	736
Bridges	246	246
Community Assets		
Parks and open spaces	185	185

* The number as at 31 March 2003 has been reclassified

18. COMMITMENTS UNDER CAPITAL CONTRACTS

The Council has approved the following expenditure in the Capital Investment Strategy:

Year	2003/04 £000s
2004/05	5,767
2005/06	40
	5,807

19. CONTINGENT LIABILITIES AND ASSETS

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

1. The Council is awaiting a response from the Government Office for London relating to two claims against the Council in relation to the Hayes Bypass (estimated at £5,390k and £1,665k excluding costs and fees). However following the creation of the Greater London Authority (GLA) in 1999, the Council is awaiting clarification of the statutory provisions governing the transfer of the properties to the GLA.
2. There are approximately 30 claims still outstanding against the Council in respect of part time pension rights. The total potential contingent liability is estimated at £450k. Test cases are still in the Employment Tribunal however it is likely that the Council will settle the claims. There is no provision for this liability.
3. During 1992/93, the Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. During 1993/94 a scheme of arrangements was set up to try and ensure an orderly settlement of outstanding claims. Under this arrangement the Council may be required to repay MMI part of any claims met since 1st October 1993. This would only occur if MMI could not meet all claims against it, which is not expected to be the case. At 31 March 2004, the sum potentially subject to 'clawback' was £2,110k (£1,963k as at 31 March 2003). Further claims totalling £222k were outstanding (£395k in 2002/2003).

20. TRUST FUNDS

The Council is responsible for a number of small trust funds which are not consolidated in the accounts.

	As at 31 March 2003 £000's	As at 31 March 2003 £000's
Education Trusts	3,338	3,220
Library Trusts	6,260	6,055
Total	9,598	9,275

The legal agreement in respect of Phase 3 of the Stockley Park development required the developers to undertake and pay for works to the highway. The developers agreed to deposit £512.9k with the Council in January 2002. These monies are held in trust to be repaid, with interest, when the works are completed. In the event that they default the Council will be entitled to use the money to complete the works. The balance on the account as at 31st March 2004 was £540k.

21. LONG TERM CONTRACTS INCLUDING PFI

The Council has three 20 year leases with the Ealing Family Housing Association for 102 dwellings. The net value of the leases at 31 March 2004 has been included in fixed assets. The outstanding liability for the capital value of these leases of £2.4m is shown as a deferred liability.

The Barnhill Community High School, which was built under the private finance initiative, has been recognised as a fixed asset in the Council's asset register. It is shown within other land and buildings at a gross book value of £6m, with accumulated depreciation totaling £968k. Further details of the contract are shown in note 15 of the Consolidated Revenue Account (page 27).

22. RECEIPT OF ASYLUM SEEKER GRANT

Expenditure incurred by the Council in respect of asylum seekers is reimbursed by grant funding from the National Asylum Support Service (NASS). Based on expenditure incurred in 2003/04 the Council has submitted a grant claim for £17.1m in respect of 2003/04. Of this £2.511m is due to be reimbursed by NASS in the form of a Special Circumstances payment.

The audit of the final claims for 2002/03 and 2003/04 has yet to be undertaken and the NASS has appointed Price Waterhouse Coopers to undertake this work before 31 December 2004. It is only after this audit that the grant income for 2002/03 and 2003/04 will be finalised.

The Special Circumstances payment is still outstanding as it is awaiting Ministerial approval, due shortly, and is also subject to audit. Based on assurances from NASS the Council has accrued £2.0m of grant income in the 2003/04 accounts. If this income was not received it would reduce the Council's balances from £6.45m to £4.45m.

23. PENSIONS FRS17 DISCLOSURE

The Council has employees with pensions in the London Borough of Hillingdon Pension Fund and the London Pension Fund Authority Pension Fund. The funds are administered in accordance with the Local Government Pension Scheme regulations 1997 as amended. The schemes are funded, meaning that both the employers and employees pay contributions into a fund. These contributions are calculated at a level intended to balance the pension liabilities with the investment assets. A formal actuarial valuation of both funds was undertaken as at 31 March 2001 by Hymans Robertson, an independent firm of actuaries. The next actuarial valuation is due in 2004. In order to assess the net pension liability as at 31 March 2004 under Financial Reporting Standard 17 (FRS 17), Hymans Robertson rolled forward the actuarial value of the liabilities as at 31 March 2001, allowing for changes in financial assumptions as prescribed under FRS17.

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

Contribution rates, set at the last actuarial valuation as at 31 March 2001, were designed to reduce the surplus measured at the point (£24.4m) over the course of 12 years. The suitability of this funding regime will be re-assessed at the next actuarial valuation due to take place at 31 March 2004. Preliminary estimates suggest that the employer contribution rate will significantly increase at the next valuation date.

Note 7 to the Consolidated Revenue Account contains details of the London Borough of Hillingdon and London Pension Fund Authority Pension Schemes in providing retirement benefits.

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

The main assumptions used in their calculations have been:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	31 March 2004 % per annum	31 March 2003 % per annum	31 March 2004 % per annum	31 March 2003 % per annum
Price increases	2.9%	2.5%	2.9%	2.5%
Salary increases	4.9%	4.5%	4.4%	4.0%
Pension increases	2.9%	2.5%	2.9%	2.5%
Discount rate	6.5%	6.1%	6.5%	6.1%

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

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund		London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	Expected Long Term Return %	31 March 2004 %	31 March 2004 %	Expected Long Term Return %	31 March 2003 %	31 March 2003 %	31 March 2003 %	
Equities	7.7	82.3	13.2	8.0	77.0	9.0	9.0	
Bonds	5.1	10.9	82.1	4.8	14.0	85.0	85.0	
Property	6.5	5.9	0.0	6.0	6.0	0.0	0.0	
Cash	4.0	0.9	4.7	4.0	3.0	6.0	6.0	
TOTAL		100	100		100	100	100	

The expected long term return is based on the long term future expected investment return for each asset class as at 31st March 2004.

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

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	31 March 2004 £000's	31 March 2003 £000's	31 March 2004 £000's	31 March 2003 £000's
Estimated Employer Assets	370,400	307,000	6,389	6,666
Present Value of Scheme Liabilities	429,000	421,900	6,847	7,227
Present Value of Unfunded Liabilities	25,400	18,900	114	139
Total Value of Liabilities	454,400	440,800	6,961	7,366
Net Pension Deficit	(84,000)	(133,800)	(572)	(700)

The liabilities show the long term underlying commitments that the authority has to pay in retirement benefits. The total liability of £454.4 has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a £84m reduction in value as at 31st March 2004. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Defined Contribution Schemes

With regard to the Teachers' Pensions Scheme there were no contributions remaining payable at the year end. The Teachers' Pension Scheme is a defined benefit scheme. Although the scheme is unfunded a notional fund is used as a basis for calculating the employers' contribution rate paid by Local Education Authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme. The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. Lump sums paid in respect of this in 2003/04 totalled £202k and on-going payments were £958k.

Statement of Total Movements in Reserves

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

7,270	+580
2,780	+180
9,950	+350
9,790	20



Statement of Total Movements in Reserves

Note	Fixed Asset Restatement Reserve £'000 1	Capital Financing Reserve £'000 2	Useable Capital Receipts £'000 3	General Fund £'000	Specific Reserves £'000	Pension Reserve £'000 4	HRA £'000	Total £'000
Balance as at 1 April 2003	878,093	208,099	3,653	3,645	8,400	(134,500)	10,256	977,646
Net surplus/ (deficit) for the year	0	(13,739)	0	2,808	(2,219)	49,928	4,138	40,916
Unrealised gains/(loss), from revaluations of fixed assets	29,587	0	0	0	0	0	0	29,587
Effects of disposals of fixed assets:								
Cost or value of assets disposed	(19,154)	0	0	0	0	0	0	(19,154)
Proceeds of disposal	0	13,421	8,963	0	0	0	0	22,384
Net effect of disposals of fixed assets	(19,154)	13,421	8,963					3,230
Financing of fixed assets	0	8,572	(2,351)	0	0	0	0	6,221
Balance as at 31 March 2004	888,526	216,353	10,265	6,453	6,181	(84,572)	14,394	1,057,60

ANALYSIS OF SPECIFIC RESERVES:

	As at 1 April 2003 £000's	Net Surplus/ (Deficit) for year £000's	As at 31 March 2004 £000's
Schools Delegated Funds (Included in General Fund)	4,260	1,008	5,268
Insurance Reserve	2,947	(2,947)	0
Major Repairs Reserve	0	0	0
Parking Fund	1,193	(280)	913
TOTAL SPECIFIC RESERVES	8,400	(2,219)	6,181

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

To comply fully with FRS12, the treatment of the Insurance Reserve has been revised and is now shown as a provision (see note 14 to the Consolidated Balance Sheet (page 30) for further details).

Statement of Total Movements in Reserves

1. FIXED ASSET RESTATEMENT RESERVE

	General Fund £000s	HRA £000s	Total £000s
Balance as at 1st April 2003	310,485	567,608	878,093
Surplus on revaluation in year	1,972	29,707	31,679
Impairments	(2,119)		(2,119)
Disposal of fixed assets in year	(1,266)	(17,861)	(19,127)
Balance as at 31st March 2004	309,072	579,454	888,526

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

2. CAPITAL FINANCING RESERVE

	£000's	£000's
Balance as at 1st April 2003		208,099
Capital receipts set aside	13,421	13,421
Capital financing - capital receipts	5,827	19,248
Capital financing - revenue	2,745	
Minimum Revenue Provision (less General Fund depreciation)	(9,767)	
Write down of deferred charges	(6,343)	
Government grants written down	3,177	
Contributions written down	1,064	
Early debt redemption	(1,870)	(10,994)
Balance as at 31st March 2004		216,353

The capital financing reserve contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from capital receipts. It also contains the contribution to capital financing reserves of £10.994m charged to the consolidated revenue account (page 16). This contribution consists of the statutory minimum revenue provision less general fund depreciation, the amount of capital expenditure financed from revenue, deferred charges written off to revenue and the losses on the early settlement of borrowing. The balance on the reserve is reduced as loan debt is repaid.

3. USEABLE CAPITAL RECEIPTS RESERVE

	£000's
Balance as at 1st April 2003	3,653
Removal of grant balances from useable capital receipts reserve	3,476
Capital receipts received in year	22,384
	<u>29,513</u>
LESS:	
Capital Receipts set aside	(13,421)
Capital Receipts used for financing	(5,827)
Balance as at 31st March 2004	10,265

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

4. PENSION RESERVE

	London Borough of Hillingdon Pension Fund	London Pension Fund Authority Pension Fund	Total
	£000's	£000's	£000's
Balance as at 1st April 2003	(133,800)	(700)	(134,500)
Current Service Cost	(10,000)	(12)	(10,012)
Employers' contributions	7,300	11	7,311
Contributions in respect of unfunded benefits	0	13	13
Past service costs	(400)	0	(400)
Impact of Settlements and curtailments	(1,200)	0	(1,200)
Net return on assets	(4,400)	(109)	(4,509)
Actuarial gains (see below)	58,500	225	58,725
Balance as at 31st March 2004	(84,000)	(572)	(84,572)

The actuarial gains identified as movements on the Pensions Reserve in 2003/04 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2004:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	£000's	%	£000's	%
Actual return less expected return on pension scheme assets	61,300	16.6	205	3.2
Differences between actuarial assumptions about liabilities and actual experience	(2,800)	(0.6)	20	0.3
Changes in assumptions underlying the present value of scheme liabilities	-	-	-	-
Actuarial Gains	58,500	12.9	225	3.2
Comparative total for 2002/03	(128,900)	(29.2)	(116)	(1.6)

Cash Flow Statement

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



	Notes	2003/04		2002/03	
		£000's	£000's	£000's	£000's
REVENUE ACTIVITIES					
Cash Outflows					
Cash paid to and on behalf of employees		180,998		171,136	
Housing benefit paid out		14,852		12,184	
RSG /NNDR payments payable to Secretary of State		110,921		75,255	
Precepts paid		29,246		24,121	
Other operating cash payments		266,345	602,362	262,127	544,823
Cash Inflows					
Rents (after rebates)		(17,296)		(16,131)	
Council tax income		(93,453)		(81,236)	
Non-domestic rate income		(227,772)		(237,310)	
DSS grants for benefits		(46,412)		(46,265)	
Other government grants	5	(125,014)		(112,906)	
Cash received for goods and services		(3,821)		(3,403)	
Other operating cash receipts		(108,387)	(622,155)	(53,349)	(550,600)
Net Cash Inflow From Revenue Activities	1		(19,793)		(5,777)
SERVICING OF FINANCE					
Expenditure					
Interest paid			5,718		7,783
Income					
Interest received			(1,016)		(1,050)
Servicing of Finance Net Cash Outflows			4,702		6,733
CAPITAL ACTIVITIES					
Cash Outflows					
Purchase of fixed assets		31,179		29,950	
Purchase of long term investments		0		0	
Other capital cash payments		9,657	40,836	10,167	40,117
Cash Inflows					
Sale of fixed assets		(21,873)		(19,117)	
Capital grants received		(10,647)		(9,378)	
Other capital cash payments/income		(2,699)	(35,219)	(473)	(28,968)
Capital Activities Net Cash Outflow			5,617		11,149
Net Cash Inflow/(Outflow) Before Financing / Management of Liquid Resources			(9,474)		12,105
MANAGEMENT OF LIQUID RESOURCES					
Net Increase/(Decrease) in Short-Term Investments			600		(16,100)
FINANCING					
Cash Outflows					
Repayments of amounts borrowed	4		194,980		64,638
Cash Inflows					
Long term loans raised	4		(19,000)		(10,000)
Short term loans raised	4		(156,800)		(53,400)
Increase/(Decrease) in cash	2		(10,306)		2,757

10 Notes to Cash Flow Statement

1. RECONCILIATION OF REVENUE CASH FLOW

	Year ended 31st March 2004		Year ended 31st March 2003	
	£000's	£000's	£000's	£000's
Gross revenue expenditure per revenue accounts	614,423		583,310	
Deduct interest paid	(5,718)		(7,783)	
Deduct contributions to provisions and reserves	(2,472)		(1,233)	
Deduct contributions to capital outlay (inc MRA)	(11,219)		(13,730)	
Deduct Premia charged to PCL	(1,870)		(1,207)	
Other non cash activities	(1,373)		2,792	
		591,771		556,565
(Decrease)/Increase in creditors	3	(10,347)		4,943
(Decrease)/Increase in stocks and work in progress	3	(511)		106
		601,607		561,614
Revenue income per Summary Revenue Account	(622,326)		(582,143)	
Deduct interest received	1,016		1,050	
	(621,310)		(581,093)	
(Decrease)/Increase in debtors	3	(90)	13,702	
		(621,400)		(567,391)
Revenue activities net cash flow		(19,793)		(5,777)

2. MOVEMENT IN LIQUID RESOURCES

	31st March 2004 £000's	31st March 2003 £000's	Movement 2003/04 £000's	Movement 2002/03 £000's
Cash with accounting officers	1,718	6,055	(4,337)	(8,746)
Cash in hand/(overdrawn)	(6,312)	(343)	(5,969)	11,503
	(4,594)	5,712	(10,306)	2,757

3. MOVEMENT IN OTHER CURRENT ASSETS

	31st March 2004 £000's	31st March 2003 £000's	Movement 2003/04 £000's	Movement 2002/03 £000's
Debtors	75,713	75,803	(90)	13,702
Creditors	(67,823)	(78,170)	10,347	4,943
Stocks and work in progress	447	958	(511)	106
	8,337	(1,409)	9,746	18,751

10 Notes to Cash Flow Statement

4. MOVEMENT IN BORROWING

	31st March 2004 £000's	31st March 2003 £000's	Movement 2003/04 £000's	Movement 2002/03 £000's
Public works loans board	50,507	88,213	37,706	6,059
Other loans	24,000	5,474	(18,526)	(4,822)
	74,507	93,687	19,180	1,237

5. ANALYSIS OF GOVERNMENT GRANTS

	31st March 2004 £000's	31st March 2003 £000's
Rent allowances	30,457	32,529
Council tax and housing benefits	15,804	12,494
Mandatory student awards	271	283
Schools standards fund	17,289	3,249
Homelessness	14,240	6,522
NNDR cost of collection	634	635
Refugee children	15,451	8,963
Adult asylum seekers	1,586	4,015
Other grants	29,282	44,216
	125,014	112,906

6. AGENCY EXPENDITURE

The gross revenue expenditure and revenue income have been grossed up to include agency expenditure (see Note 5 page 23), as this is not included in the Consolidated Revenue Account.

7. RECONCILIATION OF NET CASHFLOW TO THE MOVEMENT IN NET DEBT

	2003/04 £000's	2002/03 £000's
Net Debt as at 1st April	81,975	69,870
Net Debt as at 31st March	72,501	81,975
Decrease in net debt	(9,474)	(12,105)
Represented by:		
Repayments of amount borrowed	(194,980)	(64,638)
New loans raised	175,800	63,400
(Increase) / Decrease in Short Term deposits	(600)	16,100
Decrease / (Increase) in cash (see note 2)	10,306	(2,757)
	(9,474)	12,105

Housing Revenue Account

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

The Local Government and Housing Act 1989 ring fenced the Housing Revenue Account thereby preventing any cross subsidy with the General Fund. As from 2001/02, the Housing Revenue Accounts have been prepared on a Resource Accounting basis.



	Notes	Year ended 31st March 2004 £000's	Year ended 31st March 2003 £000's
Income			
Gross dwelling rents		42,992	43,148
Gross non dwelling rents		1,641	1,762
Charges for services and facilities		1,743	483
HRA subsidy receivable including MRA	5	19,355	20,454
		65,731	65,847
Expenditure			
Contribution to housing repairs		9,292	8,972
Supervision and management		11,212	10,855
Rents, rates, taxes, and other charges		1,882	1,409
Rent rebates (housing benefits)		27,337	27,172
Increase in provision for bad debts	7	397	0
Cost of capital charge	4	27,506	47,703
Depreciation and impairment of fixed assets		8,473	8,191
		86,116	104,302
Sub-Total: Net Cost of Services		20,385	38,455
Net HRA income on the Asset Management Revenue Account		(26,885)	(46,087)
HRA investment income		(585)	(485)
Sub-Total: Net Operating Expenditure/(Income)		(7,085)	(8,117)
Revenue contribution to capital expenditure		2,674	5,519
Contribution to pension reserve		(77)	(425)
HRA contribution to MRP		350	511
(Surplus)/deficit for the year		(4,138)	(2,512)
Balance brought forward		(10,256)	(7,744)
Balance carried forward		(14,394)	(10,256)

1. HOUSING STOCK

The Council was responsible at 31 March 2004 for managing dwellings and hostels.
The stock was as follows:

	Total at 31st March 2004	Total at 31st March 2003
1 bed properties	3,836	3,901
2 bed properties	4,024	4,085
3 bed properties	3,213	3,268
4 plus bed properties	191	191
Hostels	71	71
Total	11,335	11,516

2. VALUE OF HRA ASSETS

	Net Book Value at 31st March 2004 £000's	Net Book Value at 31st March 2003 £000's
Operational Assets		
Council dwellings	781,672	767,470
Other land and buildings	577	577
Community assets	76	76
Non-Operational Assets	3,699	3,697
Total	786,024	771,820

The vacant possession value of dwellings within the authority's HRA as at 31st March 2004 was £1,663.1m. The difference of £881.4m between this and the balance sheet value of £781.7m is the economic cost of providing council housing at less than open market rents.

3. CAPITAL EXPENDITURE

Capital expenditure on HRA council dwellings during 2003/04 totalled £12.1m. This was financed by:

	£000's
Revenue contribution	2,674
Major repairs allowance	8,473
Supplementary credit approval	2,400
Movement in creditors	(1,442)
	<u>12,105</u>

Capital receipts from the sale of HRA properties during 2003/04 totalled £17.684m and land of £2.5k.

4. COST OF CAPITAL CHARGES

	£000's
	26,885
	<u>621</u>
Capital charges nominal interest	27,506
Item 8 debit	
Cost of capital charges	539
	<u>46</u>
Item 8 credit	585
External interest	
HRA investment income	

5. HOUSING SUBSIDY

HRA Subsidy is a government grant paid towards the net cost of management, maintenance, and financing costs. For 2003/04 it was based on the following:

	2003/04 £000's	2002/04 £000's
Expenditure		
Management	5,356	5,039
Maintenance	9,371	8,816
Allowance for major repairs	8,473	8,191
Rent rebates	27,225	27,044
Charges to capital	3,468	4,241
Other expenditure	944	933
Income		
Rent	(35,430)	(33,745)
Interest on receipts	(52)	(65)
Subsidy Payable	19,355	20,454

6. RENT ARREARS

On 31 March 2004, the gross HRA rent arrears amounted to £2.441m (31 March 2003 £2.499m). £2.389m (£2.422m) relate to dwellings and £0.052m (£0.077m) to non dwellings.

7. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31st March 2004 is £1.528m. Of this, £1.310m relates to dwellings and £0.218m to non-dwellings.

The methodology for calculating the bad debt provision for the HRA was revised in 2003/04. This method takes into account the nature, type and age of the debts outstanding at 31 March 2004, resulting in an increase in the bad debt provision of £397K for the year 2003/04.

8. MAJOR REPAIRS RESERVE

HRA Resource Accounting requires the maintenance of a Major Repairs Reserve (MRR). This represents the balance of the Major Repairs Allowance (MRA) not used to fund major repairs to housing stock. The movements on this reserve is shown below:

	£000's
Balance as at 1 April 2003	0
MRA transferred to reserve	8,473
Amount used to finance capital expenditure	(8,473)
Balance as at 31 March 2004	0

This account reflects the statutory requirement to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to the national non-domestic rates and council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated with the other accounts of the authority.



Income	Notes	Year ended 31st March 2004		Year ended 31st March 2003	
		£000's	£000's	£000's	£000's
Council tax	2		93,453		80,623
Transfers from General Fund:					
Council tax benefits			14,852		12,184
Income collectable from business ratepayers	1		227,772		231,335
Adjustment of previous year's community charges	3		<u>1</u>		<u>2</u>
			336,078		324,144
Expenditure					
Precepts and demands:					
London Borough of Hillingdon		87,825		77,417	
Greater London Authority		<u>21,208</u>	109,033	<u>16,445</u>	93,862
Business rates:					
Cost of collection			634		635
Payment to national pool			227,138		230,700
Provision for doubtful debts			(542)		(128)
Towards previous year's estimated collection fund (surplus)/deficit			<u>(134)</u>		<u>509</u>
			336,129		325,578
Deficit for the year			<u>51</u>		<u>1,434</u>
COLLECTION FUND BALANCE					
Fund deficit at beginning of year			315		(1,119)
Movement on fund balance during year			<u>51</u>		<u>1,434</u>
			366		315
Fund deficit/(surplus) at end of year:					
Council tax	4		381		329
Previous years' community charges	4		<u>(15)</u>		<u>(14)</u>
			366		315

Christopher Neal

Christopher Neal
Director of Finance
22nd July 2004

12 Notes to Collection Fund Account

1. INCOME FROM NON-DOMESTIC RATES

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a national uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to the authorities their share of the pool based on a standard amount per head of the local adult population. The total non-domestic rateable value at 31st March 2004 was £604.7m. The national non-domestic multiplier for the year was 44.0 p.

2. COUNCIL TAX

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

Band	Estimated number of Properties	Discounts & Exemptions	Net estimated number of Properties	Ratio	Band D Equivalent
A	665	163	502	6/9	335
B	5,174	1,047	4,127	7/9	3,210
C	20,101	3,129	16,972	8/9	15,086
D	44,024	4,601	39,423	9/9	39,423
E	17,161	1,542	15,619	11/9	19,090
F	9,155	853	8,302	13/9	11,992
G	4,436	429	4,007	15/9	6,678
H	359	57	302	18/9	605
			Total		96,419
			Adjustment for Non-Collection		(1,911)
			Council Tax Base		94,508

3. ADJUSTMENT FOR PREVIOUS YEARS' COMMUNITY CHARGES

Although council tax has replaced community charge from 1 April 1993, the Council continues to account for residual adjustments in relation to the community charges raised in earlier years in the Collection Fund. These adjustments are transferred to the General Fund in future financial years.

4. CONTRIBUTIONS TO COLLECTION FUND SURPLUSES AND DEFICITS

The surplus of £15k relating to prior year community charges will be transferred to the General Fund in future years. The deficit of £381k relating to the council tax will be distributed in subsequent financial years to the Council and the GLA in proportion to the value of the respective demands on the Collection Fund.

5. WRITE-OFFS

	2003/04 £000s	2002/03 £000s
Council tax	1,304	1,477
NNDR	183	26

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



FUND ACCOUNT		NOTES	Year ended 31st March 2004 £000'S	Year ended 31st March 2003 £000'S
Contributions and Benefits				
Contributions receivable	- from employers	3	8,377	7,037
	- from employees	3	5,272	4,847
Transfers in			5,266	3,845
Other income		12	4	2
			18,919	15,731
Benefits Payable				
Pensions payable			15,378	14,832
Lump sums payable			2,111	2,319
			17,489	17,151
Payments to and on Account of Leavers				
Refunds of contributions		3	178	144
Transfers out		12	2,855	4,145
			3,033	4,289
Administrative Expenses				
		7	804	815
			21,326	22,255
Net Withdrawals From Dealings With Members				
			(2,407)	(6,524)
Return on Investments				
Investment income			12,450	11,029
Changes in market value of investments				
- realised			(5,751)	(12,286)
- unrealised			80,282	(88,871)
Investment management expenses		7	(1,688)	(1,449)
			85,293	(91,577)
Net Return/(Loss) on Investments				
			82,886	(98,101)
Net Increase/(Decrease) in the Fund During the Year				
			309,786	407,887
Net Assets at End of Year				
			392,672	309,786
NET ASSETS STATEMENT				
Investments at Market Value				
Fixed interest securities	- Government		8,432	5,985
	- Other		748	897
	- Overseas		8,066	7,223
Local authorities	- UK		0	20
UK Equities	- UK		230,663	182,118
	- Overseas		61,788	48,920
Index linked securities	- UK		21,136	17,648
	- Overseas		0	511
Unit Trusts	- UK Property		23,362	18,823
	- UK Other		1,585	28
	- Overseas Other		1,935	1,329
Managed Funds	- UK Other		1,445	0
	- Overseas Other		23,600	20,461
Investments at market value		10	382,760	303,963
Fund manager's cash			7,340	7,014
			390,100	310,977
Current Net Assets				
Debtors	-Due from the authority		475	0
	-Sundry debtors	5	3,830	2,549
Creditors	-Due to the authority		0	(2,506)
	-Sundry creditors	6	(1,733)	(1,234)
			2,572	(1,191)
Total Net Assets			392,672	309,786

Christopher Neale

Christopher Neale
Director of Finance
22nd July 2004

1. ACCOUNTING POLICIES

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

2. FUND OPERATION AND MEMBERSHIP

The Pension Fund is administered under the provisions of the Local Government Pension Scheme Regulations 1997 to provide benefits for employees. The benefits include retirement and widow's pensions and retirement and death grants. The fund is financed by contributions from the Council and its employees and by interest and dividends from investments. It does not form part of the Council's General Fund. The pension fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Instead the ability to meet these liabilities is a matter which is considered at the actuarial valuation every three years which results in the setting of the employer's contribution. The employees' basic contribution is 6% (prior to 1/4/98 contributions for manual workers was 5% and 6% for officers). Bodies which contribute to the fund, other than the London Borough of Hillingdon, include:

- 1 Hillingdon Citizens Advice Bureau (CAB)
- 2 Heathrow Travel Care
- 3 Uxbridge College
- 4 Central Parking Systems (CPS)
- 5 Hillingdon Homes Ltd

The total number of active members and beneficiaries at 31 March 2004, with comparative figures for the previous year, calculated in accordance with the CIPFA guidance which relate to the number of contributing posts, are as follows:

	31/03/2004	31/03/2003
Active members	6,027	5,388
Pensioners and dependents	4,172	4,072
Former employees - deferred benefits	3,025	2,885

The Pensions Committee administers the pension fund and monitors its performance. The administration service is provided to a total of 13,224 members. Timely and accurate payment of benefits is the fund's most critical task. Payment of these benefits is made possible by the strategic management of the funds investments. The pension fund investments are managed by three fund managers in accordance with the policy guidelines set down by the Pension Committee; UBS Global Asset Management (1988), Goldman Sachs Asset Management (2001), and Capital International (2001). The fund managers report quarterly on their performance and attend meetings with the Pension Committee twice a year. The Pension Committee has the responsibility to monitor the surplus funds of the pension fund and ensure that they are invested in a risk averse way, whilst gaining the highest returns possible.

All voting members of the Pension Committee are councillors of the London Borough of Hillingdon. The councillors were elected in May 2002 and are appointed for four years. The next elections will be held in May 2006. There are also two places on the Pension Committee for non voting observer/advisory members, who are nominated by trade unions.

The Pension Committee members in 2003/04 were:

Cllr P Corthorne	Cllr K Lakhani	Cllr J Duncan
Cllr M Cox	Cllr R Lewis	
Cllr P Harmsworth	Mr J Thomas (Unison)	

13 Notes to Pension Fund Accounts

3. CONTRIBUTIONS RECEIVABLE AND PENSIONS PAYABLE TO THE FUND

The table below shows the total contributions receivable and benefits payable analysed between the administering authority, scheduled bodies, and admitted bodies:

	LB of Hillingdon Administering (£000's)	Hillingdon Homes Scheduled (£000's)	Uxbridge College Scheduled (£000's)	Heathrow Travel Care Admitted (£000's)	Central parking Systems Admitted (£000's)	Hillingdon CAB Admitted (£000's)	TOTAL
Expenditure							
Retirement pensions	15,239	66	72	0	0	1	15,378
Lump sums	1,921	169	21	0	0	0	2,111
Outward transfers	2796	0	51	8	0	0	2,855
Refunds/CEPs	154	1	19	0	4	0	178
Income							
Employers' contributions	7300	692	304	7	20	54	8,377
Employees' contributions	4689	325	217	4	9	28	5,272
Inward transfers	5,010	132	124	0	0	0	5,266

4. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Additional Voluntary Contributions (AVCs) paid by scheme members, which was £660,410 in 2003/04 (£667,112 in 2002/2003), are not included within the accounts as these are managed independently of the fund by specialist AVC fund providers, for example, Prudential.

5. DEBTORS

	31 March 2004 £000's	31 March 2003 £000's
Amount outstanding on sales of investments	1,224	81
Investment income due	2,521	2,224
Employers'/employees' contributions due	74	0
Recoverable tax	11	244
	3,830	2,549

6. CREDITORS

	31 March 2004 £000's	31 March 2003 £000's
Amount outstanding on purchase of investments	1,294	915
Fund managers' fees	417	319
Tax payable	22	0
	1,733	1,234

7. ADMINISTRATION AND INVESTMENT COSTS

Scheme administration costs total £804k (£815k in 2002/03) and include the pension scheme actuarial costs. Investment management expenses, £1,688k (£1,449k in 2002/03), include the three fund managers' fees, the custodian's costs, investment advice, performance monitoring, and pension investment system costs. All the costs are included in the accounts on an accruals basis.

8. TRANSFERS IN AND OUT

Transfers into and out of the Pension Fund are treated on a cash basis rather than an accruals basis.

13 Notes to Pension Fund Accounts

9. INVESTMENT MARKET CONDITIONS

Political and economic uncertainty dominated investor sentiment during the beginning of 2003. The turning point came in March, shortly after the start of hostilities in Iraq. Thereafter equity markets rallied strongly, supported by improving economic prospects and investor confidence. After three consecutive years of falling share prices, the change in direction in 2003 came as a welcome relief to investors.

During the early stages of the rally in equity markets, yields on government bonds fell, in some cases to record lows. This reflected mounting concerns over deflationary pressures and caused the UK, US, and European Central banks to reduce short term interest rates to stimulate economic growth. The base rate saw a low in July 2003 of 3.5%.

As the year progressed, global economic prospects improved and bond yields rose from the lows achieved in June. US growth accelerated based on consumer spending and improvement in productivity. In the UK, growth also improved so that the Bank of England raised short term interest rates. In contrast, Europe and Japan fared less well.

Although global economic prospects are improving, there are concerns over certain global imbalances, including divergent growth rates amongst the major economic blocs. Despite the imbalances, the downward trend in the interest rate cycle has turned. So far, the Bank of England has been alone in raising interest rates in November 2003 to 3.75% and February 2004 to 4% with further rises following. Global equity markets remained positive in the first quarter of 2004, although they did falter following the Madrid train bombings pointing to the re-emergence of global terrorism threats.

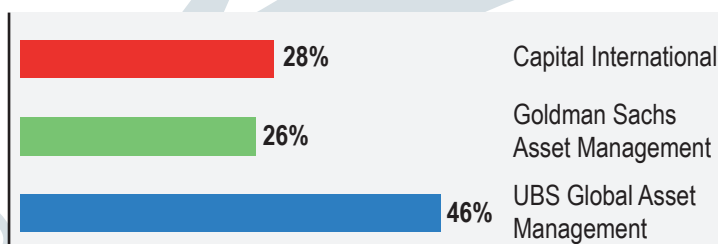
10. INVESTMENT REPORT

The level of activity of the fund's investments during 2003/2004 is as follows:

	31st March 2004 £000's	31st March 2003 £000's
Market value B/fwd	303,963	391,171
Purchase of investments	132,424	152,655
Sale of investments	(128,158)	(138,706)
Realised profit/(loss) on sales	(5,751)	(12,286)
Unrealised profit/(loss) in market value	80,282	(88,871)
Market value at 31 March	382,760	303,963

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

	31st March 2004		31st March 2003	
	Market Value £000's	Total %	Market Value £000's	Total %
UBS global asset management	174,997	45.72	140,251	46.14
Goldman Sachs asset management	99,669	26.04	79,781	26.25
Capital international	108,094	28.24	83,911	27.61
	0	0.00	20	0.01
	382,760	100.00	303,963	100.00



Proportion of Pension Fund held by each Fund Manager at 31 March 2004

13 Notes to Pension Fund Accounts

10. INVESTMENT REPORT CONTINUED

An analysis of the different types of investment split between 'UK' and 'Overseas' and between 'Listed', and 'Unlisted' at the year end is disclosed as follows:

	31st March 2004		31st March 2003	
	%	£000's	%	£000's
UNITED KINGDOM				
Listed Securities				
Fixed Interest - Government	2.20	8,432	1.97	5,985
Fixed Interest - Non Government	0.57	2,193	0.30	897
Equities	60.26	230,663	59.91	182,118
Index Linked Securities	5.52	21,136	5.81	17,648
Internally Managed Funds	0.00	0	0.01	20
Unlisted Securities				
Unit Trusts - Property	6.10	23,362	6.19	18,823
Unit Trusts - Equities	0.41	1,585	0.01	28
	75.08	287,371	74.19	225,519
OVERSEAS				
Fixed Interest - Government	1.70	6,517	2.14	6,509
Fixed Interest - Non Government	0.40	1,549	0.23	714
Equities	16.14	61,788	16.09	48,920
Index Linked Securities	0.00	0	0.17	511
Managed Fund - Fixed Interest	0.29	1,095	1.97	5,986
Managed Fund - Equity	5.88	22,505	4.76	14,475
Unit Trusts - Other	0.51	1,935	0.44	1,329
	24.92	95,389	25.80	78,444
TOTAL	100.00	382,760	100.00	303,963
Made up of:				
Listed		357,813		285,112
Unlisted		24,947		18,851

Details of the 20 largest investment holdings as at 31 March 2004:

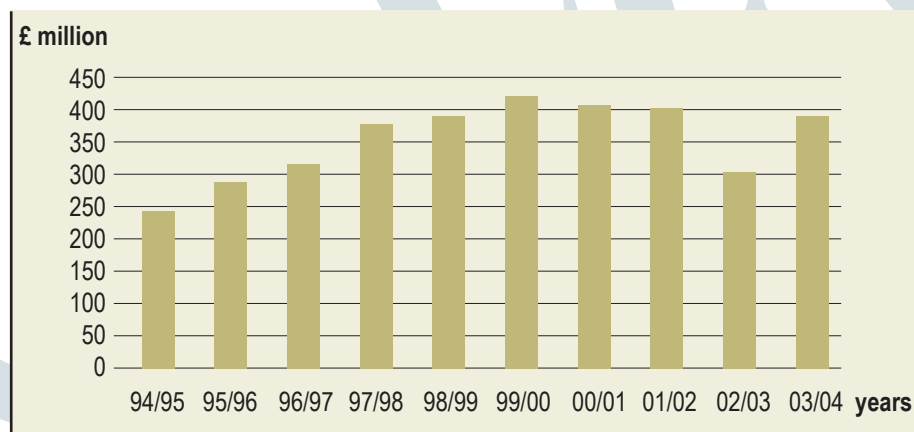
Investment	31st March 2004 % Market value
UBS Triton Property Trust II Income	5.01
Vodafone Group Ord USD 0.10	4.77
Royal Bank of Scotland Group Ord GBP 0.25	2.95
GlaxoSmithKline Ord 25p	2.84
BP AMOCO Ord USD 0.25	2.81
HSBC Hldgs Ord USD 0.50 (UK Reg)	2.47
Astra Zeneca Ord USD 0.50 (UK Reg)	2.38
HBOS Ord 25p	2.36
Shell Trnsp & Trdg Ord GBP 0.25	2.35
GS Continental Eurpe I Class	2.14
GS Japan Portfolio G145 I Class	2.09
Barclays Ord 25p	1.95
UBS Life Small Company FD UK A	1.39
Diageo Ord GBX 28.935185	1.27
BG Group Ord GBP 0.10	1.18
National Grid GBP Ord 10p	1.15
Treasury 2.5% IL 26/7/2016	0.95
Treasury 2.5% I/L STK 2013 GBP	0.92
Signet Group Ord GBP 0.005	0.89
UBS Global Emerging Mkts EQ 'B'	0.85

11. ACTUARIAL POSITION

Introduction: The actuary to the fund is Hymans Robertson. The purpose of the actuarial valuation is to assess the level of employer contributions required in order to finance the benefits payable by the pension fund. The Local Government Pension Scheme regulations 1997 (amended) set out the legal requirements for actuarial valuations.

Latest Valuation: The last valuation was on 31 March 2001 at which date the funding level was 106% and the market value of assets was £415.6m. The actuarial valuation showed a surplus of £24.4m as at 31 March 2001. The period over which this surplus was spread was decided on a prudent basis and was amortised over the expected lifetime of active members of approximately 12 years. However, the underlying trend of increasing longevity and lower expected investment returns, when the actuarial valuation was done in 2001, meant that an increase in employers' contribution rate was needed. The increase in the employers' contribution rate is being phased in on a stepped basis. The rate for 2003/04 was 9.5% (2002/2003 9%) with a further increase of 10% during 2004/05 to 31 March 2005. No interim valuation was carried out during 2003/04.

Market Valuation: Since the valuation in 2001, the value of the pension fund has fallen due to deteriorating global economic market conditions. Falling fund values have been a common feature of pension funds over the last two years. The graph below shows the market value of the pension fund over the last 10 years.



Value of the pension fund over the last 10 years as at 31 March

Markets are not expected to recover to their previous peak seen in 1999/2000 for the foreseeable future. The value and investment performance of the fund have no impact on the employee contributions which are stated in the regulations and remain at 6%. The impact whether good or bad affects only the employers' contributions. The next actuarial valuation, which will occur during 2004/05, is based on the value of the pension fund as of 31 March 2004. This will show if there are still sufficient assets to cover pension liabilities and the results will affect the employers' contribution rate for 2005/06.

Valuation method: The actuarial method used to determine the required contribution rate was the Projected Unit Method. This is an appropriate method adopted for a pension fund that is open to new members. The key feature is to calculate the contribution rate which meets the cost of benefits accruing in the year after the valuation date.

Valuation assumptions: The key financial assumptions adopted for the valuation were future levels of price inflation, future levels of real pay increase (for example, over and above price inflation), and the discount rate which is applied to future liabilities to determine their present value.

Valuation of assets: The assets of the fund are predominately invested in equity type investments. To smooth out some of the volatility of the values of the equities throughout the year, which are inherent with such an asset class, the assets are valued using a smoothed market value. This takes into account the market conditions over the previous 12 months including the valuation date.

13 Notes to Pension Fund Accounts

12. INVESTMENT PERFORMANCE ANALYSIS

The latest annual performance review of the Council's pension fund carried out independently by Russell/Mellon CAPS (Combined Actuarial Performance Services) Ltd shows that for the year ended 31 March 2004 the fund's total return was 28.1%. This exceeded the benchmark return of 26.1% by 2%. Favourable stock selection in UK equities and good strategy in UK gilts and UK bonds were the main contributing factors to the overall return of the investment portfolio.

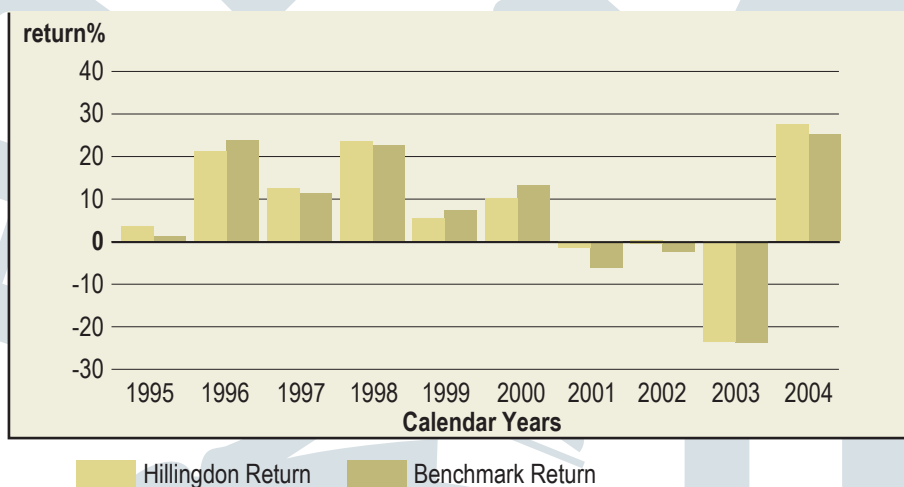
The table shows the returns for some of the different asset classes within the pension fund compared to the benchmark return.

Performance in UK equities, UK Indexed linked, overseas equities, overseas bonds, and property all exceeded their benchmark returns. UK bonds fared less well, falling below the benchmark return by 0.3%

UBS Asset Management contributed the most to the overall fund return over the year.

Global market conditions improved for equities during 2003/04 compared to their performance during 2002/03; Investment returns for the pension fund over the last 10 years compared to the benchmark return, as provided by Russell/Mellon CAPS, can be seen in the graph below. The benchmarking is compiled using calendar years.

Investment Returns 2003/04		
Asset Class	Fund Return	Benchmark Return
UK Equities	33.3%	31.0%
UK Bonds	2.0%	2.3%
UK Index Linked	6.8%	6.7%
Overseas Equities	32.4%	33.3%
Overseas Bonds	-1.7%	-2.8%
Property	14.1%	12.1%
Total Return	28.1%	26.1%



Returns of the London Borough of Hillingdon Pension Fund over the last 10 years as at 31 March

Over the ten year period, a return of 6.5% p.a. was achieved, which was 0.6% above the benchmark. During 2003, the London Borough of Hillingdon performed well in the strengthening UK equity market. Out of the 100 UK local authority pension schemes, its performance return was ranked third.

In 2003, the overall performance of the fund over a longer period is shown in the table below:

	Overall Return	Benchmark Return	Outperformance
3 years	-2.30%	-3.70%	1.40%
5 years	2.20%	1.10%	1.10%
10 years	6.50%	5.90%	0.60%

13. RELATED PARTY TRANSACTIONS

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

The Council is a related party to the Pension Fund. The revenue contributions the Council has made into the Pension Fund are set out in note 7 to the Consolidated Revenue Account on page 19. The Council provides the administration service for the Pension Fund. In 2003/04, a charge of £804k (£815k in 2002/2003) was made for these services.

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

No senior officers had any interest with any related parties in relation to the Pension Fund. From the Pension Committee only one member had an interest in a related party in relation to the Pension Fund, Cllr J Duncan, who is the Labour Representative on the CAB Management Committee.

14. STOCK LENDING ARRANGEMENTS

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

15. CONTINGENT LIABILITIES AND ASSETS

The Inland Revenue has been investigating the entitlement of the Pension Fund to retain tax credits totalling £337K on five sales of shares effected in 1995 and 1996. An assessment was raised against the Council but in light of the Court of Appeal's decision in *The Trustees of the Sema Pension Scheme v CIR*, the board are no longer continuing counteraction. The appeals against the assessment made for 1995/96 and 1996/97 have been determined at £nil.

16. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Council's web site:
www.hillingdon.gov.uk/central/pensions

14 Hillingdon Homes Ltd - Summary of Accounts

Hillingdon Homes Ltd is a local authority controlled company of the London Borough of Hillingdon. It is a not for profit organisation with no share capital and limited by guarantee. From May 2003, the Council has transferred responsibility for managing and maintenance of the Council's residential stock to Hillingdon Homes Ltd.

The accounts were prepared in accordance with the Companies Act 1985 and the accounts will be audited by KPMG. A copy of the accounts may be obtained from Hillingdon Homes Ltd, A243, Civic Centre, Uxbridge UB8 1UW.

The following summarised accounts cover the period from incorporation (1 May 2003) to the 31 March 2004.

	2003/04	
	£000's	£000's
Profit and Loss Account		
Turnover		24,623
Less: Operating Costs		(24,662)
Add: Interest receivable		193
Profit on ordinary activities before taxation		<u>154</u>
Tax Charge on profit on ordinary activities		30
Profit on ordinary activities after taxation		<u>124</u>
Balance Sheet as at 31 March 2004		
Fixed Asset		45
Current Assets		
Debtors	3,233	
Other current assets	<u>11,393</u>	
Less Current liabilities		14,626
Creditors		(14,526)
Provisions for liabilities and charges		(21)
Net Assets		<u>124</u>
Capital and Reserves		
Profit and loss account		124
Total Capital and Reserves		<u>124</u>

ACCRUALS

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

AUDIT

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

BALANCES

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

CAPITAL CHARGES

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

CAPITAL EXPENDITURE

Expenditure on the acquisition or enhancement of fixed assets for example, land and buildings.

CAPITAL FINANCING RESERVE

A reserve that records capital transactions relating to capital expenditure. The reserve is not available for general use in the financing of capital expenditure.

CAPITAL RECEIPTS

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

CIPFA

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

COLLECTION FUND

This is a statutory account that discloses income and expenditure relating to Community Charge, council tax, and National Non-Domestic Rate Collection.

CONTINGENT LIABILITIES AND ASSETS

Sums of money which the Council will be liable to pay or are owed in certain circumstances, for example, as a result of losing or winning a court case.

CREDITORS

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

DEBTORS

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

DEFERRED CHARGES

Capital expenditure that does not give rise to a tangible asset, for example, improvement grants.

DEPRECIATION

A provision made in the accounts to reflect the value of assets used during the year.

EARMARKED RESERVES

Reserves set aside for specific purposes.



FIXED ASSETS

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

FIXED ASSET RESTATEMENT RESERVE

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

GENERAL FUND

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

GOVERNMENT GRANT DEFERRED

Government grant income received in advance.

HOUSING REVENUE ACCOUNT

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

ITEM 8

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

MINIMUM REVENUE PROVISION (MRP)

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

NATIONAL NON-DOMESTIC RATES (NNDR)

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

PRECEPTS

A charge made by another authority (for example, Greater London Authority) to the Council to finance that other authority's net expenditure.

PROVISION FOR CREDIT LIABILITIES

The amounts which the Government requires the Council to set aside each year from revenue and new capital receipts in order to meet credit liabilities.

REVENUE EXPENDITURE

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

REVENUE SUPPORT GRANT (RSG)

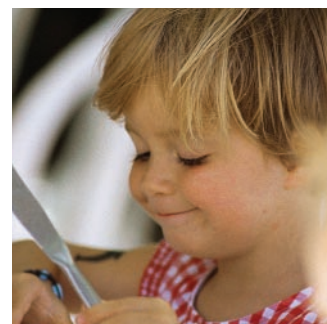
The main grant paid by the Government to authorities in support of the Council's revenue expenditure.

UNAPPORTIONABLE CENTRAL OVERHEADS

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

USEABLE CAPITAL RECEIPTS

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



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