London Borough of Hillingdon

Statement of Accounts
for the year to 31 March 2011

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London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2011

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1. Leader's Statement

Introduction by Councillor Ray Puddifoot, Leader of the Council

Welcome to the London Borough of Hillingdon's Statement of Accounts for 2010/11. These accounts set out in detail how the Council has dealt with income and expenditure during the year and provides details about the Council's financial position.

During the year under review, due to the massive debt that the country has to repay, Hillingdon suffered an in year reduction in grant funding of £2.9 million as the first part of the government's strategy to reduce the national debt burden. We also decided that although we have not yet actually lost any of the money that we had invested in Icelandic banks when they collapsed early on in the recession, and they are still slowly paying this back, we would be prudent and assume an eventual loss would occur. Accordingly we have set aside a sum of £2.5 million in this year so as not to affect spending plans in future year's budgets. Although this was extremely tough our year on year record of strong financial management meant that we were able to absorb the additional charge to the budget of £5.4 million and still end the year within budget and with reserves set aside to help tackle the effect of the national debt problem in coming years.

This approach has meant that we have been able to maintain the key services that matter to our residents such as weekly bin collections. We will continue to review our operating procedures to ensure that we offer value for money and that we are able to continue to protect the front line services that our residents value.

In addition to achieving our savings target, last year was the third year in a row (the fourth for those residents who are over 65) that we froze Council Tax for everyone who lives in Hillingdon. We were also able to once again freeze many fees and charges for our residents including parking charges and meals on wheels, a service that is highly valued by our older residents.

We have continued to support our older residents, continuing with our highly popular free burglar alarm scheme and for the coming year, we are investing extra money in our TeleCareLine scheme, offering the service free to the over 85s. Both of these schemes are helping our older residents to stay and feel safe in their own homes.

Young people continue to benefit from new facilities and last year we opened young people's centres in Northwood, Charville and South Ruislip. We also opened a number of facilities for children and families - Cherry Lane Children's Centre, Cowley St Laurence Children's Centre, Colham Manor Children's Centre and Pinkwell Children's Centre. We are also investing significant sums of money to ensure that Hillingdon's schools are able to provide school places for all of our children.

Our residents have told us that the borough's libraries are important to them and we have responded to that by continuing with our library refurbishment programme when many in other parts of the country are being closed. Last year we opened the new Botwell Green library This has paid dividends in that not only have visitor numbers continued to increase, Hillingdon is cited as a model of best practice and has won awards for our innovative approach to maintaining library services in the borough.

Last year, we completed the second phase of our investment in improving our leisure facilities with the opening of the new Botwell Green Leisure Centre in Hayes. Alongside the facilities in other parts of the borough, this provides our residents with some of the best leisure facilities in London.

We are continuing to focus on protecting and enhancing the environment through schemes such as the Chrysalis Fund and we have invested in enhancing facilities such as Little Britain Lake, so local families can enjoy the borough's parks and open spaces.

Once again, the UK suffered from one of the worst winters in living memory and the effects on the country's road network were devastating. In Hillingdon, we were able to commit additional money to help repair the damage caused to our roads.

Our People, Our Heritage, Our Environment and Sound Financial Management are what we value as a Council and we serve to protect those values. Increasing numbers of our residents are telling us that the Council is well run and offers good value for money. This is the real test of how well we are managing our finances.

By putting our residents first and focusing our efforts on the things that matter to you, we are well placed to continue to provide excellent, value for money services.

Councillor Ray Puddifoot
Leader of the Council

2. Explanatory Foreword

This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31 March 2011. The accounts are in the format for local authority accounts set by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The purpose of this foreword is to provide a guide to the most significant matters reported in the financial statements. Included are a number of technical terms that are specific to local government finance and a glossary has been provided on page 125 to assist the understanding of the financial statements.

The move from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS)

2010/11 is the first year of reporting under IFRS, as defined by the Code of Practice, for the Council. This has led to a number of changes in the core accounting statements, notes to the accounts and accounting policies. These have all been updated to comply with new accounting standards.

Legislation has been enacted to ensure that accounting changes resulting from IFRS implementation do not impact the amounts charged to the Council Taxpayer and hence are reversed via the Statement of the Movement in Reserves.

Comparative information has also been adjusted to reflect the transition from accounting under the Statement of Recommended Practice (SORP) based on UK GAAP to the IFRS based Code resulting in the restatement of all prior year statements. The key figures affected by the transition are outlined in note 49 to the accounts.

The core accounting statements comprise:

Comprehensive Income and Expenditure Statement

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

The statement shows a deficit of £111.3 million on the provision of services for 2010/11; largely due to revaluation losses on Local Authority Housing Stock of £196.7 million and a past service gain on pension liabilities of £95.5 million. Both of these were a result of changes in valuation techniques set by Central Government.

Adjustments between Accounting Basis and Funding Basis under Regulations

This (Note 1) reports items of income and expenditure that are required to be credited or charged to the General Fund Balance by statute, or non-statutory practices, other than in accordance with IFRS. These are items that are taken into consideration in determining the Council's budget requirement and its Council Tax demand.

Total adjustments for 2010/11 were £117.5 million. This altered the deficit of £111.3 million into an overall General Fund surplus of £6.2 million.

Balance Sheet

This shows balances and reserves at the Council's disposal at year-end, together with its long-term indebtedness, net current assets employed in its operations and summarised information on non-current assets held. It excludes funds held in trust for others and also excludes the Pension Fund assets and liabilities, which have been accounted for on an IAS19 basis.

The total net worth of the Council in 2010/11 was £776.8 million largely constituting non-current assets valued at £1,192.2 million, pension liabilities of £248.4 million and long term borrowing £155.2 million.

Movement in Reserves Statement

This splits the Council's reserves into usable and unusable balances, and shows movement into and out of them during the year. Usable reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable reserves are those balances over which the Council has no direct control.

Usable reserves increased in 2010/11 from £49.1 million in 2009/10 to £56.3 million in 2010/11. Unusable reserves increased from £704.2 million in 2009/10 to £720.4 million in 2010/11.

Cash Flow Statement

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

There was a decrease in cash and cash equivalents in 2010/11 of £29.0 million. This was made up of an increase in cash held of £0.8 million and a decrease in cashable short term investments of £29.8 million.

Supplementary accounting statements comprise:

Housing Revenue Account (HRA) Comprehensive Income and Expenditure Statement

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

There was a deficit in 2010/11 on HRA services of £185.4 million; resulting from a change of valuation factors used for social housing leading to a £196.7 million revaluation loss on Council dwellings.

Statement of Movement on the Housing Revenue Account Balance

This shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year. It shows income and expenditure that is credited or charged to the HRA balance by statute or non-statutory practices so as to reconcile to amounts to be charged to Housing tenants.

The overall HRA surplus for the year, after adjustments made in the Statement of Movement on the HRA Balance, was £5.4 million in 2010/11.

Collection Fund Revenue Account

The Collection Fund is a separate account into which amounts raised from local taxation are paid. From this, amounts due to preceptors including the Council itself are paid. This account also collects and distributes the national business rates pool, which the Council collects on behalf of central government.

The Collection Fund showed a surplus of £1.8 million in 2010/11. Council Tax income for the year was £141.3 million, which was £1.9 million higher than the amount anticipated at the start of the year.

Pension Fund Accounts

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

The document also includes the following:

Notes to the Accounts

The notes provide further explanation of figures contained in the core and supplementary accounting statements.

Statement of Accounting Policies

The accounts can be properly appreciated only if the policies that have been followed in dealing with material items are understood. Therefore the Statement of Accounting Policies and various notes to the accounting statements form an integral part of these accounts. There is also a glossary of terms and abbreviations at the end of this document.

Annual Governance Statement

This statement is required under the CIPFA/SOLACE framework ‘Delivering Good Governance in Local Government’. This sets out the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with, and leads the community. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

Glossary of Terms

The Glossary provides a definition of key terms used to aid understanding the Accounting Statements.

3. Summary of the Council's Financial Performance

Summary

Whilst 2010/11 was one of the most financially challenging years in recent history, the Council ended the year within budget, adding a small sum to reserves. This represented a significant achievement in the current economic environment and was attributable to strong financial management, careful forward planning and rigorous spending controls.

Following the election, the new Coalition Government made their intention to implement spending cuts clear by imposing an in-year reduction to local government funding. Following this, the Comprehensive Spending Review of 2010 identified four years of further cuts in government funding, with the deepest reductions occurring over the first two years, making this local government finance settlement one of the most severe ever delivered.

However, the Council was well positioned to respond. Having a well established rolling four year financial planning process in place, the Council had already anticipated and developed a strategy to deal with the unprecedented level of savings required. Financial plans had been formulated which included a level of savings in line with the resultant cut in the Council's funding. To facilitate this, the Council had already implemented a large scale organisational transformation programme fundamentally reviewing its operating model. In addition, the Council put in place very tight controls over all discretionary spending, continued reviewing all major contracts and undertook a top level restructure of the Council, enabling the Council to absorb an additional £6.9 million of exceptional costs as well as £10.2 million of savings already included in the 2010/11 budget.

In addition to these emerging in-year cost pressures, the 2011/12 budget presented an even greater challenge with savings of £26.2 million required. Plans to transform the way Hillingdon manages its business were progressed throughout the year with Officers and Members working closely together to deliver the required level of savings whilst at the same time ensuring the continued delivery of the Council's priorities. By December 2010, a balanced budget for 2011/12 had largely been developed, which, for the third successive year included a zero increase in Council Tax for Hillingdon's residents.

Revenue Budget

The Council's General Fund net budget requirement for 2010/11 was set at £194.2 million, which included maintaining Council Tax at 2009/10 levels.

Throughout the year monthly budget reports were reviewed by Cabinet, enabling corrective action to be taken immediately in response to emerging pressures whilst ensuring Council priorities were still delivered. The outturn for the year was £187.9 million, which compared to the budget showed an under-spend of £6.2 million (£7.7 million taking into account an originally budgeted £1.5 million drawdown from balances).

However, increases in schools balances of £8.3 million and a £0.6 million overall reduction in other balances resulted in a General Fund surplus for the year of £0.06 million.

The final outturn position for the general fund revenue budget by Council department is set out in the table overleaf:

Final Outturn Position by Council Department

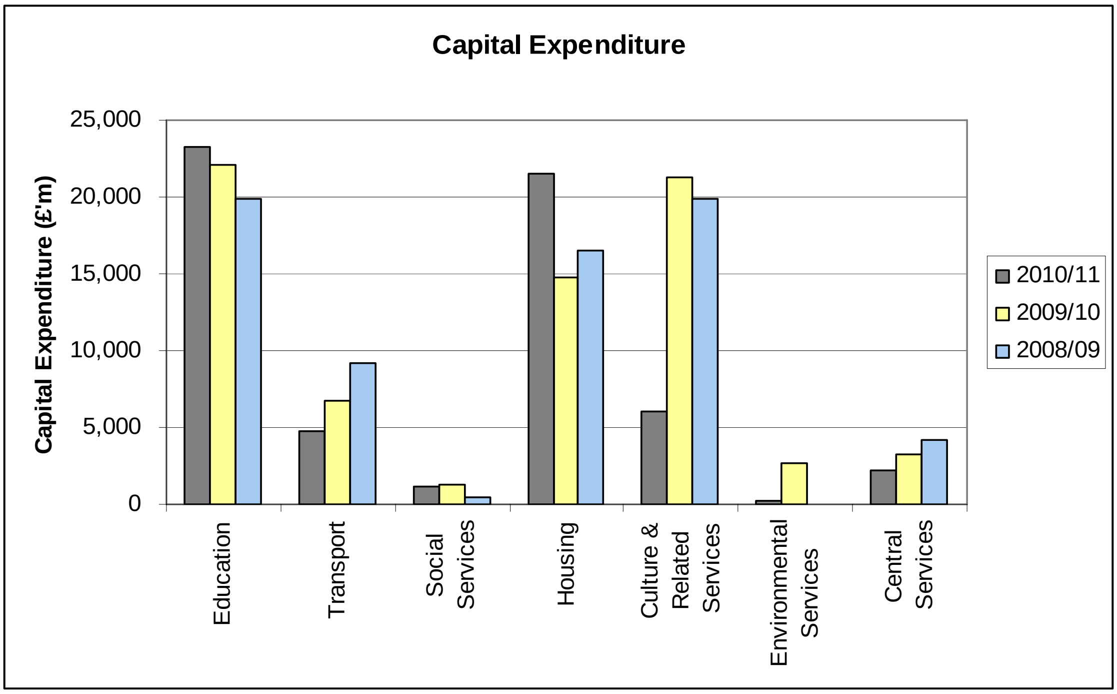
General Fund Services			
	2010/11		
Services	Budget £000's	Actual £000's	Variance £000's
Central Services	16,295	15,262	(1,033)
Planning, Environment, Education & Community Services	102,871	93,071	(9,800)
Social Care, Health & Housing	126,698	127,315	617
Corporately held Funds and Contingencies	1,785	0	(1,785)
Net Cost of Services	247,649	235,648	(12,001)
Asset Management Revenue Account	(52,782)	(49,728)	3,056
Appropriates to IAS19 Pensions Reserve	2	2	0
Interest & Investment Income	9,117	7,448	(1,671)
Corporate Government Grants	(8,292)	(5,416)	2,876
Contribution to / from balances	(1,500)	6,240	7,740
Budget requirement	**194,194**	**194,194**	
Contribution to schools balances			**(8,280)**
Other movements in balances			**598**
Overall General Fund surplus for the year			**(58)**

Note: *as per local authority accounting practice, favourable variances in the table above and elsewhere in these accounts are shown as bracketed figures.*

The main variances from the budget arose from an increase in schools and dedicated schools grant balances of £8.3 million, a lower than anticipated call on contingency and financing savings from proactive treasury management. These were partially offset by a £2.9 million in-year reduction in government grants and accounting recognition of the impairment of frozen investment in Icelandic banks.

Capital Spending in 2010/11

Capital investment amounted to £59.0 million in 2010/11 (£72.1 million in 2009/10) and was financed from a number of funding streams; capital receipts (£4.5 million), central government and other grants (£41.5 million), Section 106 contributions (£2.0 million) and other external contributions (£2.5 million). Remaining expenditure was funded by external borrowing, with £1.7million supported by central government and £6.8 million sourced under prudential borrowing powers.



2010/11 saw the completion of Botwell Green Leisure Centre and Library in Hayes, a new cycle track at Minet Cycle Club, the opening of Northwood Young People's Centre and four Children's Centres around the borough.

Investment in Hillingdon's libraries continued with work commencing on new facilities at Hayes End and South Ruislip, while refurbishments were commenced at Northwood Hills and Eastcote, both due to be completed in 2011/12.

Improvements to the borough's open spaces continued in 2010/11 with investment in play areas via the Playbuilder scheme, Fassnidge Park's new adiZone and new facilities at Ruislip Lido. In addition there was further investment in community assets through the Council's Chrysalis programme, now in its tenth year.

In anticipation of increased demand for places in Hillingdon's Primary Schools, works have commenced on a major investment programme intended to deliver 30+ forms-of-entry across the borough by 2013/14. This programme of expansions is funded from Department for Education grant funding, Section 106 contributions and Council resources.

The Housing Revenue Account continued investing in existing Council housing stock during 2011/12 alongside construction of 50 new dwellings to be operational in 2011/12. These new build properties are part funded by the Homes and Communities Agency and will be followed by further investment in Council dwellings and low cost home ownership schemes in 2011/12.

Reserves

These are set aside to cover unexpected expenditure, for instance additional costs arising from unpredictable events such as adverse weather or other business risks. Each year the Chief Finance Officer reviews the level of the general reserve to ensure it is adequate, as there are restrictions on the Council's ability to borrow to support revenue expenditure. At the time of budget setting for 2010/11 it was assessed that the appropriate level of reserves needed to support the continuation of Hillingdon's services was between £12 million and £23 million. The general reserve for non-school services now stands at £16.9 million.

Schools also hold reserves for similar purposes and to meet future project expenditure. These are committed to be spent on the education service. At 31 March 2011 School reserves amounted to £20.2 million. This is approximately 12% of schools expenditure.

In addition, the Council holds a number of earmarked reserves. These are monies that have been set aside for specific purposes and amounted to £4 million at 31 March 2011.

Post Balance Sheet Event

There have been no events after the Balance Sheet date which would materially alter figures in the statement of accounts as at the 31 March 2011. However the impact of schools expected to become Academies during 2011/12 is set out in note 42.

Treasury Management

A major focus for treasury management during 2010/11 was to minimise loan interest costs by using internal resources such as reserves, provisions and working capital whilst maintaining sufficient liquidity in lieu of new borrowing for capital purposes. This strategy was also designed to reduce credit risk within the investment portfolio and relieve pressure from the Council's lending list thus allowing easy placement of income.

As a consequence of this, no new long term borrowing was undertaken and £6.0 million of debt which naturally matured, was not refinanced. A further £5.0 million of debt was prematurely redeemed at a discount leaving a year end loan balance of £161.6 million with an average rate of just 3.6%, one of the lowest within London. Total Interest costs for the year amounted to £6.0 million (£6.9million at an average rate 3.94% for 2009/10).

The Bank of England maintained base rates at 0.5% which resulted in short term money market rates remaining low. This impacted investment income with returns of £0.4 million yielding 0.83% (£1.1 million at 1.74% for 2009/10)

At the start of the financial year there were unpaid investments with Icelandic banks; Heritable (£9.7 million) and Landsbanki (£5.0 million). The administrators of Heritable issued dividends during the year totalling £2.3 million leaving a balance of £7.4 million. Total dividends received for Heritable now equate to 56% of the claim value, with an overall total dividend expected of 84.98%. With regard to Landsbanki deposits, the Icelandic courts have awarded priority status to Local Authorities however this decision is being appealed by other creditors. Should priority status be upheld the recovery rate is expected to be 94.85%.

Accounting for Pensions

The Council participates in two defined benefit pension schemes, namely the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme. Within the LGPS the Council has interests in two funds: the London Borough of Hillingdon pension fund and the London Pension Fund Authority pension fund. The pensions costs included in the accounts in respect of these schemes have been determined in accordance with relevant Government regulations. They cover the contributions paid to the schemes in respect of employees concerned.

The teachers' scheme is unfunded and administered on behalf of the Department for Children, Schools and Families (DCSF) by Capita Hartshead. The pension cost charged to the accounts is the contribution rate set by the DCSF on the basis of a notional fund.

The accounts fully conform to the International Accounting Standard No 19 (IAS19) relating to pension fund liabilities. Both the Comprehensive Income and Expenditure Statement and the Balance Sheet reflect the effects of these requirements.

Collection Fund

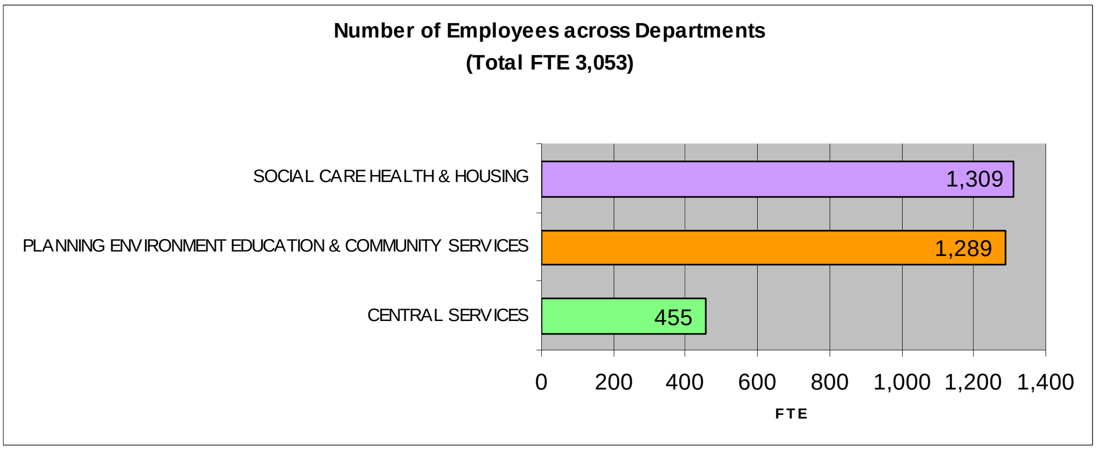
The Council has reported a surplus on the collection fund of £0.745 million for 2010/11 (a £1.009 million deficit for 2009/10). This will be distributed in future financial years between the Council and the Greater London Authority (GLA) in proportion to the value of the respective demands on the Collection Fund. For 2010/11 this was 78.2% for the Council and 21.8% for the GLA.

Review of Staffing

Recruiting and retaining high calibre employees is essential if the Council is to achieve its performance objectives. As at 31 March 2011 the number of Council employees, excluding schools, totalled 3,053 full time equivalents (FTE). This number includes 313 FTE employees transferred from Hillingdon Homes. The Council's employee FTE would have reduced by 179 without the transfer of Hillingdon Homes, however, as a result of the transfer, the total number of FTE has increased by 134.

In 2010/11 there were 260 new starters joining the Council, a decrease of 46 (15%) from the previous year with voluntary labour turnover increasing by 0.73% to 6.87%. 519 posts were deleted (including vacant posts) and 78 posts were made redundant.

The following chart shows the breakdown by department as at 31 March 2011.



Council figures on sickness, disability and ethnic representation:

	2010/11	2009/10
YTD cumulative sickness	9.3 days	8.45 days
Percentage of employees with disability	2.53%	2.00%
Ethnic minority representation in the workforce.	24.29%	22.47%

Outlook for the Future

Hillingdon's budget requirement for 2011/12 as agreed by Council on 24 February 2011 is £194.7 million and was set to achieve a zero increase in Council Tax for residents. However, the 2011/12 budget was the first year of a new settlement, which covered only 2 years. Also a review of local government finance has been announced, which will commence early in 2011, and will deliver the framework for the following finance settlement. The wider picture of the state of public finances is well documented and the reality of the need for significant cuts to all areas of public sector funding, including local government, has been factored into the medium term forecast.

In May 2010 the Council entered into a new four year electoral cycle, taking the opportunity both to set new goals and to adopt new approaches to the Council's ways of working through the Hillingdon Improvement Programme Business Improvement Delivery (HIP BID) programme. Further savings proposals are still being identified to bridge the forecast budget gap over the 4 year period. In addition, there will continue to be ongoing pressures on key Council services such as demographic pressures on adult social care, demand for school places and escalating waste disposal costs. These are also included in the medium term forecast.

Looking at the wider picture, the economic recovery for 2011/12 is likely to be slow and uneven. With growth prospects remaining subdued the Monetary Policy Committee will want to keep interest rates low, however they are likely to come under pressure to increase rates as global and household inflation rises. Consumer Price Inflation is stubbornly above 3% and is likely to spike over 4% and possibly over 5% during 2011 as a result of increases in VAT, utilities and rail fares. In this context, in the public sector the impact of a return to normal inflationary conditions may be delayed due to the pressure on the public finances. This should reduce pay expectations in local government, although this will be offset by inflationary pressures on contracts, subject to annual indexed increases.

4. Statement of Responsibilities for the Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

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

2. Chief Finance Officer Responsibilities

   The Chief Finance Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

   In preparing this statement of accounts the Chief Finance Officer has:

   - Selected suitable accounting policies and then applied them consistently;
   - Made judgements and estimates that were reasonable and prudent; and
   - Complied with the local authority code.

The Chief Finance Officer has also:

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

3. Chief Finance Officer Approval of Accounts

   I certify that these accounts present a true and fair view of the financial performance, position and cashflows 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 31 March 2011 and its income and expenditure for the year then ended.

Paul Whaymand
CHIEF FINANCE OFFICER
28 September 2011

Audit Committee Certificate for the Approval of the Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 28 September 2011.

Signed on behalf of London Borough of Hillingdon

John Morley
CHAIRMAN (AUDIT COMMITTEE)
28 September 2011

5. Independent auditor's report to the Members of the Council

Opinion on the Council accounting statements

We have audited the accounting statements of London Borough of Hillingdon for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes 1 to 49. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. We read all the information in the explanatory foreword and other information included in the Statement of Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of London Borough of Hillingdon's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and other information included in the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

<u>Opinion on the pension fund accounting statements</u>

We have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit and express and opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. We read all the information in the explanatory foreword and other information included in the Statement of Accounts to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and other information included in the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, London Borough of Hillingdon put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Heather Bygrave

Heather Bygrave (Engagement Lead) for and Behalf of Deloitte LLP
Appointed Auditor, St Albans, UK
30 September 2011

Certificate

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

Heather Bygrave

Heather Bygrave (Engagement Lead) for and Behalf of Deloitte LLP
Appointed Auditor, St Albans, UK
1 November 2011

6. Statement of Accounting Policies

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11 (BVACOP), supported by International Financial Reporting Standards (IFRS).

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

CAPITAL

1. Property, Plant and Equipment

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

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

Measurement: Assets are initially measured at cost, comprising:

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

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

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

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

- Infrastructure assets, community assets and assets under construction are included in the balance sheet at historical cost;

- Dwellings are carried at fair value, determined using the basis of existing use value for social housing;

- All other classes of asset shall be measured at fair value. For land, buildings and assets which are not held for the purpose of generating cash flows, the fair value represents the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value due to the specialised nature of the asset, the asset is valued at its depreciated replacement cost; and

- Plant and machinery forming an integral part of the property is included in the valuation of the buildings. Other plant and machinery has been given a value on the basis of historical costs as a proxy for current value.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a revaluation loss previously charged to a service)

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

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

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

A de minimis value of £10,000 has been set for capital purchases. This limit also applies to valuations. De minimis expenditure is charged to revenue but, where permissible and appropriate, it is financed as though it were capital expenditure.

The Council does not own foundation school assets and the value of these assets are not included in the Council's balance sheet.

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

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

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

Depreciation is calculated on a straight line method and is based on the following useful lives or approach:

Infrastructure	40 years
Vehicles, Plant, Furniture & Equipment	5 to 7 years
Council Dwellings	Provided at the level of the major repairs allowance in line with CIPFA recommended practice
Other Land & Buildings	Useful life varies depending on the condition, type and usage of the asset
Surplus Assets	Useful life varies depending on the condition, type and usage of the asset
IT Equipment	5 years
Intangible Assets	5 years

Where an item of Property, Plant and Equipment asset has major components the cost of which are material (20% or £250k) the asset is split into component parts and depreciated separately. Where component parts are identified, the carrying value of the asset is reviewed and an estimate is made on the carrying amount of the component being replaced and this is then written out.

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

Disposals: When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction expected within the following year, rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

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

Commitments to make stock transfers are valued at estimated tenanted market value at the time the transfer is agreed and an adjustment made to the non-current assets with any loss charged to the HRA

Comprehensive Income and Expenditure Statement. An adjustment is made to non-current assets for any change to this valuation at the time of actual disposal.

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

Grants and contributions: Where grants and contributions are received that are identifiable to Plant, Property and Equipment with a finite useful life, the amounts are credited to the Comprehensive Income and Expenditure Statement. These are then transferred to the Capital Grants Unapplied Reserve if not used and the Capital Adjustment Account when applied. If the grants have a condition for repayment and remain unapplied at the end of the year, they are held on the Balance Sheet as creditors.

2. Intangible Assets

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

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

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

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

3. Charges to Revenue for Non-Current Assets

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

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

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

4. Revenue Expenditure Funded from Capital Under Statute

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

5. Investment Properties

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

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

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

6. Leases

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

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

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

<u>The Council as a Lessee</u>

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

<u>The Council as Lessor</u>

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

REVENUE

7. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Where the Council is acting as an agent for another party (e.g. in the collection of National Non-Domestic Rates (NNDR) and Council Tax), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

8. Acquisitions and Discontinued Operations

The Council's subsidiary, Hillingdon Homes Ltd, was discontinued at the end of September 2010 and services were amalgamated back into the Council. The accounts have been prepared on a single entity basis applying the principles of merger accounting, as set out in Financial Reporting Standard 6.

9. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are held in instant access accounts, readily convertible to known amounts of cash with insignificant risk of change in value. Amounts held in fixed term deposits not accessible within 24 hours are not classified as cash equivalents, but as short term investments.

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

10. Changes in Accounting Policies and Estimates and Errors

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

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

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

11. Employee Benefits

<u>Benefits Payable During Employment</u>

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

<u>Termination Benefits</u>

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

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

<u>Post Employment Benefits</u>

The Council participates in three defined benefit pension schemes:

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

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

Teachers' Pension Scheme

- The teachers' scheme is unfunded and administered on behalf of the Department for Children, Schools and Families (DCSF) by Capita Hartshead. The pension cost charged to the accounts is the contribution rate set by the DCSF on the basis of a notional fund.

The Local Government Pension Scheme

- The pension liabilities attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earning for current employees.

- Liabilities are discounted to their value at current prices.
- The pension fund assets attributable to the Council is included in the Balance Sheet at fair value:
    - Quoted securities – current bid price
    - Unquoted securities – professional estimate
    - Unitised securities – current bid price
    - Property – market value
- The change in the net pensions liability is analysed into seven components:
    - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
    - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
    - Gains/losses on settlements and curtailments – the result of action to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
    - Contributions paid to pension funds – cash paid as employer's contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

12. Long Term Contracts

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

13. Private Finance Initiative (PFI) Contract

PFI and similar contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase property, plant and equipment) are balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as a finance lease)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

14. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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

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

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

15. Inventories and Work in Progress

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

16. Overheads and Support Services

In line with CIPFA recommended practice and complying with the Best Value Accounting Code of Practice (BVACOP), support service costs are recharged to front line services. The basis of allocation is as follows:

Cost	Basis of Allocation
Central department costs (e.g. Finance & Resources)	Staff numbers
Administrative buildings	Area occupied
Computing and Telephony	Estimated usage

Costs are not allocated in relation to:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on surplus assets in Property, Plant & Equipment.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

17. Corporate and Democratic Core

Corporate and Democratic Core services are identified and accounted for separately. These include democratic representation and management and corporate management. They receive recharges of support costs.

18. Non-Distributed Costs

Some costs are not allocated to services and appear under the heading "Non-Distributed Costs" in the Comprehensive Income and Expenditure Statement. These include costs associated with the loss of work or function that cannot be reduced, impairment losses on assets under construction and surplus assets, and revenue costs of holding surplus assets.

19. Provisions and Reserves

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

Provisions

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

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

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

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

Provision for bad and doubtful debts

No provision is made for debts that are secured or are with other Public Sector Bodies except in exceptional circumstances. Of all remaining debts, the Council makes a provision for bad debts based upon continuous reviews on likely recovery undertaken by service managers and supporting finance staff.

Reserves

Amounts set aside for purposes falling outside the definition of provisions or contingent liabilities, required for future policy purposes or to cover contingencies, are treated as reserves. Transfers to and from reserves are distinguished from service expenditure. Expenditure is not charged directly to any reserve.

Revaluation Reserve	Records the accumulated gains on non-current assets held by the Council arising from increases in value. This value is offset by that part of depreciation relating to the revaluation for each asset. Impairments of non-current assets with a previous revaluation gain are written out to the revaluation reserve. This account replaced the Fixed Asset Restatement Account with effect from 1st April 2007. It had a nil balance at 1st April 2007
Capital Adjustment Account	Accumulates resources that have been set aside to finance capital expenditure offset by the write down of historical cost fixed assets (depreciation and impairments) or written off on disposal. This covers both capital assets and expenditure that is capital by statute (revenue expenditure funded from capital under statute).
Capital Receipts Reserve	Includes capital receipts that have not yet been used to finance capital expenditure or to repay debt
Government Grants Unapplied Reserve	Capital grants which are unapplied and do not have a condition to repay the grant, are held in this reserve
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
Major Repairs Reserve	A requirement of the HRA resource accounting and holds depreciation charged to the HRA in excess of the major repairs allowance
Equal Pay Back Pay Reserve	Relates to the amount of back pay deferred from being charged to General Fund and Housing Revenue Account for unequal pay claims following direction under regulation 30A of the Capital Financing and Accounting Regulations 2003

20. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are then carried at their amortised cost. Annual credits are made to the Comprehensive Income and Expenditure Statement for interest receivable and are based on the carrying amount of the asset multiplied by the effective interest rate applicable to the financial instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any accrued interest. The interest receivable for the year in the loan agreement is credited to the Comprehensive Income and Expenditure Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-sale Financial Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available for Sale Financial Instruments Reserve and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available for Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired due to a past event indicating that amounts due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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

21. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement are made for interest payable and are based upon the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal payable plus any accrued interest. The interest payable for the year according to the loan agreement is charged to the Comprehensive Income and Expenditure Statement. However, any stock issued by the Council is carried at a lower amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the rate payable to stockholders as a material amount of costs incurred in its issue is being financed over the life of the stock.

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

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

22. Redemption of Debt

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

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

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

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

In addition to the scheduled repayments the Council will also reschedule or redeem debt early as part of the overall management of the portfolio by utilising the Council's ability to repay and/or replace debt based on prevailing market conditions.

23. Minimum Revenue Provision

The Council has to make an annual provision for the repayment of borrowing. For all borrowing prior to 1 April 2009 and borrowing that receives support via the Revenue Support Grant the Council applies the Capital Financing Requirement concept based upon figures from the balance sheet (4% of outstanding debt). For other borrowing, the Council makes provision for the repayment of debt over the life of the asset to which the borrowing is applied.

24. Collection Fund

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

- In its capacity as a billing authority the Council acts as agent; it collects and distributes council tax income on behalf of the major preceptors and itself.
- While the council tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.
- Up to 2008/09 the SORP required the council tax income included in the Income and Expenditure Account to be that specified under regulation.
- From the year commencing 1 April 2009 the council tax income included in the Income and Expenditure Statement for the year is to be the accrued income for the year. The difference between the income included in the Income and Expenditure Statement and the amount specified by regulation to be credited to the Collection Fund is to be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

As the collection of council tax and NNDR Income is in substance an agency arrangement:

- Cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council taxpayers; and
- Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

25. VAT

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

26. Contingent Liabilities

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

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

27. Contingent Assets

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

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

28. Events after the Reporting Period

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

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

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

29. Exceptional and Extraordinary items and Prior Year Adjustments

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

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

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

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

The items in the Council's Balance Sheet as at 31 March 2011 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependant on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Provisions	Provisions are defined as probable future liabilities based on past events and there are therefore inherent uncertainties related to provisions that have been made and the amounts set aside.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.
Arrears	Provisions have been made for debt owed to the Council for which payment may not be received. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient.	Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts.

31. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

FRS 30 *Heritage Assets* has been issued but had not been adopted by the 2010/11 Code. This is to be introduced in the 2011/12 financial statements. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. The key changes to be introduced include:

- Heritage assets which are non-operational are to be disclosed separately for the first time. No separate disclosure is required for operational heritage assets.
- Where the Council has information on the cost or value of a heritage asset, the asset should be recognised at its fair value. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses).
- If the historical cost value of a heritage asset is not available, the asset will not be recognised in the Balance Sheet, with a separate disclosure made in the notes of the accounts.
- Heritage assets should not be depreciated or amortised. The carrying amount of the asset should be reviewed where there is evidence of impairment.

The Council does not hold any assets which would require separate disclosure under FRS30.

Main Financial Statements

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

These statements are published in accordance with Regulation 11 of the Accounts and Audit Regulations 2003. They summarise the overall financial position of the Council and in particular include the following:

Comprehensive Income and Expenditure Statement (page 36)
This statement shows the expenditure and the income relating to all the services provided by the Council and how the net cost of these services has been financed by local taxpayers and government grants.

Balance Sheet (page 38)
This sets out the assets and liabilities of the Council as at 31 March 2011, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 39)
This statement sets out the reserves held by the Council, split into usable and unusable reserves, and shows how they have moved during the year.

Cash Flow Statement (page 41)
This consolidated statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. The statement excludes any transactions of the pension and trust funds.

Comprehensive Income and Expenditure Statement

This statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

		Year Ending 31 March 2011			Year Ending 31 March 2010		
	Notes	**Expenditure £000's**	**Income £000's**	**Net Expenditure £000's**	Expenditure £000's	Income £000's	Net Expenditure £000's
EXPENDITURE ON SERVICES							
Central Services to the Public		33,100	25,040	8,060	33,317	24,266	9,051
Cultural, Environmental, Regulatory and Planning Services		70,300	15,696	54,604	58,891	18,459	40,432
Education and Children's Services		326,736	274,743	51,993	464,203	281,006	183,197
Highways and Transport Services		26,360	8,230	18,130	24,706	7,284	17,422
Local Authority Housing (HRA)		244,356	54,855	189,501	53,209	55,969	(2,760)
Other Housing Services		165,490	149,024	16,466	158,621	151,593	7,028
Adult Social Care		100,145	26,087	74,058	103,678	26,079	77,599
Corporate and Democratic Core		7,918	341	7,577	7,418	3,272	4,146
Non-Distributed Costs		(90,898)	49	(90,947)	255	515	(260)
COST OF SERVICES		883,507	554,065	**329,442**	904,298	568,443	**335,855**
Other Operating Expenditure	*3*	2,797	0	2,797	1,272	0	1,272
Net loss on disposal of fixed asset		302	0	302	609	0	609
Financing and Investment Income and Expenditure	*4*	18,640	1,719	16,921	24,194	2,074	22,120
Taxation and Non-Specific Grant Income	*5*	0	238,162	(238,162)	5	220,001	(219,996)
Corporate Amount		21,739	239,881	**(218,142)**	26,080	222,075	**(195,995)**
DEFICIT ON PROVISION OF SERVICES		**905,246**	**793,946**	**111,300**	**930,378**	**790,518**	**139,860**
Surplus on revaluation of Property, Plant and Equipment assets				(30,246)			(13,977)
Actuarial (Gain)/loss on pension assets and liabilities	*46/47*			(104,514)			211,166
Surplus on revaluation of available for sale financial assets	*12*			(6)			0
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				**(23,466)**			**337,049**

The deficit for 2010/11 of £111,300k includes impairments to Local Authority Housing Stock of £196,675k, impairments in 2009/10 totalled £148,177k, predominantly in relation to school assets within Education & Children's Services. These entries are reversed in the Movement in Reserves Statement to mitigate any impact on the council taxpayer as required by statute.

A past service gain of £95,570k is included within Corporate and Democratic Core for 2010/11, representing a reduction in IAS 19 pension liabilities following the announcement that public service pension uplifts would be linked to CPI rather than RPI. This entry is reversed in the Movement in Reserves Statement.

In 2010/11 the statements of accounts were prepared under International Financial Reporting Standards (IFRS) as defined by the CIPFA Code of Practice, including a restatement of 2009/10 figures. Note 49 further explains transitional restatements.

Movement in General Fund Balance

The Comprehensive Income and Expenditure Statement shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However the Council is required to raise council tax on a different accounting basis, the main differences being:-

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Comprehensive Income and Expenditure Statement, but is met from the Capital Receipts Reserve balance rather than council tax.
- Depreciation and Impairment charges are replaced with the Minimum Revenue Provision to provide for the repayment of debt.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.
- Employee benefits such as annual leave and flexi leave are accounted for when they are actually taken.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation below summarises the differences between the outturn on the Comprehensive Income and Expenditure Statement and the General Fund Balance. Further details are provided in note 1 on page 42.

	Notes	2010/11 £000's	2009/10 £000's
Deficit for the year on the Comprehensive Income and Expenditure Statement		111,300	139,860
Net additional amount required by statute or non-statutory proper practices to be credited to the General Fund balance for the year (Page 42).	*1*	(117,539)	(142,337)
Increase in General Fund balance for the year		**(6,239)**	**(2,477)**
General Fund balance brought forward		(30,790)	(28,313)
General Fund balance carried forward		**(37,029)**	**(30,790)**
Comprising			
General Fund Balance held by schools	*2*	(20,170)	(11,890)
General Fund Balance generally available for new expenditure	*2*	(16,859)	(18,900)
		(37,029)	**(30,790)**

The Net Cost of Services reported in the Comprehensive Income and Expenditure Statement and the Movement in General Fund Balance differ from those reported internally for resource allocation decisions. Note 26 provides a reconciliation between amounts reported internally to management and those reported in the accounting statements.

Balance Sheet

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

Reserves are reported in two categories:

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

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

	Note	At 31st March 2011 £000's	At 31st March 2010 £000's	At 31st March 2009 £000's
Property, Plant & Equipment	*6 & 7*	1,180,080	1,359,236	1,466,498
Intangible Assets	*11*	978	1,161	1,443
Investment properties	*10*	5,725	5,725	10,275
Long Term Investments	*12*	4,827	8,270	15,009
Long Term Debtors	*17*	582	581	424
LONG TERM ASSETS		**1,192,192**	**1,374,973**	**1,493,649**
Inventories	*13*	82	128	133
Short Term Debtors	*14*	31,889	34,850	38,833
Short term Investments	*12*	15,121	8,230	45,899
Cash and Cash Equivalents	*15*	42,912	71,931	52,295
Assets held for sale	*16*	6,996	827	60
CURRENT ASSETS		**97,000**	**115,966**	**137,220**
Short Term Borrowing	*12*	(4,463)	(17,578)	(2,054)
Short Term Creditors	*18*	(74,337)	(92,013)	(103,729)
CURRENT LIABILITIES		**(78,800)**	**(109,591)**	**(105,783)**
Provisions	*20*	(5,130)	(3,840)	(4,342)
Deferred credits		(126)	(143)	(165)
Long term borrowing	*12*	(155,221)	(163,198)	(194,526)
Long term creditors	*19*	(3,665)	(3,386)	(3,430)
Capital grant receipts in advance	*37*	(17,906)	(17,892)	(10,706)
Deferred liabilities		(3,124)	(3,568)	(3,729)
Liabilities related to defined benefit pension schemes	*47*	(248,446)	(436,013)	(217,831)
LONG TERM LIABILITIES		**(433,618)**	**(628,040)**	**(434,729)**
NET ASSETS		**776,774**	**753,308**	**1,090,357**
Usable Reserves	*1*	56,348	49,092	38,049
Unusable Reserves	*22*	720,426	704,216	1,052,308
TOTAL RESERVES		**776,774**	**753,308**	**1,090,357**

Paul Whaymand
Chief Finance Officer
28 September 2011

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Notes	General Fund Balance	Schools Reserves	Earmarked Reserves	Housing Revenue Account	Capital Grants Unapplied Reserve	Capital Receipts Reserve	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
		£000's	£000's	£000's	£000's	£000's	£000's	**£000's**	£000's	**£000's**
Balance at 31 March 2010		**18,900**	**11,890**	**4,998**	**7,539**	**737**	**5,028**	**49,092**	**704,216**	**753,308**
(Deficit) on provision of services		(111,300)	0	0	0	0	0	**(111,300)**	0	**(111,300)**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	**0**	134,766	**134,766**
Total Comprehensive Income and Expenditure		(111,300)	0	0	0	0	0	**(111,300)**	134,766	**23,466**
Adjustments between accounting basis & funding basis under regulations	*1*	116,459	0	0	5,445	(143)	(3,205)	**118,556**	(118,556)	**0**
Net increase/decrease before transfers to earmarked reserves		5,159	0	0	5,445	(143)	(3,205)	**7,256**	16,210	**23,466**
Transfers to / (from) Earmarked Reserves	*1 & 2*	(7,200)	8,280	(1,019)	(61)	0	0	**0**	0	**0**
Increase / (Decrease) in Year		(2,041)	8,280	(1,019)	5,384	(143)	(3,205)	**7,256**	16,210	**23,466**
Balance at 31 March 2011		**16,859**	**20,170**	**3,979**	**12,923**	**594**	**1,823**	**56,348**	**720,426**	**776,774**

Movement in Reserves Statement

	Notes	General Fund Balance	Schools Reserves	Earmarked Reserves	Housing Revenue Account	Capital Grants Unapplied Reserve	Capital Receipts Reserve	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
		£000's	£000's	£000's	£000's	£000's	£000's	**£000's**	£000's	**£000's**
Balance at 31 March 2009		**17,291**	**11,022**	**1,237**	**5,331**	**2,159**	**1,009**	**38,049**	**1,052,308**	**1,090,357**
(Deficit) on provision of services		(139,860)	0	0		0	0	**(139,860)**	0	**(139,860)**
Other Comprehensive Income and Expenditure		0	0	0	0	0		**0**	(197,189)	**(197,189)**
Total Comprehensive Income and Expenditure		(139,860)	0	0	0	0	0	**(139,860)**	(197,189)	**(337,049)**
Adjustments between accounting basis & funding basis under regulations	*1*	146,098	0	0	2,208	(1,422)	4,019	**150,903**	(150,903)	**0**
Net increase/(decrease) before transfers to earmarked reserves		6,238	0	0	2,208	(1,422)	4,019	11,043	(348,092)	(337,049)
Transfers to / (from) Earmarked Reserves	*1&2*	(4,629)	868	3,761	0	0	0	**0**	0	**0**
Increase / (Decrease) in Year		1,609	868	3,761	2,208	(1,422)	4,019	**11,043**	(348,092)	**(337,049)**
Balance at 31 March 2010		**18,900**	**11,890**	**4,998**	**7,539**	**737**	**5,028**	**49,092**	**704,216**	**753,308**

Cash Flow Statement

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

	Note	2010/11 £000's	2009/10 £000's
Net surplus or deficit on the provision of services	*23*	111,300	139,860
Adjust net surplus or deficit on the provision of services for non cash movements	*23*	(186,182)	(189,947)
Adjust for items in the net surplus of deficit on the provision of services that are investing or financing activities.	*23*	44,054	46,666
Net cash flows from operating activities	*23*	(30,828)	(3,421)
Investing Activities	*24*	21,864	(13,090)
Financing Activities	*25*	37,983	(3,125)
(Increase)/decrease in cash and cash equivalents		**29,019**	**(19,636)**
Cash and cash equivalents at the beginning of the reporting period		**(71,931)**	**(52,295)**
Cash and cash equivalents at the end of the reporting period		**(42,912)**	**(71,931)**

Notes to Main Financial Statements

1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Capital Adjustment Account:						
Amortisation of intangible assets	(303)					303
Depreciation and impairment of non current assets	(235,239)					235,239
Revenue expenditure funded from capital under statute	(15,030)					15,030
Capital grants and contributions	37,181			(594)		(36,587)
Amounts written off on disposal of non current assets	(3,495)					3,495
Statutory provision for the financing of capital investment	3,997					(3,997)
Capital expenditure charged in year to the General Fund balance	434					(434)
Finance Lease Principal	644					(644)
Adjustments primarily involving the Capital Grants Unapplied Reserve:						
Application of grants to capital financing transferred to the Capital Adjustment Account				737		(737)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the gain/loss on disposal of non current assets	3,193				(3,193)	
Use of Capital Receipts Reserve to finance new capital expenditure					4,511	(4,511)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(2,124)				2,124	
Other Income	259				(237)	(22)

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Notes to Main Financial Statements

2010/11 Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Premiums and discounts	23					(23)
Impairment/(Gains) of Financial Investments Adjustment	3,613					(3,613)
Adjustments primarily involving the Pensions Reserve:						
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	58,604					(58,604)
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	24,449					(24,449)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,372					(1,372)
Continued on next page						

Notes to Main Financial Statements

2010/11 Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	478					(478)
Other adjustments						
Housing Revenue Account balance	5,384		(5,384)			
Net transfer to or from earmarked reserves	(979)	1,019				(40)
Total Adjustments	**(117,539)**	**1,019**	**(5,384)**	**143**	**3,205**	**118,556**

Notes to Main Financial Statements

2009/10 COMPARATORS	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Capital Adjustment Account:						
Amortisation of intangible assets	(324)					324
Depreciation and impairment of non current assets	(165,233)					165,233
Revenue expenditure funded from capital under statute	(17,905)					17,905
Capital grants and contributions applied	35,612					(35,612)
Amounts written off on disposal of non current assets	(6,677)					6,677
Statutory provision for the financing of capital investment	3,721					(3,721)
Capital expenditure charged in year to the General Fund balance	2,666					(2,666)
Finance Lease Principal	979					(979)
Adjustments primarily involving the Capital Grants Unapplied Reserve:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	737			(737)		
Application of grants to capital financing transferred to the Capital Adjustment Account				2,159		(2,159)
Continued on next page						

Notes to Main Financial Statements

2009/10 COMPARATORS Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the gain/loss on disposal of non current assets	6,068				(6,068)	
Use of Capital Receipts Reserve to finance new capital expenditure					1,485	(1,485)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(583)				583	
Other Income	31				(19)	(12)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Premiums and discounts	(54)					54
Impairment/(Gains) of Financial Investments Adjustment	1,335					(1,335)
Adjustments primarily involving the Pensions Reserve:						
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(29,322)					29,322
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	22,306					(22,306)
Continued on next page						

Notes to Main Financial Statements

2009/10 COMPARATORS Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(654)					654
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,203)					1,203
Other adjustments						
Housing Revenue Account balance	2,208		(2,208)			
Net transfer to or from earmarked reserves	3,955	(3,761)				(194)
Total Adjustments	**(142,337)**	**(3,761)**	**(2,208)**	**1,422**	**(4,019)**	**150,903**

Notes to Main Financial Statements

2. EARMARKED RESERVE TRANSFERS

	At 31 March 2011 £000's	Transfers Out 2010/11 £000's	Transfers In 2010/11 £000's	At 31 March 2010 £000's	Transfers Out 2009/10 £000's	Transfers In 2009/10 £000's	At 31 March 2009 £000's
General Fund :							
- Working balance	16,859	(2,041)		18,900	(868)	2,477	17,291
- Schools delegated funds	20,170		8,280	11,890		868	11,022
Total	**37,029**	**(2,041)**	**8,280**	**30,790**	**(868)**	**3,345**	**28,313**
Earmarked Reserves							
- Parking fund	741	(13)		754	(152)		906
- New Road & Streetworks Act fund	174	(16)		190			190
- Elections	(0)	(212)		212		71	141
- Insurance Risk Management	0	(33)		33		33	0
- Imported Food Service	0	(220)		220		220	0
- Schools Earmarked Reserves	100	(1,759)		1,859		1,859	0
- Social Care Grant Funded Reserves	1,130	(1,000)	400	1,730		1,730	0
- Children Services Reserves	310		310	0			0
- Highways Maintenance	517		517	0			0
- Housing GF Grant Funded Reserves	359		359	0			0
- Insurance Provision	50		50	0			0
- Leisure Facilities Reserve	398		398	0			0
- Libraries Reserve	139		139	0			0
- HRA Grant Funded Reserves	61		61	0			0
Total	**3,979**	**(3,253)**	**2,234**	**4,998**	**(152)**	**3,913**	**1,237**
Housing Revenue Account	12,923		5,384	7,539		1,484	6,055
	53,931	**(5,294)**	**15,898**	**43,327**	**(1,020)**	**8,742**	**35,605**

Specific Reserves

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.
Parking fund - This represents surpluses set aside from on-street parking income to fund traffic management and transport initiatives, as defined by statute.
New Roads & Streetworks Act fund - Income raised under Section 74 of the New Roads & Streetworks Act is required by statute to be ring fenced for maintaining the highways. Income not spent within the year is set aside in the New Roads and Streetworks Act fund.
Elections - Council elections occur every four years. An amount is set aside each year from the Council's budget to meet the cost of elections.
Insurance Risk Management - Exceptional income related to insurance transactions set aside to finance risk reduction measures with the aim of reducing future insurance costs.
Imported Food Service - To meet the fluctuations of income from the Imported Food Service (for example during times of reduced economic activity), in order to mitigate any potential impacts on the Council's General fund.
Schools Earmarked Reserves - Funds set aside to meet insurance, sickness cover and other schools related expenditure.
Social Care Grant Funded Reserves - Grant income set aside to fund future expenditure relating to Social Care.
Children Services Reserves - Grant income set aside to fund future expenditure relating to Children Services.
Highways Maintenance - Funds set aside to fund reactive maintenance on Highways and Pothole Grant income set aside to fund future expenditure.
Housing GF Grant Funded Reserves - Grant income set aside to fund future expenditure relating to Housing.
Insurance Provision - Funds set aside in addition to insurance provisions to fund any future insurance liabilities.
Leisure Facilities Reserve - Surplus from outsourcing set aside for reinvestment in the service.
Libraries Reserve - Surplus from Libraries are set aside for reinvestment in the service.
HRA Grant Funded Reserves - Grant income set aside to fund future expenditure relating to the Housing Revenue Account.

Notes to Main Financial Statements

3. OTHER OPERATING EXPENDITURE

	2010/11 £000's	2009/10 £000's
Payments to Government Housing Capital Receipts Pool	2,124	583
Precepts and Levies	673	689
Total	**2,797**	**1,272**

4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2010/11 £000's	2009/10 £000's
Interest payable and Similar Charges	7,513	7,687
Interest receivable	(969)	(2,043)
Pensions interest cost and expected return on pension assets	11,127	16,410
Changes in the fair value of investment properties	0	0
Net (profit)/loss on trading undertakings	(491)	97
Other income	(259)	(31)
Total	**16,921**	**22,120**

5. TAXATION AND NON-SPECIFIC GRANT INCOME

	2010/11 £000's	2009/10 £000's
Council tax income	(111,155)	(105,828)
Non domestic rates	(73,708)	(67,242)
Non-ringfenced government grants	(29,071)	(27,435)
Capital grants & contributions	(24,228)	(19,496)
Other Taxation	0	5
Total	**(238,162)**	**(219,996)**

6. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2010/11

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Plant, Property & Equipment
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross book value as at 1 April 2010	736,937	472,480	46,109	212,667	14,137	20,282	11,909	**1,514,521**
Additions	9,849	18,689	2,298	4,690	425	7,918	6	**43,875**
Derecognition - Disposals	(2,666)	(797)	(362)	0	0	0	0	**(3,825)**
Derecognition - Other	0	0	(487)	0	0	0	0	**(487)**
Reclassifications	0	13,394	647	0	(21)	(20,282)	6,262	**0**
Revaluation increases recognised in Revaluation Reserve	0	25,771	0	0	0	0	0	**25,771**
Revaluation decreases recognised in Surplus/Deficit on the Provision of Services	(246,923)	(30,048)	0	0	(146)	0	0	**(277,117)**
Assets reclassified (to)/from Held for Sale	(2,055)	(4,252)	0	0	0	0	0	**(6,307)**
Gross book value as at 31 March 2011	**495,142**	**495,237**	**48,205**	**217,357**	**14,395**	**7,918**	**18,177**	**1,296,431**
Depreciation and Impairment								
Accumulated at 1 April 2010	(42,062)	(15,443)	(32,515)	(65,255)	0	0	(10)	**(155,285)**
Depreciation charge for 2010/11	(8,224)	(8,450)	(3,580)	(5,316)	0	0	(236)	**(25,806)**
Depreciation written out to revaluation reserve	0	4,462	0	0	0	0	0	**4,462**
Depreciation written out to Surplus/Deficit on Services	50,248	9,048	0	0	0	0	0	**59,296**
Derecognition - Disposals	38	0	351	0	0	0	0	**389**
Derecognition - Other	0	0	487	0	0	0	0	**487**
Reclassifications	0	78	0	0	0	0	(78)	**0**
Revaluations	0	106	0	0	0	0	0	**106**
Accumulated at 31 March 2011	0	(10,199)	(35,257)	(70,571)	0	0	(324)	**(116,351)**
Balance Sheet amount 1 April 2010	694,875	457,037	13,594	147,412	14,137	20,282	11,899	**1,359,236**
Balance Sheet amount 31 March 2011	**495,142**	**485,038**	**12,948**	**146,786**	**14,395**	**7,918**	**17,853**	**1,180,080**
Nature of asset holding								
Owned	495,142	482,105	12,326	146,786	14,395	7,918	17,853	**1,176,525**
Finance Lease	0	0	622	0	0	0	0	**622**
PFI	0	2,933	0	0	0	0	0	**2,933**
Balance Sheet amount 31 March 2011	**495,142**	**485,038**	**12,948**	**146,786**	**14,395**	**7,918**	**17,853**	**1,180,080**

PFI assets with a gross book value of £6,052k and accumulated depreciation of £3,119k are included in Other Land & Buildings.

Notes to Main Financial Statements

7. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2009/10

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Plant, Property & Equipment
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross book value as at 1 April 2009	732,860	613,139	39,000	206,220	14,926	28,550	7,359	**1,642,054**
Additions	10,734	19,489	6,432	6,447	574	11,711	19	**55,406**
Derecognition - Disposals	(2,654)	(4,206)	(48)	0	0	0	(320)	**(7,228)**
Reclassifications	(151)	20,762	725	0	(1,313)	(19,979)	4,505	**4,549**
Revaluation increases recognised in Revaluation Reserve	0	1,095	0	0	25	0	1,139	**2,259**
Revaluation decreases recognised in Surplus/Deficit on the Provision of Services	(3,852)	(177,799)	0	0	(75)	0	(26)	**(181,752)**
Assets reclassified to Held for Sale	0	0	0	0	0	0	(767)	**(767)**
Gross book value as at 31 March 2010	**736,937**	**472,480**	**46,109**	**212,667**	**14,137**	**20,282**	**11,909**	**1,514,521**
Depreciation								
Accumulated at 1 April 2009	(34,175)	(52,955)	(28,297)	(60,100)	0	0	(29)	**(175,556)**
Depreciation charge for 2009/10	(8,173)	(8,020)	(3,763)	(5,155)	0	0	(10)	**(25,121)**
Depreciation written out to revaluation reserve	0	11,385	0	0	0	0	1	**11,386**
Depreciation written out to Surplus/Deficit on Services	207	33,806	0	0	0	0	23	**34,036**
Derecognition - Disposals	84	336	7	0	0	0	0	**427**
Reclassifications	(5)	5	(462)	0	0	0	5	**(457)**
Accumulated at 31 March 2010	(42,062)	(15,443)	(32,515)	(65,255)	0	0	(10)	**(155,285)**
Balance Sheet amount 1 April 2009	698,685	560,184	10,703	146,120	14,926	28,550	7,330	**1,466,498**
Balance Sheet amount 31 March 2010	**694,875**	**457,037**	**13,594**	**147,412**	**14,137**	**20,282**	**11,899**	**1,359,236**
Nature of asset holding								
Owned	694,875	453,842	12,577	147,412	14,137	20,282	11,899	**1,355,024**
Finance Lease	0	0	1,017	0	0			**1,017**
PFI	0	3,195	0	0	0			**3,195**
Balance Sheet amount 31 March 2010	**694,875**	**457,037**	**13,594**	**147,412**	**14,137**	**20,282**	**11,899**	**1,359,236**

Additionally, PFI assets with a gross book value of £6,052k and accumulated depreciation of £2,857k are included in Other Land & Buildings.

Notes to Main Financial Statements

8. REVALUATION LOSSES

The freehold and leasehold properties which comprise the authority's property portfolio have been valued as at 1 April 2010 by the Estate and Valuation service of the authority. Revaluations are made on a rolling five year period and indexed in intervening periods. The only external valuation included is of Council Dwellings which were revalued as at 1 April 2010 by King Sturge. The properties have been valued in accordance with the manual of the Royal Institution 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 2010 and March 2011. Full details of the basis of valuation for each asset category are provided in the statement of accounting policies.

During 2010/11, the Council has recognised total revaluation losses of £217,820k, which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. These entries were then reversed through the Movement in Reserves Statement to mitigate any impact on General Fund and Housing Revenue Account Balances.

A revaluation loss of £196,675k was recognised within expenditure on Local Authority Housing. Although there was no material movement in the vacant possession value of Council Dwellings, the Department for Communities and Local Government (DCLG) decision to change the factor used to calculate economic use value for social housing from 37% to 25% resulted in this revaluation loss.

9. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2011, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £32,498k. Similar commitments at 31 March 2010 were £20,870k. The major committments are:

Year	31 March 2011 £000's	31 March 2010 £000's
2010/11	0	16,970
2011/12	28,858	3,900
2012/13	3,640	0
	32,498	**20,870**

Capital commitments at 31 March 2011 include £18,254k school expansions, £5,297k construction of Council Dwellings, £5,218k libraries and £3,729k for other capital projects.

Notes to Main Financial Statements

10. INVESTMENT PROPERTIES

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

	2010/11 £000's	2009/10 £000's
Rental income from investment property	(412)	(438)
Direct operating expenses arising from investment property	25	58
Net gain	**(387)**	**(380)**

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

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

	2010/11 £000's	2009/10 £000's	2008/09 £000's
Opening Balance	5,725	10,275	9,954
Subsequent expenditure	0	0	2,013
Disposals	0	0	(1,817)
Net gains/losses from fair value adjustments	0	0	(87)
Transfers:			
- to/from Inventories			
- to-from Property, Plant and Equipment	0	(4,550)	212
Closing Balance	**5,725**	**5,725**	**10,275**

Notes to Main Financial Statements

11. INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are all purchased software licences as opposed to internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to all software is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis, to the following service headings:

	2010/11	2009/10	2008/09
	£000's	£000's	£000's
Service			
Central Services to the Public	253	276	306
Cultural, Environment and Planning	16	16	16
Adult Social Care	34	32	33
Total	**303**	**324**	**355**

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

	2010/11	2009/10	2008/09
Software	**£000's**	£000's	£000's
Gross carrying amounts	2,336	2,294	2,178
Accumulated amortisations	(1,175)	(851)	(496)
Net carrying amount at the start of the year	**1,161**	**1,443**	**1,682**
Purchases	120	42	116
Amortisation for the period	(303)	(324)	(355)
Net carrying amount at end of year	**978**	**1,161**	**1,443**
Comprising			
Gross carrying amounts	2,456	2,336	2,294
Accumulated amortisation	(1,478)	(1,175)	(851)
Total	**978**	**1,161**	**1,443**

Notes to Main Financial Statements

12. FINANCIAL INSTRUMENT BALANCES

	Current			Long-Term			Total		
	31 March 2011 £000's	31 March 2010 £000's	31 March 2009 £000's	**31 March 2011 £000's**	31 March 2010 £000's	31 March 2009 £000's	**31 March 2011 £000's**	31 March 2010 £000's	31 March 2009 £000's
Investments									
Loans and receivables at nominal value	18,494	11,526	50,270	4,745	8,195	14,830	23,239	19,721	65,100
Available-for-sale financial assets	0	0	0	82	75	75	82	75	75
Impairment	(4,020)	(4,400)	(5,616)	0	0	0	(4,020)	(4,400)	(5,616)
Accrued Interest	90	317	761	0	0	104	90	317	865
Accrued notional Icelandic interest	557	787	484	0	0		557	787	484
Total investments	**15,121**	**8,230**	**45,899**	**4,827**	**8,270**	**15,009**	**19,948**	**16,500**	**60,908**
Cash Equivalents									
Cash in hand	19,909	19,114	22,280	0	0	0	19,909	19,114	22,280
Loans and receivables at nominal	7,700	52,800	12,600	0	0	0	7,700	52,800	12,600
Available-for-sale financial assets	15,300		17,300	0	0	0	15,300	0	17,300
Accrued Interest	3	17	115	0	0	0	3	17	115
Total Cash Equivalents	**42,912**	**71,931**	**52,295**	**0**	**0**	**0**	**42,912**	**71,931**	**52,295**
Debtors									
Loans and receivables	**10,060**	13,375	13,085	**449**	434	424	**10,509**	13,809	13,509
Total Financial Instrument Debtor	**10,060**	**13,375**	**13,085**	**449**	**434**	**424**	**10,509**	**13,809**	**13,509**
Borrowings									
Financial liabilities at nominal cost	3,000	16,000	21	158,600	166,600	197,949	161,600	182,600	197,970
Premium	0	0	0	(3,379)	(3,402)	(3,423)	(3,379)	(3,402)	(3,423)
Accrued Interest	1,463	1,578	2,033	0	0	0	1,463	1,578	2,033
Total borrowings	**4,463**	**17,578**	**2,054**	**155,221**	**163,198**	**194,526**	**159,684**	**180,776**	**196,580**
Other Long Term Liabilities									
PFI and finance lease liabilities	430	657	640	2,643	3,073	3,730	3,073	3,730	4,370
Total other long term liabilities	430	657	640	2,643	3,073	3,730	3,073	3,730	4,370
Creditors									
Financial liabilities at amortised cost	34,602	43,633	46,338	13,719	12,848	9,978	48,321	56,481	56,316
Total Financial Instrument Creditor	**34,602**	**43,633**	**46,338**	**13,719**	**12,848**	**9,978**	**48,321**	**56,481**	**56,316**
Total	**28,598**	**31,668**	**62,247**	**(166,307)**	**(170,415)**	**(192,801)**	**(137,709)**	**(138,747)**	**(130,554)**

Notes to Main Financial Statements

INCOME, EXPENSE, GAINS AND LOSSES

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

	2010/11				2009/10			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Interest expense	(5,968)	0	0	(5,968)	(6,871)	0	0	(6,871)
Losses on derecognition	0	0	0	0	(914)	0	0	(914)
Impairment losses	0	0	0	0	0	0	0	0
Total expense in Surplus or Deficit on the Provision of Services	**(5,968)**	**0**	**0**	**(5,968)**	**(7,785)**	**0**	**0**	**(7,785)**
Interest income	0	387	0	387	0	1,133	0	1,133
Notional Icelandic Interest	0	557	0	557	0	787	0	787
Gains on derecognition	10		0	10	851	0	0	851
Impairment Adjustment	0	(407)	0	(407)	0	548	0	548
Total income in Surplus or Deficit on the Provision of Services	**10**	**537**	**0**	**547**	**851**	**2,468**	**0**	**3,319**
Gains on revaluation	0	0	6	6	0	0	5	5
Losses on revaluation	0	0	0	0	0	0	(5)	(5)
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**6**	**6**	**0**	**0**	**0**	**0**
PFI Interest	0	0	0	(1,032)	0	0	0	(1,079)
Other	0	0	0	(98)	0	0	0	(118)
Net gain / (loss) for the year	**(5,958)**	**537**	**6**	**(6,545)**	**(6,934)**	**2,468**	**0**	**(5,663)**

FAIR VALUES OF ASSETS AND LIABILITIES

Financial liabilities, financial assets represented by loans, receivables, long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming the transaction were negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. The fair value of a financial instrument on initial recognition is generally the transaction price.

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

FAIR VALUE OF LIABILITIES CARRIED AT AMORTISED COST

	31 March 2011		31 March 2010		31 March 2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value	Carrying amount	Fair value
	£000's	**£000's**	£000's	£000's	£000's	£000's
PWLB (Maturity Fixed)	83,949	78,370	92,029	89,526	147,588	146,163
PWLB (EIP Fixed)	13,606	13,279	15,118	15,056	0	0
PWLB (EIP Variable)	13,506	13,506	15,006	15,006	0	0
Market	48,623	49,346	48,620	49,630	48,992	50,832
Temporary			10,003	10,003	0	0
Total Financial Liabilities	**159,684**	**154,501**	**180,776**	**179,221**	**196,580**	**196,995**
Trade Payables	48,321	48,321	56,481	56,481	56,316	56,316

The fair value of the liabilities is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders below current market rates.

Financial Liabilities 2010/11

- Public Works Loan Board (PWLB)

The rate at which new borrowing could be undertaken has been used as the discount factor for all PWLB borrowing. This approach has been applied to maintain consistentency with discount factor proxies used for other types of fair value calculations. The new borrowing rate is used to calculate the notional interest gain/loss that will accrue if the authority keeps the loan until maturity.

- Market

Requests were made directly for market loan fair values, however this information is not available in all cases, hence a consistent methodology was applied to all market loans. The fair value was calculated based on the nearest equivalent SWAP rates at the Balance Sheet date, sourced from Bloomberg. The SWAP rates are based on the Mid Rate for that day. This is assumed to provide a more accurate proxy than using PWLB rates which are based on market rates.

- Temporary

The overnight LIBOR rate has been used as the discount factor as it reflects an equivalent rate payable on temporary market borrowing at the Balance Sheet date for the remaining period of the loan.

- Trade Payables

The fair value of trade payables is taken to be the invoiced or billed amount.

Financial Assets 2010/11

The fair value of the assets is the same as the carrying amount because the Council's current portfolio of investments includes instruments where the calculation of the fair value replicates the carrying amount on the balance sheet.

To ascertain fair values, financial assets have been divided into five categories:

- Maturities within 12 months

Following IFRS Code of Practice guidance where instruments mature within 12 months (short term), the carrying amount is assumed to approximate fair value.

- Impaired Investments

When assessing an impairment, identifying or estimating the recoverable amount or fair value is a key task. Impairments have bee calculated with reference to CIPFA guidance (LAAP Bulletin 82, including updates). By applying this to the amortised value of the investment the resulting balance is assumed therefore to be the fair value.

- Available for Sale investments

Available for sale assets and liabilities are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

- Long Term Investments

The fair value is normally calculated based on the equivalent SWAP rate, however as at 31 March 2011 the Council did not hold any long term investments other than those disclosed under impaired investments and available for sale investments.

- Trade Receivables

The fair value of trade receivables is taken to be the invoiced or billed amount.

FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

	31 March 2011		31 March 2010		31 March 2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value	Carrying amount	Fair value
	£'000s	**£'000s**	£000's	£000's	£000's	£000's
Short Term	38,123	38,123	61,047	61,047	75,914	75,914
Long Term	4,745	4,745	8,195	8,195	14,934	14,994
Available for Sale	82	82	75	75	75	75
Financial Assets	**42,950**	**42,950**	**69,317**	**69,317**	**90,923**	**90,983**
Trade Receivables	10,509	10,509	13,809	13,809	13,509	13,509

ICELANDIC IMPAIRMENTS

At the commencement of 2010/11 the Council had a balance of unpaid deposits with Heritable Bank of £9,722k and Landsbanki Islands of £5,000k. During the year dividends received from the administrators of Heritable Bank total £2,283k representing 15.13% of the claim. The Council is required to make an estimate of any impairment of financial assets and it has used the information collated by CIPFA (published in the Local Authority Accounting Practice (LAAP) 82 bulletin, update 4) to do this. An anticipated recovery rate of 84.98% for Heritable deposits and 94.85% for Landsbanki deposits is expected. Based on the original deposit values of £15,000k with Heritable and £5,000k with Landsbanki a total impairment of £2,500k is expected.

Such impairments are calculated using a discounted cash flow calculation with interest credited back each year until the relevant banks' books are closed. Following the original impairment and subsequent adjustments further information has become available and a reassessment of the recoverable amount has been calculated and accounted for in 2010/11. An increase in the impairment of £407k is included in the Comprehensive Income & Expenditure Statement under Interest Payable and Similar Charges and has reduced the holding value of financial instruments. Statutory guidance has previously allowed the Council to defer any impairment impact on the General Fund until 2010/11. The deferral period has now ended and the impairment balance in the Financial Instrument Adjustment Account of £3,613k has now been realised. In accordance with accounting policies £557k of notional interest was credited to the Comprehensive Income and Expenditure Statement.

HERITABLE BANK

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. At the time LAAP Bulletin 82 Update 3 was issued, the total amount to be received was estimated to be between 79% and 85% of the claim. The seventh progress report from the administrators was issued on 10 February 2011. As the report does not suggest any changes to the total amount estimated to be received, it is anticipated that the previous range remains appropriate. At the time of the LAAP Bulletin 82 Update 3 interim payments totalling 41.27% of the claim had been made. Since then, further dividends have been paid out (4.1% in October 2010, 4.71% in January 2011 and 6.25% in April 2011), bringing the total to date to 56.33% of the claim. In view of the above information, CIPFA recommends the estimate of the recoverable amount is based on a total repayment of 84.98% as set out in LAAP Bulletin 82. This also recommends that the estimated repayment schedule is amended to reflect the repayments up to April 2011; and that subsequent repayments are profiled equally with the exception of the final repayment.

This will produce a revised repayment schedule as follows:

April 2011 - 6.25%	April 2012 - 5.00%
July 2011 - 5.00%	July 2012 - 5.00%
October 2011 - 5.00%	October 2012 - 3.65%
January 2012 - 5.00%	

LANDSBANKI

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law.

LAAP Bulletin 82 Update 3 discussed a number of factors regarding the recovery of deposits with those banks domiciled in Iceland. Since that time the Reykjavik District Court issued a verdict on 1 April 2011 confirming the local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. The courts also confirmed the position in relation to interest. These decisions are being appealed to the Icelandic Supreme Court, however the current court ruling confirms the priority stance adopted in Update 3. At the time LAAP Bulletin 82 Update 3 was issued, the total payment was estimated to be 94.85% if local authority deposits enjoyed priority status. Creditor updates have not changed this position materially.

The recommended repayment, based on priority status, is therefore as follows:

December 2011 - 22.17%	December 2015 - 8.87%
December 2012 - 8.87%	December 2016 - 8.87%
December 2013 - 8.87%	December 2017 - 8.87%
December 2014 - 8.87%	December 2018 - 19.46%

Notes to Main Financial Statements

13. INVENTORIES

	Consumable Stores		Maintenance Materials		Client Services Work in Progress		Total	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance outstanding at start of year	23	53	105	222	0	(142)	128	133
Recognised as expense in year	(4)	(30)	(42)	(117)	0	0	(46)	(147)
Written off balances	0	0	0	0	0	142	0	142
Balance outstanding at year-end	**19**	**23**	**63**	**105**	**0**	**0**	**82**	**128**

14. DEBTORS

	31 March 2011 £000's	31 March 2010 £000's	31 March 2009 £000's
Central Government Bodies	13,151	13,077	17,973
Allowance for Impairment	(199)	(618)	(1,076)
Central Government Bodies net of Impairment	**12,952**	**12,459**	**16,897**
Other local authorities	**1,028**	**628**	**708**
NHS bodies	**36**	**0**	**749**
Housing rents	5,054	4,941	5,705
Allowance for Impairment	(4,005)	(3,701)	(4,339)
Housing rents net of Impairment	**1,049**	**1,240**	**1,366**
Council taxpayers	8,508	9,089	9,057
Allowance for Impairment	(5,134)	(5,685)	(3,015)
Council taxpayers Net of Impairment	**3,374**	**3,404**	**6,042**
Other entities and individuals	24,002	26,434	21,863
Allowance for Impairment	(10,552)	(9,315)	(8,792)
Other entities and individuals Net of Impairment	**13,450**	**17,119**	**13,071**
Total Debtors	51,779	54,169	56,055
Less: Provision for doubtful debts	(19,890)	(19,319)	(17,222)
	31,889	**34,850**	**38,833**

Amounts classified as debtors from Other Public Bodies in previous years have been split between Other Local Authorities and NHS Bodies to comply with the Code of Practice.

15. CASH AND CASH EQUIVALENTS

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

	31 March 2011 £000's	31 March 2010 £000's	31 March 2009 £000's
Cash held by the Authority	19,909	19,114	22,280
Instant Access Accounts	23,003	52,817	30,015
Total Cash and Cash Equivalents	**42,912**	**71,931**	**52,295**

Notes to Main Financial Statements

16. ASSETS HELD FOR SALE

At 31 March 2011 the Council held £6,996k of non-current assets which were available for immediate disposal and being actively marketed. It is expected that the carrying value of these assets will be recovered through proceeds of sale rather than through continuing use.

	Current	
	At 31 March 2011 £000's	At 31 March 2010 £000's
Balance outstanding at start of year	827	60
Assets newly classified as held for sale:		
Property Plant & Equipment	6,307	301
Revaluation gains	0	532
Impairment losses	0	(6)
Assets declassified as held for sale:		
Property Plant & Equipment	0	(60)
Assets sold	(140)	0
Other movements	2	0
	6,996	**827**

Notes to Main Financial Statements

17. LONG TERM DEBTORS

	At 31 March 2011 £000's	New Advances £000's	Repayments £000's	1 April 2010 £000's	At 31 March 2009 £000's
Housing advances & associations	16	0	(4)	20	22
Sale of Council houses	126	0	(18)	144	176
Long term payments in advance	133	0	(14)	147	0
Other loans & advances	307	40	(3)	270	226
	582	**40**	**(39)**	**581**	**424**

18. CREDITORS

	At 31 March 2011 £000's	At 31 March 2010 £000's	At 31 March 2009 £000's
Council taxpayers	(2,992)	(3,501)	(3,397)
Central Government departments	(19,008)	(12,821)	(19,693)
NHS Bodies	(2,303)	(167)	(247)
Housing Rents	(857)	(632)	(629)
Non-domestic rates pool	(5,542)	(22,564)	(26,801)
Other Local Authorities	(2,216)	(2,121)	(1,053)
Sundry Creditors	(41,419)	(50,207)	(51,908)
	(74,337)	**(92,013)**	**(103,729)**

Amounts classified as creditors to Other Public Bodies in previous years have been split between Other Local Authorities and NHS Bodies to comply with the Code of Practice.

19.LONG TERM CREDITORS

Long Term Creditors consist of balances held under Section 106 and 278 Agreements which would become repayable after more than 1 year. These amount to £3,665k at 31 March 2011 (£3,386k at 31 March 2010 and £3,430k at 31 March 2009).

Notes to Main Financial Statements

20. PROVISIONS

	Balance at 31 March 2011	Additional provisions made in 2010/11	Amounts used in 2010/11	Unused amounts reversed in 2010/11	Balance at 1 April 2010	Balance at 31 March 2009
Adult Services	131	13	(55)	0	173	210
Highways - Carriage and Pavement Trips and Vehicle Damage	1,434	512	(348)	0	1,270	1,217
Hillingdon Housing Services	288	37	(3)	0	254	316
Housing - Other	126	0	0	0	126	104
Schools and Other Education Establishments	628	474	(154)	0	308	252
Tree Damage	525	204	(192)	0	513	758
Motor Vehicles	94	160	(66)	0	0	0
Other Establishments	338	99	(90)	0	329	406
Total Insurance Provision	**3,564**	**1,499**	**(908)**	**0**	**2,973**	**3,263**
Dilapidation Provision	351	0	0	(5)	356	385
Fusion Leisure Contract	200	200	0	0	0	0
Mental Health Cases in Dispute	493	493	0	0	0	0
Relocation of Hayes One-Stop Shop	107	107	0	0	0	0
Section 117 Mental Health Act	383	0	0	(44)	427	460
Other Provisions	33	33	(84)	0	84	234
Total Provisions	**5,131**	**2,332**	**(992)**	**(49)**	**3,840**	**4,342**

Insurance

The Council has external insurance for major risks such as buildings, liability indemnity and motor vehicles. The contract for the provision of Insurance cover was re-tendered in 2010/11, where the Council benefited from reduced premiums by increasing the level of excess that the Council will have to meet on any claim before the Insurance company becomes liable to make payments. The excess levels are as follows:

1. Property - £100k for combined risks (previously £50k for schools and flood risks and £250k for flood risk following business interruption)
2. Liability - £250k (previously £100k)
3. Motor Vehicles - £100k (previously £1k)

The Council self funds claims which fall under the excess thresholds. The insurance fund provision is to provide for outstanding claims against the Council as at 31 March 2011.

Dilapidation Provision

In April 2003 the Council entered into a contract to lease homes for use by the Council as temporary accommodation. The contract requires the payment of dilapidation costs and a provision of £351k has been made to finance these costs. The amount and timing of payments will be determined by the number of claims.

Fusion Leisure Contract:

The contractor for the Hillingdon Sports & Leisure Centre (Fusion) would like to charge all Leisure centre users for Car Parking. However in line with the Council's policy on parking no charges have been applied to residents of the Borough, with the result that Fusion's parking income has been negligible. Fusion's assumptions in their tender outlined in the Best & Final Offer (BAFO) were based on receipt of parking income from all users. Discussions are ongoing regarding this.

Mental Health Cases in Dispute

A provision in the sum of £493k has been made for the anticipated cost of Adult Social Care client costs that are due to be transferred from Central North West London NHS Trust during 2010/11. As at the 31 March 2011 the exact clients and cost had not been agreed therefore the amount of provision represents the estimated value for the cost of clients expected to transfer.

Notes to Main Financial Statements

Relocation of Hayes One Stop Shop

The Council currently lease two shop units in Hayes High Street that have been combined into a single unit and accommodate both the Hayes One Stop Shop and the Citizens Advice Bureau (CAB). These are to be relocated to Botwell Library during 2010/11. The Council is liable for the cost of dilapidations for these properties upon surrender of leases.

Section 117 Mental Health Act Provision

Following the House of Lords ruling in May 2002 that local authorities have no power to charge for care provided under Section 117 of Mental Health Act 1983 the Council has made a provision of £383k for the reimbursement of charges. The amount and timing of payments will be determined by the number of claims.

21. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in notes 1 and 2.

22. UNUSABLE RESERVES

These are reserves which do not relate directly to in-year Income and Expenditure and are thus classed as 'Unusable' under the Code.

	2010/11 £000's	2009/10 £000's	2008/09 £000's
Capital Adjustment Account	917,354	1,123,932	1,266,532
Financial Instruments Adjustment Account	(392)	(4,028)	(5,309)
Collection Fund Adjustment Account	581	(791)	(137)
Revaluation Reserve	59,084	29,394	16,322
Pensions Reserve	(248,446)	(436,013)	(217,831)
Accumulated Absences Account	(7,776)	(8,253)	(7,050)
Available for Sale Financial Instruments Reserve	21	15	15
Unequal Pay Back-Pay Account	0	(40)	(234)
Total	**720,426**	**704,216**	**1,052,308**

Notes to Main Financial Statements

CAPITAL ADJUSTMENT ACCOUNT

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

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

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

	2010/11		2009/10	
	£000's	£000's	£000's	£000's
Balance at 1 April		**1,123,932**		**1,266,532**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
- Charges for depreciation and impairment of non-current assets	(16,978)		(16,810)	
- Revaluation losses on Property, Plant and Equipment	(217,821)		(147,853)	
- HRA depreciation greater than MRA	(441)		(570)	
- Amortisation of intangible assets	(303)		(324)	
- Revenue expenditure funded from capital under statute	(15,030)		(17,905)	
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,471)		(6,174)	
		(254,044)		(189,636)
Adjusting amounts written out of the Revaluation Reserve		542		414
Net written out amount of the cost of non-current assets consumed in the year		(253,502)		(189,222)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	4,511		1,485	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	36,587		35,612	
- Application of grants to capital financing from the Capital Grants Unapplied Account	738		2,159	
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	3,997		3,721	
- Finance Lease Principal	657		979	
- Capital expenditure charged against the General Fund and HRA balances	434		2,666	
		46,924		46,622
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		0		0
Balance at 31 March		**917,354**		**1,123,932**

Notes to Main Financial Statements

FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. (The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed).

	2010/11 £000's	2009/10 £000's	2008/9 £000's
Balance at 1 April	**(4,028)**	**(5,309)**	**(105)**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	(914)	(386)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	99	88	130
Discounts incurred in the year and charged to the Comprehensive Income and Expenditure Statement	10	851	0
Proportion of discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(86)	(79)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	3,613	548	(5,616)
Notional Icelandic Interest	0	787	668
Balance at 31 March	**(392)**	**(4,028)**	**(5,309)**

COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	At 31 March 2011 £000's	At 31 March 2010 £000's
Balance at 1 April	**(791)**	**(137)**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	1,372	(654)
Balance at 31 March	**581**	**(791)**
Debtor / (Creditor) in respect of GLA share	164	(218)
	745	**(1,009)**

Notes to Main Financial Statements

REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Pland and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:
- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

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

	2010/11		2009/10	
	£000's	**£000's**	£000's	£000's
Balance at 1 April		**29,394**		**16,322**
Upward revaluation of assets				
- Council Dwellings	0		0	
- Other HRA Properties	9,356		127	
- Land & Buildings	20,900		12,330	
- Community Assets	0		25	
- Investment Properties	0		0	
- Surplus Assets	0	30,256	1,146	13,628
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Council Dwellings	0	0	(145)	(145)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**30,256**		**13,483**
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(534)		(226)	
-Surplus Assets	(3)		0	
- Community Assets	(6)	(543)	(5)	(231)
Accumulated gains on assets sold or scrapped				
- Surplus Assets	0	0	0	0
- Land & Buildings	(23)	(23)	(180)	(180)
Amount written off to the Capital Adjustment Account		**(566)**		**(411)**
Balance at 31 March		**59,084**		**29,394**

Notes to Main Financial Statements

PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2010/11 £000's	2009/10 £000's
Balance at 1 April	**(436,013)**	**(217,831)**
Actuarial gains or losses on pensions assets and liabilities	104,514	(211,166)
Reversal of items relating to retirement benefits debited or credits to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	58,604	(29,322)
Employer's pension contributions and direct payments to pensioners payable in the year	24,449	22,306
Balance at 31 March	**(248,446)**	**(436,013)**

ACCUMULATED ABSENCES ACCOUNT

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2010/11 £000's	**2009/10 £000's**
Balance at 1 April	**8,253**	**7,050**
Settlement or cancellation of accrual made at the end of the preceding year	(8,253)	(7,050)
Amounts accrued at the end of the current year	7,776	8,253
Balance at 31 March	**7,776**	**8,253**

Notes to Main Financial Statements

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The value has increased due to upward valuations of the financial assets.

	2010/11 £000's	2009/10 £000's	2008/9 £000's
Balance as at 1 April	**15**	**15**	**0**
Change in Fair Value in year	6	0	15
Balance as at 31 March	**21**	**15**	**15**

Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

	2010/11 £000's	2009/10 £000's
Balance as at 1 April	(40)	(234)
Cash settlements paid in the year	40	194
Balance as at 31 March	**0**	**(40)**

23. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2010/11 £000's	2009/10 £000's
Deficit on the provision of services	**111,300**	**139,860**
Depreciation and Impairment of Non Current Assets	(235,239)	(165,233)
Amortisation of Intangible Fixed Assets	(303)	(324)
Revenue Expenditure Funded from Capital under Statute	(15,030)	(17,905)
Pension Fund adjustments	83,053	6,635
Increase in impairment for provision for bad debts	(570)	548
Decrease in creditors	17,676	11,716
Decrease in debtors	(2,961)	(3,983)
Decrease in stock	(46)	(5)
Carrying amount of non-current assets sold	(3,495)	(5,449)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(29,267)	(15,947)
Total adjusting items	**(186,182)**	**(189,947)**
Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities		
Proceeds from the disposal of Plant, Property and Equipment, investment property and intangible assets	3,430	6,058
Net proceeds from long-term investments	3,443	6,739
Capital Grants credited to Surplus or Deficit on the provision of services	37,181	33,869
Total included elsewhere on Cash Flow Statement	**44,054**	**46,666**
Net cash flows from operating activities	**(30,828)**	**(3,421)**

Notes to Main Financial Statements

24. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2010/11 £000's	2009/10 £000's
Cash Outflows		
Purchase of property, plant and equipment	43,997	55,449
Other payments for investing activities	15,030	17,905
	59,027	**73,354**
Cash Inflows		
Sale of property, plant and equipment	(3,430)	(6,058)
Capital grants received	(35,180)	(33,865)
Other receipts from investing activities	(2,001)	(2,113)
	(40,611)	**(42,036)**
Net Cash Outflow	**18,416**	**31,318**
Net Decrease in Short-Term Investments	6,891	(37,669)
Net Increase in Long-Term Investments	(3,443)	(6,739)
Net cash flows from investing activities	**21,864**	**(13,090)**

25. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2010/11 £000's	2009/10 £000's
Cash Outflows		
Repayments of amounts borrowed	35,360	143,870
Capital element of finance lease rental and on-balance sheet PFI payments	645	979
Cash Inflows		
Long term loans raised	0	(60,000)
Short term loans raised	(14,360)	(68,500)
Council Tax and NNDR Adjustment	16,338	(19,474)
Net cash flows from financing activities	**37,983**	**(3,125)**

26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in year

This note details a reconciliation between service income and expenditure as reported by Hillingdon Council's internal management structure and the Best Value structure.

SERVICE INFORMATION 2010/11 RECORDED IN OUTTURN REPORT

	Central Services £000's	Social Care, Health & Housing £000's	Environment and Community Services £000's	Total £000's
Total Income	(9,739)	(214,196)	(533,445)	**(757,380)**
Total operating expenses	25,001	341,511	626,516	**993,028**
Corporate Items	(47)	740	9,759	**10,452**
Net Cost of Services	**15,215**	**128,055**	**102,830**	**246,100**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000's	
Cost of Services in Service Analysis (above)	**246,100**	
Corporate Items	(10,452)	Balances which are not directly a function of income or expenditure and are not part of service's controllable budgets. £8,280k of this form part of schools balances with the remainder being miscellaneous items. These are excluded from the Cost of Services reported to management, but are required to be included in the Council's statement of accounts.
Add service amounts not included in main analysis	95,764	The Housing Revenue Account (HRA) Net Cost of Services amounting to £189,942k does not form part of the outturn report to management. Exceptional in-year IAS19 pension gains of (£94,178) are also excluded.
Remove Net Cost of Service Adjustments	(1,863)	Amounts to repay the principal amounts for finance leases and revenue contribution to capital outlay are required to be shown separately from the Net Cost of Services in the accounting statements.
Remove amounts reported to management not included in Comprehensive Income and Expenditure net cost of services	(107)	The Code of Practice requires certain items to be shown below the Net Cost of Services in the Comprehensive Income and Expenditure Statement which are included within the service lines in the Outturn report.
Cost of Services in Comprehensive Income and Expenditure Statement	**329,442**	

Notes to Main Financial Statements

2010/11

Reconciliation to Subjective Analysis	**Service Analysis**	**Corporate Items**	**Service Amounts not in Analysis**	**Net Cost of Service Adjustments**	**Not included in I&E services**	**Net Cost of Services**	**Below Net Cost of Services**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other service income	(330,586)		(54,855)	245,080	2,637	**(137,724)**	(750)	**(138,474)**
Interest and investment income						**0**	(969)	**(969)**
Income from council tax						**0**	(111,155)	**(111,155)**
Government Grant and Contributions	(416,341)					**(416,341)**	(127,007)	**(543,348)**
Total Income	**(746,927)**	**0**	**(54,855)**	**245,080**	**2,637**	**(554,065)**	**(239,881)**	**(793,946)**
Employee expenses	308,798					**308,798**		**308,798**
Other service expenses	682,972	(10,452)	(55,529)	(246,943)	(1,487)	**368,561**	11,127	**379,688**
Depreciation, amortisation & impairment			206,148			**206,148**		**206,148**
Interest Payments	584				(584)	**0**	7,513	**7,513**
Precepts & Levies	673				(673)	**0**	673	**673**
Payments to Housing Cap Receipts Pool						**0**	2,124	**2,124**
Gain or Loss on Disposal of Non Current Assets						**0**	302	**302**
Total operating expenses	**993,027**	**(10,452)**	**150,619**	**(246,943)**	**(2,744)**	**883,507**	**21,739**	**905,246**
(Surplus) or deficit on the provision of services	**246,100**	**(10,452)**	**95,764**	**(1,863)**	**(107)**	**329,442**	**(218,142)**	**111,300**

Reconciliation of Management Hierarchy Net Cost of Services to reported outturn

	31 March 2011 £000's
Net Cost of Services as per Management Hierarchy	**246,100**
Icelandic Impairment	2,500
Government Grant Cuts in year	2,900
In year savings	(1,764)
Other movements in balances	(44)
Central Adjustments (excluding HRA)*	(45,740)
Budget Requirement	(194,194)
Contribution from Balances	(1,500)
Corporate Government Grants not included in the budget requirement	(8,316)
Overall Surplus Reported to Management	**(58)**

* Central Adjustments include depreciation, impairments and pension costs which are initially charged to services but are required by statute to be reversed through the Movement in Reserves Statement.

Notes to Main Financial Statements

SERVICE INFORMATION 2009/10

	Central Services £000's	Social Care, Health & Housing £000's	Planning, Education, Environment and Community Services £000's	Total £000's
Total Income	(12,091)	(220,505)	(321,684)	**(554,280)**
Total operating expenses	24,111	342,086	501,502	**867,699**
Corporate Items	2,662		(296)	**2,366**
Net Cost of Services	**14,682**	**121,581**	**179,522**	**315,785**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000's	
Cost of Services in Service Analysis (above)	**315,785**	
Corporate Items	(2,366)	Balances which are not directly a function of income or expenditure and are not part of service's controllable budgets. £1,157k of this form part of schools balances with the remainder being miscellaneous items. These are excluded from the Cost of Services reported to management, but are required to be included in the Council's statement of accounts.
Add services not included in main analysis	(3,457)	The Housing Revenue Account (HRA) Net Cost of Services does not form part of the outturn report to management.
Add Net Cost of Service Adjustments	31,201	Amounts to repay the principal amounts for finance leases and revenue contribution to capital outlay are required to be shown separately from the Net Cost of Services in the accounting statements. Additionally, a net adjustment of £32,806k results from a change in the treatment of government grants under IFRS.
Remove amounts reported to management not included in Comprehensive Income and Expenditure net cost of services	(5,308)	The Code of Practice requires certain items to be shown below the Net Cost of Services in the Comprehensive Income and Expenditure Statement which are included within the service lines in the Outturn report.
Cost of Services in Comprehensive Income and Expenditure Statement	**335,855**	

Notes to Main Financial Statements

2009/10

Reconciliation to Subjective Analysis	Service Analysis	Corporate Items	Service Amounts not in Analysis	Net Cost of Service Adjustments	Not included in I&E services	Net Cost of Services	Below Net Cost of Services	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	(145,488)	(2,366)	(3,647)	(43,323)		**(194,824)**	(31)	**(194,855)**
Interest and investment income						**0**	(2,043)	**(2,043)**
Income from council tax						**0**	(105,828)	**(105,828)**
Government Grant and Contributions	(406,425)			32,806		**(373,619)**	(114,173)	**(487,792)**
Total Income	**(551,913)**	**(2,366)**	**(3,647)**	**(10,517)**	**0**	**(568,443)**	**(222,075)**	**(790,518)**
Employee expenses	305,986					**305,986**		**305,986**
Other service expenses	560,983		190	41,718	(4,579)	**598,312**	16,512	**614,824**
Depreciation, amortisation & impairment						**0**		**0**
Interest Payments	40				(40)	**0**	7,687	**7,687**
Precepts & Levies	689				(689)	**0**	689	**689**
Payments to Housing Cap Receipts Pool						**0**	583	**583**
Gain or Loss on Disposal of Non Current Assets						**0**	609	**609**
Total operating expenses	**867,698**	**0**	**190**	**41,718**	**(5,308)**	**904,298**	**26,080**	**930,378**
(Surplus) or deficit on the provision of services	**315,785**	**(2,366)**	**(3,457)**	**31,201**	**(5,308)**	**335,855**	**(195,995)**	**139,860**

Reconciliation of Management Hierarchy Net Cost of Services to reported outturn

	31 March 2010 £000's
Net Cost of Services as per Management Hierarchy	**315,785**
Exceptional Items	(1,570)
* Central Adjustments (excluding HRA)	(114,585)
Budget Requirement	(189,245)
Contribution from Balances	(2,540)
In-Year Savings	(1,000)
Corporate Government Grants not included in the budget requirement	(12,066)
Overall Surplus Reported to Management	**(5,221)**

* Central Adjustments include depreciation, impairments and pension costs which are initially charged to services but are required by statute to be reversed through the Movement in Reserves Statement.

27. ACQUIRED AND DISCONTINUED OPERATIONS

Hillingdon Homes Limited was established as an Arms Length Management Organisation (ALMO) to maintain the housing stock of the Council and to manage the Decent Homes investment programme, completed in 2008. Following consultation with tenants and other key stakeholders, Hillingdon Homes was dissolved and its operational activities brought back within the Council from 1 October 2010. All assets and liabilities of Hillingdon Homes Limited transferred to the London Borough of Hillingdon and all staff of Hillingdon Homes Limited were transferred under Transfer of Undertakings (Protection of Employment) Regulations (TUPE).

This transfer is considered to represent a group reconstruction under IFRS 3 Business Combinations and therefore falls outside of the scope of that standard. As a result, the principles of merger accounting, as set out in Financial Reporting Standard 6 Acquisitions and Mergers issued by the United Kingdom Accounting Standards Board, have been applied. The result is that this set of accounts for the year ended 31 March 2011 has been prepared on a single entity basis, incorporating the results of Hillingdon Homes for this period. The comparative position has also been adjusted to show a single entity position.

28. TRADING OPERATIONS

The Authority has established trading units for which service managers are required to operate in a commercial environment and balance their budget by generating income from other parts of the authoirty or other organisations. The financial results of these operations are detailed below:

	Expenditure £000's	**Income £000's**	**2010/11 (Surplus) /Deficit £000's**	Expenditure £000's	Income £000's	2009/10 (Surplus) /Deficit £000's
Fleet management	2,969	(3,281)	(312)	3,517	(3,329)	188
Passenger services	2,070	(2,039)	31	2,153	(2,148)	5
Improvement Projects	764	(929)	(165)	1,024	(1,080)	(56)
Harlington Road Depot	479	(525)	(46)	524	(564)	(40)
	6,282	**(6,774)**	**(492)**	**7,218**	**(7,121)**	**97**

29. EXTERNAL AUDIT COSTS

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

	2010/11	2009/10
	£000's	£000's
Fees payable in regard to external audit services carried out by the appointed auditor	379	378
Fees payable in respect of statutory inspections	0	20
Fees payable for the certification of grant claims and returns	155	137
Total External Audit costs	**534**	**535**

30. AGENCY SERVICES

The Council provides agency services through the London Airport Health Control to British Airports Authority. The cost of this service in 2010/11 was £2,377k (£2,600k in 2009/10) which is fully reimbursable.

31. MEMBER ALLOWANCES

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

	2010/11	2009/10
	£000's	£000's
Allowances	1,536	1,587
Expenses	2	2
Total	**1,538**	**1,589**

32. POOLED BUDGETS

A Section 75 agreement is in operation between the Council and Hillingdon Primary Care Trust (PCT) in respect of Learning Disability Services and was effective from 1 April 2008. This is not operating as a Pooled Budget in that it clearly identifies the financial liabilities of the two partners on an individual client basis. The object of the agreement is to enable the effective commissioning of services for this client group thereby providing a seamless service to the individual. For 2010-11 this service provided support to approximately 650 clients at a gross cost of £37m which included approximately 102 PCT clients for which the council received £9.9m.

A further section 75 agreement is in operation between the Council and Hillingdon PCT in respect of Community Equipment Services. This is a new Section 75 agreement commencing 1 April 2010 and operates as a Pooled Budget with the Council and HPCT sharing the cost of the service on a 50:50 basis. The service is to provide community equipment to assist residents with daily living tasks. The value of the Pooled Budget in 2010-11 was £1,054k and each party funded £527k.

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33. RELATED PARTY TRANSACTIONS

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

Central Government

Central government has effective control over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 37.

London Housing Consortium

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

West London Waste Authority

West London Waste Authority is a statutory waste disposal authority created in 1986 by the London Borough of Hillingdon and 5 other London Boroughs. It is primarily funded by a levy paid by each of the six participating councils. The amount contributed for 2010/11 is included under the heading Precepts and Levies below.

The Pension Fund

The London Borough of Hillingdon pension fund is considered a related party. The employer's contribution to the pension fund in 2010/11 was £22,213k (£20,222k 2009/10). A precept of £374k was paid to the London Pension Fund Authority in 2010/11.

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 31.

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

Organisation	Name	Payment
GRUNDON WASTE MANAGEMENT LTD	Councillor Janet Duncan	£774k
HILLINGDON & EALING CITIZENS ADVICE	Councillor George Cooper	£555k
HILLINGDON AIDS RESPONSE TRUST	Councillor Scott Seaman-Digby	£49k
NOTRAG	Mr Graham Horn	£48k
W SHERRY & SONS	Councillor Timothy Barker	£14k

In addition, Related Parties are held with the following organisations as a result of Council appointment:

DASH	Councillor Paul Harmsworth	£423k
HILLINGDON CARERS	Councillor John Major	£423k
	Councillor Judith Cooper	
GROUNDWORK THAMES VALLEY LTD	Councillor George Cooper	£367k
HILLINGDON ASSOC OF VOLUNTARY SERV.	Councillor John Major	£203k
LOCATA (HOUSING SERVICES) LTD	Miss Beatrice Cingtho	£107k
RUISLIP & NORTHWOOD OLD FOLKS ASSOC	Councillor Catherine Dann	£94k
HILLINGDON CROSSROADS	Councillor John Major	£60k

Precepts/Levies

In 2010/11 the following precepts and levies are considered related party transactions:

Greater London Authority Precept	£30,348k
Greater London Authority Crossrail	£12,212k
West London Waste Authority Levy	£7,930k
Lee Valley Regional Park Authority	£299k
Environment Agency	£195k

34. OFFICER EMOLUMENTS

The number of employees in 2010/11 whose remuneration, excluding pension contributions, was £50k or more, are detailed below in bands of £5k. The bandings only include the remuneration of senior employees that have not been disclosed separately. The number of employees included in the totals that exceeded the £50k threshold due to lump sum termination payments are indicated in brackets. These employees left the employment of the Council during the financial year.

	LBH EMPLOYEES (Excluding Senior Employees)				SCHOOL EMPLOYEES			
Remuneration Band	2010/11		2009/10		2010/11		2009/10	
	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum
£50,000 - £54,999	49	0	67	(2)	77	0	94	(2)
£55,000 - £59,999	47	(5)	39	(1)	46	0	45	0
£60,000 - £64,999	14	0	16	(1)	31	0	39	(1)
£65,000 - £69,999	13	(2)	19	(2)	30	0	27	(2)
£70,000 - £74,999	16	(1)	15	(2)	28	0	17	(2)
£75,000 - £79,999	9	(4)	6	(2)	12	0	14	0
£80,000 - £84,999	6	(2)	5	0	6	0	2	0
£85,000 - £89,999	1	(1)	5	(1)	2	0	5	0
£90,000 - £94,999	0	0	3	0	2	0	0	0
£95,000 - £99,999	3	(1)	2	(1)	2	0	6	0
£100,000 - £104,999	0	0	1	0	0	0	1	0
£105,000 - £109,999	0	0	0	0	4	0	1	0
£110,000 - £114,999	1	(1)	0	0	1	0	1	0
£115,000 - £119,999	1	(1)	0	0	2	0	0	0
£120,000 - £124,999	0	0	0	0	0	0	0	0
£125,000 - £129,999	0	0	0	0	0	0	0	0
£130,000 - £134,999	0	0	1	(1)	0	0	0	0
£135,000 - £139,999	0	0	0	0	0	0	0	0
£140,000 - £144,999	1	(1)	0	0	0	0	0	0
£145,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 - £154,999	0	0	1	(1)	0	0	0	0
	161	**(19)**	180	(14)	**243**	**0**	252	(7)

Disclosure of Remuneration for Senior Employees (Schools):-

The seven school employees detailed in the above table earning over £100,000 during 2010/11 are set out below.

Job Title	Pensionable Pay
Headteacher - Queensmead School	£119,939
Headteacher - Haydon School	£116,174
Headteacher - Cranford Park Primary School	£114,804
Headteacher - Uxbridge High School	£108,596
Headteacher - Bishopshalt School	£103,392
Headteacher - Bishop Ramsey School	£103,003
Headteacher - Barnhill Community School	£101,078

During 2010/11 there was also one school employee earning over £150,000 from a number of separate responsibilities as set out below.

	2010/11			2009/10		
Job Title	Pensionable Pay	EER's pension Contributions	Total	Pensionable Pay	EER's pension Contributions	Total
Statutory Headteacher - Rosedale College and Mellow Lane School, Commissioning Headteacher - Rosedale Primary and 14-19 Training Provision, Consultant Headteacher - Abbotsfield School and Commissioning Consultant/Manager - Rosedale Nursery - (C Neathey)	£190,354	£26,841	£217,195	£127,111	£17,923	£145,034

Note: Pensionable Pay received in 2010/11 included £29,387 of back-dated remuneration related to 2009/10.

Notes to Main Financial Statements

Disclosure of Remuneration for Senior Employees (LBH):-

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

			2010/11					2009/10				
Group	**Job Title**		**Pensionable Pay**	**Expenses**	**Compensation**	**EER's pension Contributions**	**Total**	**Pensionable Pay**	**Expenses**	**Compensation**	**EER's pension**	**Total**
CE	Chief Executive - (H Dunnachie)		£183,250	£0	£0	£0	£183,250	£183,250	£162	£0	£31,794	£215,206
Central Services	Corporate Director for Central Services & Deputy Chief Executive		£141,881	£0	£0	£25,680	£167,561	£140,559	£54	£0	£24,387	£165,000
	Deputy Director, Finance	**1**	£123,532	£0	£0	£22,359	£145,891	£116,424	£280	£0	£20,200	£136,904
	Head of Human Resources	**2**	£113,415	£0	£0	£20,528	£133,943	£97,287	£0	£0	£16,879	£114,166
	Borough Solicitor		£112,560	£0	£0	£20,373	£132,933	£112,560	£0	£0	£19,529	£132,089
	Head of Procurement		£94,185	£0	£0	£17,047	£111,232	£90,937	£0	£0	£15,778	£106,715
	Head of Corporate Communications		£86,988	£0	£0	£15,745	£102,733	£86,988	£66	£0	£15,092	£102,146
	Head of Policy, Performance & Partnerships		£78,031	£23	£0	£14,124	£92,178	£77,069	£0	£0	£13,371	£90,440
	Head of Democratic Services		£89,391	£0	£0	£16,180	£105,571	£86,994	£0	£0	£15,093	£102,087
	Head of Internal Audit and Enforcement		£80,165	£0	£0	£14,510	£94,675	£78,077	£195	£0	£13,546	£91,818
PEECS	Corporate Director for Planning, Environment, Education and Community Services & Deputy Chief Executive		£144,040	£0	£0	£26,071	£170,111	£142,914	£0	£0	£24,796	£167,710
	Deputy Director, Education	**3**	£101,369	£0	£0	£18,348	£119,716	£12,500	£0	£0	£2,169	£14,669
	Deputy Director, Corporate Landlord	**4**	£30,520	£0	£0	£5,524	£36,044					
	Deputy Director Public Safety	**5**	£13,741	£0	£0	£2,487	£16,228					
	Head of Transportation and Planning		£111,766	£21	£0	£20,230	£132,016	£105,556	£691	£0	£18,314	£124,562
	Head of Planning		£89,722	£0	£0	£16,240	£105,962	£83,693	£0	£0	£14,521	£98,214
	Head of ICT and Business Services		£107,391	£0	£0	£19,438	£126,829	£101,376	£0	£0	£17,589	£118,965
SCH&H	Corporate Director for Social Care, Health & Housing		£70,596	£82	£0	£12,778	£83,455					
	Deputy Director, Social Care Health & Housing	**6**	£117,924	£0	£0	£21,344	£139,268	£113,805	£0	£0	£19,745	£133,550
	Deputy Director, Children's Services	**7**	£105,000	£399	£0	£19,005	£124,404	£10,938	£0	£0	£1,898	£12,835
	Head of Commissioning, Contracts & Supply		£85,754	£112	£0	£15,521	£101,387	£82,522	£110	£0	£14,318	£96,950
	Head of Access & Assessment		£79,806	£0	£0	£14,445	£94,251	£74,657	£17	£0	£12,951	£87,625
	Head of Personalised Services		£69,251	£0	£0	£12,534	£81,785	£52,857	£0	£0	£9,171	£62,028
Leavers	Director of Finance & Business Services	**8**	£131,005	£0	£49,334	£23,712	£204,050	£142,914	£619	£0	£24,796	£168,328
	Director of Education & Children's Services	**9**	£127,845	£81	£69,542	£23,140	£220,608	£139,467	£528	£0	£24,198	£164,192
	Director of Environment & Consumer Protection	**10**	£52,365	£0	£35,160	£9,478	£97,003	£122,223	£0	£0	£21,206	£143,429
	Director of Adult Social Care, Health & Housing	**11**	£0	£0	£0	£0	£0	£136,017	£0	£0	£23,499	£159,516

Note: The Joint Director of Public Health is funded by both the Council and by Hillingdon PCT. The postholder's salary is paid by the PCT and the Council is charged 50% of the salary and on-costs. The total payable by Hillingdon Council to the PCT during the year to 31 March 2011 was £106,237.

1 Appointed Chief Finance Officer with effect from 1 March 2011 following deletion of the post of Director of Finance & Business Services
2 Employment commenced 5 May 2009
3 Employment commenced 15 February 2010
4 Employment commenced 13 December 2010
5 Employment commenced 2 February 2011
6 Employment commenced 1 October 2010
7 Employment commenced 22 February 2010
8 Post deleted 28 February 2011
9 Post deleted 28 February 2011
10 Post deleted 31 August 2010
11 Retired 31 March 2010

35. TERMINATION BENEFITS

The Council terminated contracts of a number of employees in 2010/11 incurring liabilities of £2,309k (£706k in 2009/10), of which £1,164k were settled in 2010/11.

	2010/11 £000's	**2009/10 £000's**
LBH Employees	1,596	592
Schools Employees	713	114
Total Termination Benefits	**2,309**	**706**

36. DEDICATED SCHOOLS GRANT

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

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families (from 2010/11 the Department for Education) through the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school.

Activities on the two elements are shown separately.

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000's	**Individual Schools Budget £000's**	**Total £000's**
Final DSG for 2010/11	16,493	166,847	183,340
Brought forward from 2009/10	863	0	863
Agreed budget distribution in 2010/11	17,356	166,847	184,203
Actual Central expenditure for the year	(14,090)	0	(14,090)
Actual ISB deployed to schools	0	(166,847)	(166,847)
Carried forward to 2011/12	**3,266**	**0**	**3,266**

Notes to Main Financial Statements

37. GRANT INCOME

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

	2010/11 £000's	2009/10 £000's
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	10,703	15,520
Area Based Grant	15,906	11,558
Local Area Agreement Reward Grant	2,462	0
Distribution of Local Authority Business Growth Initiative Grant (LABGI)	0	356
Total Non Specific Revenue Grants	**29,071**	**27,434**
Revenue Grant Income Credited to Services		
Department of Children, Schools and Families:		
Dedicated Schools Grant (DSG)	183,340	173,887
Schools standards fund	31,740	23,366
Refugee children	5,041	6,984
Department of Communities and Local Government:		
NNDR cost of collection	611	624
Department for Work and Pensions:		
Housing Benefits	156,332	150,080
Home Office:		
Adult asylum seekers	1,137	3,159
Other grants	38,281	48,676
Total Grants Credited to Services	**416,482**	**406,776**
Total Revenue Grant Income	**445,553**	**434,210**

	2010/11 £000's	2009/10 £000's
Capital Grant Income credited to the Comprehensive Income and Expenditure Statement		
Disabled Facilities Grant	1,627	1,530
Sports England Grant	250	1,000
Standards Fund	13,408	19,226
SureStart Capital Grant	4,333	3,227
Transport for London	2,601	3,666
West London Housing Grant	719	1,216
London Development Agency (LDA) Capital Grant	1,130	625
HRA Pipeline Grant	5,741	0
Local Area Agreement (LAA) Reward Grant	1,055	0
HIV Grant	950	0
Other Capital Grants	1,201	1,486
Schools Capital Contributions	1,773	1,657
S106 Contributions	2,036	852
Breakspear Crematorium Contributions	10	944
Other Capital Contributions	347	920
Total Capital Grants and Contributions Received	**37,181**	**36,349**

Capital Grant Income amounting to £24,228k in 2010/11 (£19,496k in 2009/10) is included within Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. The remaining £12,952k (£16,853k in 2009/10) was used to fund Revenue Expenditure Funded from Capital Under Statute (REFCUS) included within Net Cost of Services in the Comprehensive Income and Expenditure Statement.

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

	2010/11 £000's	2009/10 £000's	2008/09 £000's
Capital Grant & Contribution Receipts in Advance			
Standards Fund	6,976	5,485	3,787
Surestart	0	1,249	368
Youth Capital Fund	0	11	3
Private Sector Renewal Capital Grant	107	183	0
London Development Agency (LDA) Grant	672	1,502	0
HRA Pipeline Grant	72	0	0
S106	10,054	9,462	6,548
Other Capital Grant	25	0	0
Total Grants Received in Advance	**17,906**	**17,892**	**10,706**

38. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2010/11 £000's	2009/10 £000's
Opening Capital Financing Requirement	213,749	195,307
Capital investment		
Property, Plant and Equipment	43,875	55,108
Investment Properties	0	0
Intangible Assets	120	42
Revenue Expenditure Funded from Capital Under Statute	15,030	17,905
Sources of finance		
Capital receipts	(4,511)	(1,485)
Government grants and other contributions	(45,548)	(45,758)
Sums set aside from revenue:		
Direct revenue contributions	(434)	(2,666)
Minimum Revenue Provision (MRP)	(3,997)	(3,721)
Other Revenue Provision	(664)	(983)
Closing Capital Financing Requirement	**217,620**	**213,749**
Explanation of movements in year		
Increase in underlying need to borrow :		
- supported by Government financial assistance	1,707	5,741
- unsupported by Government financial assistance	2,165	12,395
Increase in Capital Financing Requirement	**3,871**	**18,136**

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

39. LEASES

The Council has acquired a number of vehicles, a private finance initiative (PFI) school and a contract for superloos under finance leases with the risks and rewards associated with ownership of such assets having transferred to the Authority. Assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet.

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

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

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

Finance Leases

Plant, Property and Equipment	**Finance Lease Liabilities**			**Minimum Lease Payments**		
Outstanding obligations on 31 March	**2010/11**	**2009/10**	**2008/09**	**2010/11**	**2009/10**	**2008/09**
	£000's	£000's	£000's	**£000's**	£000's	£000's
Within 1 year (2011/12) held in current liabilities	430	644	640	1,494	1,774	1,816
2 - 5 years	1,165	1,349	1,271	4,795	5,234	5,387
More than 5 years	1,960	2,218	2,459	5,228	6,299	7,414
Total costs payable in future years	3,125	3,567	3,730	10,023	11,533	12,801
Total future lease payments	**3,555**	**4,211**	**4,370**	**11,517**	**13,307**	**14,617**

Note 6 on page 50 identified the assets arising from finance leases.

Operating Leases

Plant, Property and Equipment	**Operating Lease**		
Outstanding obligations on 31 March	**2010/11**	**2009/10**	**2008/09**
	£000's	£000's	£000's
Within 1 year (2011/12) held in current liabilities	84	24	99
2 - 5 years	14	0	0
More than 5 years	0	0	0
Total costs payable in future years	14	0	0
Total future lease payments	**98**	**24**	**99**

Operating lease expenditure of £112.5k in 2010/11 (£98.5k in 2009/10 and £250.5k in 2008/09) is charged to trading accounts in the Comprehensive Income and Expenditure Statement.

40. LONG TERM CONTRACTS AND PRIVATE FINANCE INITIATIVE

The Council has entered into a number of Long Term Contracts, committing itself to revenue expenditure over future years. Contracts which have fixed annual sums over £1,000k and over 4 years in length are disclosed below:

Supplier	Expenditure Reason £000's	Contract Value Per Annum £000's	Contract Dates	
			Start	Expire
Northgate Information Solutions (ICT)	Managed Services	1,200	13/11/2006	13/05/2012
Mitie Property Services	Facilities Management Services	1,272	01/11/2008	31/10/2018
Mouchel Traffic Support Ltd	Parking Enforcement	1,476	04/08/2008	03/08/2011

Northgate Information Solutions - The Council has entered into a contract with Northgate for hosting and supporting the Council's core ICT systems.

Mitie Property Services - The Council has entered into a ten year Facilities Management contract with Mitie for the provision of cleaning, caretaking, and building maintenance for certain Council properties.

Mouchel Traffic Support Ltd - The Council has contracted Mouchel Ltd to provide Parking Enforcement; patroling and enforcing the parking regulations on-street and in public off-street car parks throughout the London Borough of Hillingdon.

Private Finance Initiative (PFI)

In December 1998 the Council entered into a 25 year contract with a private sector partner, Jarvis (Barnhill) Limited, to build and provide facilities management at Barnhill Community High School under a private finance initiative (PFI) arrangement. The school opened in September 1999. In 2010 the parent company Jarvis PLC went into administration and management of the facility was transferred to Johnson Workplace Management Ltd without impacting the day to day operation of the school. In 2010/11 the Council paid principal of £262k interest of £1,032k and service charges of £1,815k. Current forecasts of future payments, assuming satisfactory performance over the remaining 13 years of the contract, are set out below. As payments to the contractor are index linked, these figures are based on current indexation rates and may vary if rates alter.

	Payment for Services £000's	Reimbursement of Capital Expenditure £000's	Interest £000's	Total £000's
Within 1 year (2011/12)	1,973	257	981	3,211
2 - 5 years	9,658	989	3,339	13,986
6 - 10 years	16,691	1,150	2,515	20,356
11 - 13 years	13,053	537	377	13,967
Total	**41,375**	**2,933**	**7,212**	**51,520**

In accounting for this arrangement the Council has complied with the principles as set out in the Code, which requires recognition of the property as the Council's asset with a corresponding liability. Note 6 on page 50 identifies the asset arising from this PFI.

The charge for the current year was £262k matching the principal repayment. The outstanding liability of the capital value at 31 March 2011 is £2,933k, of this £257k is due within a year and therefore included in creditors and the remaining £2,676k is shown as a deferred liability.

Barnhill Community High School is currently in the process of applying for Academy status; as Academies are not consolidated into the Council's accounts the asset and liability will revert to the school in accordance with the provisions of the PFI contract.

41. CONTINGENT LIABILITIES AND ASSETS

- Municipal Mutual Insurance

During 1992/93, the Council's then insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. During 1993/94, a scheme of arrangement was set up to ensure an orderly settlement of outstanding claims. Under this arrangement the Council would be required to repay MMI part of any claim met since 1 October 1993 (known as the clawback agreement). This repayment would only occur if MMI could not meet all claims against it. The latest set of accounts still suggest that MMI will remain solvent to enable it to pay off outstanding claims. However, recent developments at the High Court could influence this opinion with the company awaiting a decision from the Supreme Court which is expected to be at the end of 2011, with a judgement likely in Easter 2012. If this decision does not fall in MMI's favour then it is likely that the clawback will come into force.

As at the 31 March 2011 the sum potentially subject to clawback was £2,377k, which is the gross amount of £2,427k less £50k as per the scheme rules (for 2009/10 this figure was £2,355k). Additional to this, there are estimated outstanding claims totalling £194k (£93k in 2009/10).

- Persimmon Homes

In March 2007, Persimmon Homes purchased land at Hillingdon House Farm from the Council for £19,250k. A claim has been received for misrepresentation in relation to a DEFRA licence for an abbattoir which Persimmon Homes state has resulted in a loss to them in excess of £1,000k. No claim has yet been received but the Council will be defending any such claim as it believes there is no liability. As at 30 March 2011 no further correspondence has been received from Persimmon Homes. As they have six years to commence proceedings, it is possible that a claim may still be brought against the Council. It is considered prudent to retain this contingent liability in the Council's accounts.

- New Years Green Lane Landfill Site

New Years Green Lane Landfill Site (NYGL) - The site consists of a former gravel and sand pit. The Greater London Council (GLC) formerly owned the site and it was used as a land fill for domestic waste in the 1960s to early 70s. The site was transferred to the Council following the abolition of the GLC.

The Environment Agency recently urged the Council to review the status of contamination on this site in accordance with the Council’s contaminated land statutory duties. Further monitoring is being planned to evaluate the pollution from the site and to inform the most appropriate remediation option. It is possible that if remedial work is required, a cost in the region of £2m to 6m may be incurred. There is a possibility that part or most of the cost of the work could be offset by the Government‘s Capital Grants Programme for Contaminated Land.

The site forms part of a land holding owned by the Council which is let on a farm business tenancy, with potential financial obligations for the Council should the site be surrendered from the tenancy.

42. EVENTS AFTER THE BALANCE SHEET DATE

Following the approval of applications for Academy status, six Foundation schools are expected to become Academies during 2011/12. Under Academy status, such schools would not form part of the Council's accounts, hence will result in significant movements in income, expenditure and schools reserves for the 2011/12 Statement of Accounts. These schools reported income and expenditure in 2010/11 of £50,260k and £49,008k respectively and held reserves of £4,139k at 31 March 2011. The non-current assets of these schools are already excluded from the Council's Balance Sheet under Foundation status and therefore will not impact non-current asset disclosures.

43. SUMMARY OF TREASURY MANAGEMENT POLICY

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

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

The Council's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement which represents the cumulative capital expenditure of the local authority that has not been financed from internal resources (see note 38).

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

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

44. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with the Revised Prudential Code of Capital Finance for Local Authorities.

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Investment Guidance for Local Authorities. This guidance emphasises that priority be given to security and liquidity rather than yield. The Council's strategy together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Authority's activities exposes it to a variety of financial risks:

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority’s customers. This risk is minimised as outlined in the Annual Investment Strategy, which states that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, S&P and Moody’s Ratings Services. The Annual Investment Strategy also sets maximum sums that can be invested with any financial institution. The credit criteria in respect of financial assets held by the authority are as detailed below:

Long term minimum: A+(Fitch); A1 (Moody’s;) A+ (S&P)
Short term minimum: F1 (Fitch); P-1 (Moody’s); A-1 (S&P)

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

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority’s maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but possible, for such entities to be unable to meet their commitments. The risk of irrecoverability applies to all of the Council’s deposits.

Notes to Main Financial Statements

The table below summarises the amortised value of the Council's investment portfolio at 31 March 2011, and shows that all investments were made in line with the Council's approved credit rating criteria:

Outstanding investments as at 31 March 2011							
			Maturity of investments				
	Fitch Rating at time of Deposit	**Fitch Rating 31 March 2011**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**Over 12 Months**	**Total**
Banks			**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
UK	AA- F1+ 1	AA- F1+ 1	**15,062**	**0**	**3,528**	**0**	**18,590**
Iceland (Heritable Bank)	A F1 1	In default Credit Rating Withdrawn	939	740	1,450	1,914	5,043
Iceland (Landsbanki Islands)	A F1 2	In default Credit Rating Withdrawn	0	0	1,102	2,831	3,933
			16,001	**740**	**6,080**	**4,745**	**27,566**
Money Market Funds All funds held explicit money market fund ratings of AAA, with at least one of the rating agencies			15,302	0	0	0	15,302
			31,303	**740**	**6,080**	**4,745**	**42,868**

The information above provides both current and time of deposit credit ratings of institutions and durations of outstanding investments held by the Council. At the time when the investments were placed, the credit rating criteria was met. The disclosures above are given at their amortised value.

Credit Rating Definitions

The credit ratings provided show three indicators; the long term rating, short term rating and support rating.

Long Term		**Short Term**	
AAA	Highest credit quality	F1	Highest credit quality
AA	Very high credit quality	F2	Good credit quality
A	High credit quality	F3	Fair credit quality
BBB	Good credit quality	B	Speculative
BB	Speculative	C	High default risk
B	Highly speculative	RD	Defaulted on some financial commitments
CCC	Default possibility	D	Defaulted on all financial commitments
CC	Default imminent		
D	Defaulted		
Support		**Money Market Funds**	
1	Extremely high probability of external support	Fitch: AAAmmf : Extremely strong capacity to achieve fund's investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk.	
2	High probability of external support		
3	Moderate probability of support		
4	Limited probability of support	Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.	
5	Possible support but cannot be relied upon		
		S&P: AAAm has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks.	

Notes to Main Financial Statements

Borrowing

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

	On 31 March 2011				On 31 March 2010				On 31 March 2009			
	PWLB £000's	Market £000's	Other £000's	**Total £000's**	PWLB £000's	Market £000's	Other £000's	**Total £000's**	PWLB £000's	Market £000's	Other £000's	**Total £000's**
Nominal Value	113,600	48,000	0	**161,600**	124,600	48,000	10,000	**182,600**	149,600	48,000	370	**197,970**
Premium	(3,379)	0	0	**(3,379)**	(3,402)	0	0	**(3,402)**	(3,423)	0	0	**(3,423)**
Interest	840	623	0	**1,463**	955	620	3	**1,578**	1,411	618	4	**2,033**
Amortised Value	111,061	48,623	0	**159,684**	122,153	48,620	10,003	**180,776**	147,588	48,618	374	**196,580**

Liquidity Risk

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

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

	Limit for Debt Maturity	Actual % Debt Maturity at 31 March 2011	**31 March 2011 £000's**	31 March 2010 £000's	31 March 2009 £000's
Less than 1 year	25%	2.8%	4,463	17,578	2,054
Between 1 and less than 2 years	25%	3.8%	6,000	3,000	3,023
Between 2 and less than 5 years	50%	6.9%	11,000	12,000	6,072
Between 5 and less than 10 years	75%	31.3%	50,000	42,000	17,139
Between 10 and less than 20 years	100%	9.4%	15,000	28,000	20,115
Between 20 and less than 30 years	100%	0.0%	0	0	25,000
Between 30 and less than 40 years	100%	0.0%	0	0	20,000
Between 40 and less than 50 years	100%	15.8%	25,221	30,198	55,177
Over 50 years	100%	30.0%	48,000	48,000	48,000
Total			**159,684**	**180,776**	**196,580**

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

Notes to Main Financial Statements

Market Risk

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

Movements in interest rates can impact the Council in several ways. For instance, a rise in interest rates would have the following effects:
- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

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

If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	149
Increase in interest receivable on variable rate investments	464
Impact on Surplus or Deficit on the Provision of Services	**315**
Share of overall impact credited to the HRA	44
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	16,222

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

Price Risk: The Council does not generally invest in equity shares or bonds but it does hold historic balances in its accounts. The Council is consequently exposed to losses arising from movements in the prices of these shares and bonds. As these holdings have arisen from a donation, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

The £82k holdings are all classified as ‘Available for Sale’ and it is expected will not be disposed, hence all movements in price will be shown in the Available for Sale Reserve with no impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

Foreign Exchange Risk: The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

Financial Liabilities

The majority of borrowing made by the Council is sourced from the PWLB. (As at 31 March 2011 £100,100k was at fixed rates and £13,500k at variable rates). Borrowing at fixed rates enables the Council to enjoy stability of costs in future years and helps improve budgetary processes. Fixed rates protect the Council from interest rate increases but in contrast exposes it to opportunity costs should rates fall. Borrowing at variable rates currently allows the Council to source debt at levels which are considerably lower than fixed rate debt. Sourcing debt from the PWLB allows the Council to reschedule or prematurely redeem debt and the portfolio is continually monitored to take advantage of opportunities that may present themselves periodically to reduce overall costs.

£48,000k of debt is held in "Lenders Option Borrowers Option" (LOBO) market loans. These have been set to provide varying periods of fixed rate ranges with subsequent options for the lender to change this rate on agreed dates. A LOBO which falls within a year of an interest change date is classified as variable. Over the next three years loans totalling £9,000k, £8,000k and £10,000k respectively are scheduled for rate change options.

In order to minimise debt costs the Council delayed taking its long term borrowing requirement for 2010/11. In addition £5,000k was prematurely redeemed at a discount of £10k.

Financial Assets

The Council had a weighted average balance of investments (excluding unpaid Icelandic deposits) for 2010/11 of £46,495k. Within this figure a rolling balance of approximately £30,000k was required for day-to-day cash flow needs with the remainder being attributable to capital expenditure requirements. Throughout the year deposits were placed in instant access accounts and in fixed term deposits with varying maturity periods. This approach aimed to match investment maturities with expected expenditure and so spread interest rate risk. The term remaining on all deposits at year end was less than one year and therefore classified as variable.

45. TRUST FUNDS

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

	As at 31 March 2011 £000's	As at 31 March 2010 £000's
Education trusts - providing academic prizes	4	4
Library trusts - purchase of library books	10	10
Total	**14**	**14**

46. PENSION SCHEMES

Defined Benefit Pension Schemes

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

The Council participates in three defined benefit pension schemes, which are two funds of the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme. Accounting for the Teachers' Pension Scheme varies from that of the LGPS and is expanded upon below. The two LGPS funds are:

The Council participates in two funds of the Local Government Pension Scheme (LGPS), Contributions are made by the Council and employees at a level intended to balance the pensions liabilities with investment assets. The two funds are:

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

The adequacy of the funds' contributions and investments to resource future liabilities is reviewed tri-annually by actuaries appointed by the Council; the last took place during 2010/11 which assessed the position at 31 March 2010. The contribution rates were then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 20010/11 employer's common contribution rate was 17.1%, and employees contributed at variable rates between 5.7% and 7.5% of pensionable salary. The rates set for the following three years are 17.1% plus a lump sum contribution of £929k, 19.1% and 20.1%.

Disclosures related to the London Borough of Hillingdon Fund of the LGPS have been restated for 2009/10 and prior years to include IAS 19 transactions and balances of the former Hillingdon Homes under the principles of merger accounting detailed in note 27. The most significant impact of this restatement is an increase in the scheme deficit at 31 March 2010 from £414,519k to £436,013k.

Notes to Main Financial Statements

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the Council's liabilities in the LGPS by £95,470k and this has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, as the change is considered to be a change in benefit entitlement. This gain is recognised in the Comprehensive Income and Expenditure Statement and reversed through the Movement in Reserves Statement, negating any impact upon the General Fund or Housing Revenue Account Balances.

Defined Contribution Pension Schemes

Teachers employed by the authority are members of the Teachers' Pension Scheme. This fund is administered by the Department for Education and provides teachers with defined benefits upon their retirement. The authority contributes towards the pensions by making payments to the fund based on a percentage of members' pensionable salaries. The employer's contribution rate was 14.1% (14.1% in 2009/10). The total contribution to the fund by the authority in 2010/11 was £12,926k (£12,546k in 2009/10), of this amount £1,082k was outstanding at 31 March 2011 (£1,058k at 31 March 2010).

With regard to the Teachers' Pensions Scheme there were no contributions remaining payable at the year end. The Teachers' Pension Scheme is a defined benefit scheme. Although the scheme is unfunded a notional fund is used as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. There were no lump sums awarded in 2010/11 or 2009/10, and £176k paid in respect of on-going payments (£276k in 2009/10).

Transactions relating to retirement benefits

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

Comprehensive Income and Expenditure Statement	London Borough of Hillingdon Pension Fund		LPFA Pension Fund		Total
	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's
Cost of Services:					
Current service costs	24,451	12,802	0	0	24,451
Past service costs	(95,470)	(319)	(100)	0	(95,570)
Settlements and curtailments	1,388	749	0	0	1,388
Liabilities assumed in a business combination	0	(320)	0	0	0
Total Net Cost Of Services	**(69,631)**	**12,912**	**(100)**	**0**	**(69,731)**
Financing and Investment and Expenditure					
Interest costs	50,736	42,500	332	351	51,068
Expected return on assets in the scheme	(39,762)	(26,313)	(179)	(128)	(39,941)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**10,974**	**16,187**	**153**	**223**	**11,127**
Amounts to be met from Government Grants and Local Taxation					
Movement on pension reserve	**(58,657)**	**29,099**	**53**	**223**	**(58,604)**
Actual amount charged against council tax for pensions in the year					
Employer's contributions payable to scheme	22,213	20,222	0	0	22,213
Contributions in respect of unfunded benefits	2,227	2,075	9	9	2,236
	24,440	**22,297**	**9**	**9**	**24,449**

In addition the Comprehensive Income and Expenditure Statement included an actuarial gain of £104,514k in 2010/11 (£197,394k loss in 2009/10). The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement since 2004/05 is £205,466k.

The Council expects to make payments of £21,988k in respect of contributions to the scheme during the financial year 2011/12.

Notes to Main Financial Statements

47. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	London Borough of Hillingdon Pension Fund		London Pension Authority Pension Fund		Total
	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's
Opening Benefit Obligation	994,245	616,469	6,158	5,400	1,000,403
Current Service Cost	24,451	12,802	0	0	24,451
Interest Cost	50,736	42,500	332	351	51,068
Contributions by Members	8,033	7,626	0	0	8,033
Actuarial (Gains)/Losses	(130,116)	338,793	215	1,035	(129,901)
Past Service Costs/(Gains)	(95,470)	(319)	(100)	0	(95,570)
Losses on Curtailments	1,796	749	0	0	1,796
Liabilities Extinguished on Settlements	(867)	0	0	0	(867)
Liabilities Assumed in a Business Combination	0	2,386	0	0	0
Exchange Differences	0	0	0	0	0
Estimated Unfunded Benefits Paid	(2,227)	(2,075)	(9)	(9)	(2,236)
Estimated Benefits Paid	(29,637)	(24,686)	(650)	(619)	(30,287)
Closing Defined Benefit Obligation	**820,944**	**994,245**	**5,946**	**6,158**	**826,890**

Reconciliation of fair value of scheme assets

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund		Total
	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's
Opening Fair Value of Employer Assets	561,122	400,528	3,268	3,510	564,390
Expected Return on Assets	39,762	26,313	179	128	39,941
Contributions by Members	8,033	7,626	0	0	8,033
Contributions by the Employer	22,213	20,222	0	0	22,213
Contributions in respect of Unfunded Benefits	2,227	2,075	9	9	2,236
Actuarial Gains/(Losses)	(25,970)	128,413	583	249	(25,387)
Assets Distributed on Settlements	(459)	0	0	0	(459)
Assets Acquired in a Business Combination	0	2,706	0	0	0
Exchange Differences	0	0	0	0	0
Estimated Unfunded Benefits Paid	(2,227)	(2,075)	0	0	(2,227)
Estimated Benefits Paid	(29,637)	(24,686)	(659)	(628)	(30,296)
Closing Fair Value of Employer Assets	**575,064**	**561,122**	**3,380**	**3,268**	**578,444**

The expected return on scheme assets is determined by considering the expected returns available on the assets according to the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates on return experienced in the respective markets.

Notes to Main Financial Statements

Scheme history

	2010/11	2009/10	2008/09	2007/08	2006/07
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
LBH	(820,944)	(994,245)	(616,469)	(629,809)	(674,529)
LPFA	(5,946)	(6,158)	(5,400)	(5,857)	(6,770)
Fair Value of Assets:					
LBH	575,064	561,122	400,528	527,441	568,155
LPFA	3,380	3,268	3,510	4,593	5,334
Deficit in the scheme:					
LBH	(245,880)	(433,123)	(215,941)	(102,368)	(106,374)
LPFA	(2,566)	(2,890)	(1,890)	(1,264)	(1,436)
Total	**(248,446)**	**(436,013)**	**(217,831)**	**(103,632)**	**(107,810)**

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £826,890k is offset by the scheme assets of £578,444k to give the net pension liability of £248,446k as disclosed on the balance sheet.

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

Notes to Main Financial Statements

48. PENSION SCHEMES BASIS OF ESTIMATION

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The scheme liabilities for both LBH and LPFA have been assessed by their appointed actuary, estimates for the LBH scheme being based on the latest full valuation of the scheme as at 31 March 2010. The appointed actuary for LBH is Hymans Robertson LLP and for LPFA is Barnett Waddingham.

	London Borough of Hillingdon Pension Fund		**London Pension Fund Authority Pension Fund**	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
Financial Assumptions: (% p.a.)				
Pension Increase Rate*	2.8%	3.8%	2.7%	3.9%
Inflation (RPI)	3.6%	3.8%	3.5%	3.9%
Long Term Salary Increase Rate	5.1%	5.3%	4.5%	5.4%
Expected Return on Assets	6.8%	7.1%	5.1%	5.1%
Discount Rate	5.5%	5.5%	5.5%	5.5%
Expected Return on Assets by Category:				
Cashflow Matching	N/A	N/A	4.4%	4.5%
Equities	7.5%	7.8%	7.2%	7.3%
Target Return Portfolio	N/A	N/A	5.0%	5.0%
Bonds	4.9%	5.0%	N/A	N/A
Property	5.5%	5.8%	N/A	N/A
Cash	4.6%	4.8%	3.0%	3.0%
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	20.8	20.8	20.8	21.0
- Women	24.1	24.1	23.8	23.4
Longevity at 65 for future pensioners:				
- Men	22.3	22.3	22.9	22.0
- Women	25.7	25.7	25.7	24.2
Take-up of option to convert annual pension to tax free lump sum	50%	50%	50%	50%

* Pension Increase assumptions at 31 March 2011 were linked to CPI, rather than RPI as at 31 March 2010 following changes to the LGPS set out on page 94.

Notes to Main Financial Statements

The assets held by the schemes consist of the following categories, by proportion of total assets held:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
Categories of assets held:				
Cashflow Matching	0%	0%	35%	38%
Equities	70%	74%	12%	11%
Target Return Portfolio	0%	0%	54%	54%
Bonds	20%	17%	0%	0%
Property	8%	7%	0%	0%
Cash	2%	2%	(1%)	(3%)

History of experience gains and losses

Gains and losses arising as a result of differences between actuarial assumptions included in the CIES and actual experience over the period are set out below as a percentage of assets and liabilities at 31 March 2011.

	2010/11	2009/10	2008/09	2007/08	2006/07
Difference between expected and actual return on assets:					
LBH (Gain)/Loss	4.2%	(22.9%)	41.2%	15.2%	(0.2%)
LPFA (Gain)/Loss	(17.2%)	(7.6%)	17.0%	7.9%	0.0%
Experience gains and losses on liabilities:					
LBH (Gain)/Loss	(4.9%)	0.1%	(0.0%)	(2.2%)	(0.0%)
LPFA (Gain)/Loss	7.1%	(0.2%)	0.3%	14.3%	(0.1%)

49. TRANSITION TO IFRS

The Statement of Accounts for 2010/11 is the first to be prepared in accordance with International Financial Reporting Standards (IFRS) as defined by the CIPFA Code of Practice (the Code). Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2008/09 and 2009/10.

The following tables explain the material differences between the amounts presented in the 2008/09 and 2009/10 financial statements and the equivalent amounts presented in the 2010/11 accounts.

Long Term Assets

2008/09

	Original 2008/09 £000's	Investment Property Reclassification £000's	Surplus Asset Reclassification £000's	Finance Lease Adjustment £000's	Restated Total 2008/09 £000's
LONG TERM ASSETS					
Property, plant & equipment	1,458,142	718	0	308	1,459,168
Investment property	10,993	(718)	0	0	10,275
Intangible assets	1,443	0	0	0	1,443
Long term investments	14,905	0	0	0	14,905
Long term debtors	424	0	0	0	424
Surplus assets	7,390	0	(60)	0	7,330
CURRENT ASSETS					
Assets held for sale	0	0	60	0	60

2009/10

	Original 2009/10 £000's	Investment Property Reclassification £000's	Surplus Asset Reclassification £000's	Finance Lease Adjustment £000's	Restated Total 2009/10 £000's
LONG TERM ASSETS					
Property, plant & equipment	1,346,314	718	0	215	1,347,247
Investment property	6,443	(718)	0		5,725
Intangible assets	1,161	0	0	0	1,161
Long term investments	8,270	0	0	0	8,270
Long term debtors	581	0	0	0	581
Surplus assets	12,726	0	(60)	0	12,666
CURRENT ASSETS					
Assets held for sale	0	0	60	0	60

Notes to Main Financial Statements

Investment Property

Under the Code, Investment Properties are defined as assets held by the Council for the sole purpose of earning rentals or capital appreciation. This does not include assets which are used by the Council in fulfilling its service objectives. Assets which were no longer regarded to be Investment Properties under the new definition were reclassified.

Revaluations relating to Investment Properties are also required under the Code to be posted to the Comprehensive Income and Expenditure Statement and are then reversed out the Movement in Reserves Statement to the Capital Adjustment Account. Previously these had been transferred to the Revaluation Reserve. Accordingly an adjustment of £1,834k was made in the 2009/10 accounts to transfer existing balances from the Revlauation Reserve to the Capital Adjustment Account.

Surplus Assets

The Code established a new category of 'Held for Sale' for assets which were being actively marketed and expected to be sold within the following year. These assets have therefore been separated from Surplus Assets.

Leases

The Code has redefined the distinction between a Finance Lease and an Operating Lease. Leases where the substance of the agreeement transfers the risks and rewards of the asset from the Lessor to the Lessee are defined as Finance Leases. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:
1) the lease transfers ownership of the asset to the lessee by the end of the lease term.
2) the leasee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised.
3) the lease term is for a major part of the economic life of the asset.
4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The council has reviewed all its leases against the new definition and has re-categorised a lease of 6 superloos between the council and JCDeceaux into a finance lease.

In addition to recognising the assets on the balance sheet, a finance lease liability has also been recognised. This has resulted in the following changes in the 2009/10 statements.

	Adjustment	
	2009/10	2008/09
Creditors and receipts in advance	(3)	(3)
Deferred Liabilities	(212)	(305)
	(215)	(308)

Notes to Main Financial Statements

Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- £49,659k of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Under previous accounting practice all unapplied capital grants were held as creditors. In cases where there is no obligation to return funding to an awarding body income is recognised upon receipt and unapplied balances are held in the Capital Grants Unapplied Account.

This has resulted in the following changes being made to the 2009/10 financial statements:

	Adjustment	
	2009/10	**2008/09**
Government Grants Deferred Account	129,746	141,634
Capital Adjustment Account	(129,746)	(141,634)

Short-term accumulating compensated absences

Short-term accumulated compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are initially allocated to the Net Cost of Services within the Comprehensive Income and Expenditure Statement. These are then transferred to the Accumulated Absences Account until the benefits are used. The Comprehensive Income and Expenditure Statement for 2009/10 has been include these amounts.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 Balance Sheet:

	Adjustment	
	2009/10	**2008/09**
Creditors	(8,253)	(7,050)
Accumulated Absences Account	8,253	7,050

Other Financial Statements

The Housing Revenue Account (page 103)

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

The Collection Fund Account (page 107)

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 110)

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

HRA - Comprehensive Income And Expenditure Statement

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

	Notes	Year ended 31 March 2011 £000's	Year ended 31 March 2010 £000's
Expenditure			
Repairs and maintenance		11,004	11,423
Supervision and management		15,489	17,190
Rents, rates,taxes & other charges		53	381
Increase in provision for bad debts		179	237
Housing Revenue Acccount Subsidy payable	*4*	11,319	10,573
Debt management costs		430	156
Depreciation and Impairment of non current assets	*2*	206,148	12,684
		244,622	**52,644**
Income			
Gross dwelling rents		(48,126)	(47,756)
Gross non dwelling rents		(1,961)	(1,817)
Charges for services and facilities		(3,208)	(3,260)
Contributions towards expenditure		(1,561)	(2,314)
		(54,856)	**(55,147)**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		189,766	(2,503)
HRA Services share of Corporate and Democratic Core		175	190
Net Cost of HRA services		**189,941**	**(2,313)**
(Gain)/Loss on sale of HRA non current assets		418	(2,406)
Interest payable and similar charges		1,971	2,380
HRA investment income		(85)	(75)
Capital Grant Income		(6,871)	(437)
(Surplus)/deficit for the year on HRA services		**185,374**	**(2,851)**

The HRA Income and Expenditure Statement figures for 2009/10 have been restated to include income from Capital Grants, required under International Financial Reporting Standards (IFRS). These are reversed out via the Statement of Movement on the HRA to the Capital Adjustment Account where they have been applied in year.

The deficit for 2010/11 of £185,374k includes impairments to Local Authority Housing Stock of £196,675k. Although there was no material movement in the vacant posession value of Council Dwellings, the DCLG decision to change the factor used to calculate Economic Use Value for Social Housing (EUV(SH)) from 37% to 25% resulted in this revaluation loss.

Movement on the HRA Balance

	2010/11 £000's	2009/10 £000's
(Surplus)/deficit for the year on HRA services	185,374	(2,851)
Additional amount required by statute or non-statutory proper practices to be debited or credited to the General Fund balance for the year.		
Gain/(Loss) on sale of HRA non current assets	(418)	2,406
Capital Grant Income	6,871	437
Premium on early redemption of HRA debt	94	81
HRA share of contributions to or from the Pension Reserve	0	84
Capital Expenditure funded by the HRA	423	2,870
Depreciation and Impairment on Non Current Assets	(197,789)	(4,698)
HRA Finance Lease Payments	0	187
Transfer to Earmarked Reserves	61	0
Increase in HRA balance for the year	**(5,384)**	**(1,484)**
HRA Balance Brought forward	(6,045)	(4,561)
Hillingdon Housing Services Balance Brought Forward	(1,494)	0
HRA Reserves carried forward	**(12,923)**	**(6,045)**
HRA Share of earmarked reserves	(61)	0
Total HRA Balances	**(12,984)**	**(6,045)**

Notes to Housing Revenue Account

1. HOUSING STOCK

The Council was responsible at 31 March 2011 for managing dwellings.

The stock was as follows:

	Total Properties at 31 March 2011	Total Properties at 31 March 2010
1 Bed Properties	3,619	3,656
2 Bed Properties	3,647	3,654
3 Bed Properties	2,858	2,865
4 plus Bed Properties	221	219
Total	**10,345**	**10,394**

2. VALUE OF HRA ASSETS

	Net Book Value at 31 March 2011 £000's	Net Book Value at 31 March 2010 £000's
Operational Assets		
Council dwellings	495,142	694,875
Other land & buildings	20,488	12,937
Vehicle, plant & equipment	228	342
Non-Operational Assets		
Assets Held For Sale	2,055	0
Assets Under Construction	7,418	0
Investment Properties	70	70
Total	**525,401**	**708,224**

The vacant possession value of dwellings within the authority's HRA as at 31 March 2011 was £1,960,000k, this differs from the balance sheet value of £495,000k which is based on the economic use value of social housing. The difference of £1,465,000k between these two figures shows the economic cost to the Government of providing housing at below open market rates.

For 2010/11 depreciation of £8,224k in respect of Council dwellings, £326k in respect of other land and buildings and £114k in respect of vehicles, plant, furniture and equipment was charged to the HRA. Councils dwellings were impaired by £196,675k following valuation and a scaling down from 37% to 25% of vacant possession value to reflect the economic use value of social housing. There were no impairments to the other classes of HRA assets. A further £809k of impairments of other plant, propert and equipment were charged to the HRA during 2010/11.

3. CAPITAL EXPENDITURE

Capital Expenditure on HRA council dwellings during 2010/11 totalled £17,268k.This was financed by:

	Total at 31 March 2011 £000's	Total at 31 March 2010 £000's
Revenue contribution	423	2,095
Major repairs allowance	8,224	7,986
Capital receipts	1,677	28
Other contributions	6,944	625
	17,268	**10,734**

Capital receipts from the sale of Council dwellings during 2010/11 totalled £3,125k of which £2,124k was paid to Central Government under Pooling arrangements and £924k used towards capital financing. There were no capital receipts arising from the disposal of other classes of HRA assets.

4. HOUSING SUBSIDY

The government determines HRA subsidy which is based on notional HRA income and expenditure. HRA subsidy is either paid to or collected by central government. When income is greater than expenditure, government collects payments (negative subsidy) from local authorities. The Council paid negative subsidy to central government in both 2009/10 and 2010/11 which was calculated as follows:

	2010/11	2009/10
Expenditure	**£000's**	£000's
Management	6,878	6,663
Maintenance	12,708	12,216
Allowance for major repairs	8,224	7,986
Charges to capital	1,558	1,853
ALMO allowance	4,744	4,744
Other expenditure	22	517
Income		
Rent	(45,446)	(44,538)
Interest on receipts	(7)	(14)
Subsidy payable to DCLG	**(11,319)**	**(10,573)**

5. RENT ARREARS

At 31 March 2011 the gross HRA rent arrears amounted to £3,638k (£3,851k in 2009/10) of which £3,456k (£3,707k in 2009/10) relates to dwellings and £182k (£144k in 2009/10) to commercial rent.

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2011 was £2,674k (£2,757k in 2009/10). Of this £2,448k (£2,650k in 2009/10) relates to dwellings and £226k (£107k in 2009/10) to non-dwellings.

7. MAJOR REPAIRS RESERVE

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

	2010/11	2009/10
	£000's	£000's
Balance as at 1 April	0	0
Depreciation transferred to reserve	8,665	8,556
Amount used to finance capital expenditure	(8,224)	(7,986)
Transfer to the Capital Adjustment Account	(441)	(570)
	0	**0**

The £441k transferred to the Capital Adjustment Account financed capital expenditure on dwellings.

8. CONTRIBUTIONS TO PENSION RESERVE

The cost of employer's pension contributions in the HRA Income and Expenditure is reported in line with IAS 19, which requires the current service cost rather than the actual employer's contribution be recognised. There was no adjustment to the Pension Reserve required for 2010/11 as there was no material variation between actual employer's contributions paid and the current service cost calculated in line with IAS 19.

Collection Fund Account

Statement of Income and Expenditure

	Notes	Year ended 31 March 2011 £000's	Year ended 31 March 2011 £000's	Year ended 31 March 2010 £000's	Year ended 31 March 2010 £000's
Income					
Council tax	*3*		119,300		118,522
Transfers from General Fund for Council Tax benefits	*3*		21,960		21,171
Income collectable from business ratepayers	*6*		314,063		301,509
Contribution towards previous years' estimated surplus/(deficit)	*4*		(984)		1,224
			454,339		**442,426**
Expenditure					
Precepts & demands:					
London Borough of Hillingdon	*4*	109,014		107,437	
Greater London Authority	*4*	30,347	139,361	29,908	137,345
Business rates:					
Cost of collection	*6*		610		624
Payment to national pool	*6*		313,453		300,885
Provision for doubtful debts					
Council Tax Write-offs	*7*		(133)		992
Council Tax Provisions	*7*		(705)		3,414
			452,586		**443,260**
(Surplus)/Deficit for the Year			**(1,753)**		**834**
COLLECTION FUND BALANCE					
Fund deficit at beginning of year			1,009		175
(Surplus)/Deficit for the year			(1,754)		834
Fund (surplus)/deficit at end of year:			(745)		1,009
Analysis of year end deficit:					
Council tax	*5*		(745)		1,009
			(745)		1,009

Paul Whaymand
Chief Finance Officer
28 September 2011

Notes to Collection Fund Account

1. THE COUNCIL TAX SYSTEM

Council tax is the means of raising income from local residents to pay for Council services. Council tax is levied on domestic properties and the charge is based on the valuation band assessed for each dwelling. The Inland Revenue has appointed a Listing Officer for the borough who is responsible for property valuations, valuation registers and appeals.

2. ACCOUNTING POLICIES

The Collection Fund Income and Expenditure Account is prepared on an accruals basis and complies with appropriate regulations and the Code of Practice on Local Authority Accounting. The transactions of the Collection Fund are wholly prescribed by legislation.

3. INCOME FROM COUNCIL TAX

The council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes and appeals. The tax base estimate for 2010/11 was 97,952 (96,535 in 2009/10) as calculated below.

Band	Estimated number of Properties	Discounts & Exemptions	Net estimated number of Properties	Band D Equivalent Ratio	Band D Equivalent 2010/11	Band D Equivalent 2009/10
A	697	(97)	600	6/9	400	347
B	5,208	(943)	4,265	7/9	3,317	3,236
C	20,982	(2,839)	18,143	8/9	16,127	15,805
D	42,807	(3,342)	39,465	9/9	39,465	38,982
E	17,011	(1,142)	15,869	11/9	19,395	19,261
F	8,940	(506)	8,434	13/9	12,182	12,012
G	4,283	(204)	4,079	15/9	6,798	6,697
H	350	(3)	347	18/9	695	682
	Total				98,379	97,022
	Adjustment for non-collection				(1,279)	(1,261)
	Ministry of Defence (MOD) contribution				852	774
	Council tax base				**97,952**	**96,535**
	Council Tax Rate for Band D (£)				**1,423**	**1,423**
	Demand on the Collection Fund (£000's)				**139,361**	**137,345**

The Demand on the Collection Fund of £139,361k (£137,345k in 2009/10) represents the anticipated council tax income yield for the year. The actual income yield to the Collection Fund for the year was £141,260k (£139,693k in 2009/10).

Notes to Collection Fund Account

4. PRECEPTS AND DEMANDS ON THE COLLECTION FUND

The demand on the Collection Fund is split between the Council and the Greater London Authority (GLA). The in-year surplus of £1,753k and the contribution towards previous year's estimated surplus of £984k are also split accordingly.

The split between the Council and the GLA is shown below:

	Precept/Demand	Share of 31 March 2011 Surplus	**2010/11**	2009/10
	£000's	£000's	**£000's**	£000's
London Borough of Hillingdon	109,014	2,141	111,155	105,828
Greater London Authority	30,347	596	30,944	29,459
Total	139,361	2,737	142,099	135,287

£111,155k is the amount of council tax income included in the Comprehensive Income and Expenditure Statement. The share of the 31 March 2011 surplus of £2,737k is made up of the surplus on the Collection Fund for the year of £1,753k and the contribution to previous year's surplus of £984k.

5. CONTRIBUTIONS TO COLLECTION FUND SURPLUS OR DEFICIT

The surplus of £745k relating to the Council Tax will be allocated in subsequent financial years to the Council and the GLA in proportion to the value of the respective demands on the Collection Fund.

6. INCOME FROM NATIONAL NON-DOMESTIC RATES

Under the arrangements for Uniform Business Rates, the Council collects non-domestic rates in the Borough based on rateable values which are assessed by the District Valuer, multiplied by a uniform rate which is set by Central Government.

The total amount, less certain reliefs and other deductions, is paid to a central pool managed by the Government, which in turn is redistributed to local authorities as a standard amount per head of relevant population. The total non-domestic rateable value at 31 March 2011 was £813,430k. The National Non-Domestic multiplier for the year was 41.4p and 40.7p for small businesses.

	2010/11	2009/10
	£000's	£000's
NNDR Income Collectable from ratepayers	314,063	301,509
Cost of Collection Allowance	(610)	(624)
Amount Paid to Central Government Pool	313,453	300,885
NNDR redistributed to Hillingdon Council	(73,708)	(67,242)

The NNDR redistributed to the Council is shown in the Comprehensive Income and Expenditure Statement under Taxation and Non-Specific Grant Income.

7. WRITE-OFFS

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2010/11 the Council Tax bad debt provision was reduced by £705k (bad debt provision was increased by £3,414k in 2009/10).

	2010/11	2009/10
	£000's	£000's
Council tax	456	992
NNDR	2,390	1,437
Total	**2,846**	**2,429**

Pension Fund Accounts and Net Asset Statement

FUND ACCOUNT

	Notes	Year Ended 31 March 2011 £000's	Year Ended 31 March 2010 £000's
Contributions	*3*	31,045	29,758
Transfers In	*4*	3,968	4,057
Less: Benefits	*5*	(30,084)	(27,130)
Less: Leavers	*6*	(3,673)	(4,566)
Less: Administrative expenses	*7*	(738)	(699)
Net additions from dealings with members		**518**	**1,420**
Investment income	*8*	9,853	11,066
Changes in market value of investments	*9*	22,872	137,374
Taxes on income		(91)	(171)
Investment management expenses	*11*	(3,109)	(2,829)
Net return on investments		**29,525**	**145,440**
Net Increase/(Decrease) in the fund during the year		**30,043**	**146,860**
Net Assets at start of year		**564,290**	**417,430**
Net Assets at end of year		**594,333**	**564,290**

NET ASSETS STATEMENT

		31 March 2011 £000's	31 March 2010 £000's
Investment Assets	*9*	596,505	564,171
Investment Liabilities	*10*	(1,911)	(1,962)
Current Assets	*12*	426	2,540
Current Liabilities	*13*	(687)	(459)
TOTAL NET ASSETS		**594,333**	**564,290**

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Annual Report and these accounts should be read in conjunction with this.

The IFRS code has adopted pension scheme requirements from the Local Government SORP 2009/10 and therefore no requirement to prepare transitional adjustments or changes in accounting policies that would require a third Net Asset Statement to be prepared.

Paul Whaymand
Chief Finance Officer
28 September 2011

Pension Fund Accounts and Net Asset Statement

1. BASIS OF PREPARATION

The accounts have been compiled in accordance the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and following the guidance in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007) ("the SORP"). The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

2. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of the Chartered Institute of Public Finance and Accountancy and comply with both the Local Authority Accounting and Pension 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 - Equities and fixed income are valued at bid prices - where bid price is not available, the mid price is used. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for private placements and infrastructure are priced using discounted cash flow methodology. All assets are disclosed in the financial statements at their fair value.

d) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the net assets statement. Overseas income is converted at rates of exchange ruling when remitted.

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

f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the Fund 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, the return received is calculated in accordance with the unit price at the balance sheet date.

i) Contributions - are accounted for in the period in which they fall due. Normal contributions received during the year have been in accordance with the rates and adjustments certificate.

j) Benefits - are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

k) Transfers - are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

l) Investment Income - Dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and a lump sum retirement allowance (for any member with service pre 01/04/2008) The scheme is administered locally by the council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

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

Notes To Pension Fund Accounts

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

Admitted Bodies:

Greenwich Leisure
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Look Ahead Housing & Care
Mitie Cleaning
Mitie FM
Yes Dining Ltd

Scheduled Bodies:

Guru Nanak Academy
Harefield Academy
Stockley Academy
Uxbridge College
London Housing Consortium

As at 31 March 2011 there were 6,039 active employees contributing to the fund, with 5,187 in receipt of benefit and 4,890 entitled to deferred benefits.

The pension fund investments are managed externally by fund managers: Adams Street Partners, Alliance Bernstein, Fauchier Partners, Goldman Sachs Asset Management, LGT Capital Partners, Macquarie Investment, Marathon Global Investors, Ruffer Partners, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle with M&G.

The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2010/11:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Paul Harmsworth
Cllr Richard Lewis (From May 2010)
Cllr George Cooper (To Nov 2010)
Cllr David Simmons (From Nov 2010)
Cllr Janet Duncan (From May 2010)
Mr John Holroyd (Pensioner/Deferred Scheme Representative) (Non Voting)
Mr Andrew Scott (Active Scheme Representative) (Non Voting)
Cllr Michael Cox (To May 2010)

3. CONTRIBUTIONS

	31 March 2011 £000's	31 March 2010 £000's
Employers		
Normal	19,868	18,783
Deficit funding	2,819	2,665
Members		
Normal	8,229	8,173
Additional contributions	129	137
	31,045	**29,758**

Deficit Funding:- At the last actuarial valuation as at 31 March 2010 the fund was 78% funded, with the remaining 22% deficit to be recovered over a period of 25 years with a common contribution rate of 22.4%.
The split between normal and deficit funding contributions for employers has been reallocated for 2009/10 to reflect the percentage attribution set out in the actuarial valuation

Schedule of contributions by body	31 March 2011 £000's	31 March 2010 £000's
Employers		
LB Hillingdon	21,309	18,750
Scheduled Bodies	979	2,320
Admitted Bodies	399	378
Members		
LB Hillingdon	7,795	7,190
Scheduled Bodies	445	995
Admitted Bodies	118	125
	31,045	**29,758**

Notes To Pension Fund Accounts

4. TRANSFERS IN

	31 March 2011 £000's	31 March 2010 £000's
Individual transfers in from other schemes	3,968	4,057
	3,968	**4,057**

5. BENEFITS

	31 March 2011 £000's	31 March 2010 £000's
Pensions	23,243	22,025
Commutations and lump sum retirement benefits	5,850	4,602
Lump sum death benefits	991	503
	30,084	**27,130**

	31 March 2011 £000's	31 March 2010 £000's
Schedule of benefits by employer		
LB Hillingdon	29,666	26,750
Scheduled Bodies	282	271
Admitted Bodies	136	109
	30,084	**27,130**

6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2011 £000's	31 March 2010 £000's
Refunds of contributions	8	7
State scheme premiums	2	2
Individual transfers out to other schemes	3,663	4,557
	3,673	**4,566**

7. ADMINISTRATIVE EXPENSES

	31 March 2011 £000's	31 March 2010 £000's
Administration and processing	630	573
Audit fee	37	40
Actuarial fee	71	86
	738	**699**

8. INVESTMENT INCOME

	31 March 2011 £000's	31 March 2010 £000's
Interest from fixed interest securities	0	712
Dividends from equities	5,507	7,188
Income from index-linked securities	461	300
Income from pooled investment vehicles	1,594	1,515
Interest on cash deposits	232	42
Other (for example from stock lending or underwriting)	2,059	1,309
	9,853	**11,066**

Notes To Pension Fund Accounts

9. INVESTMENT ASSETS

	Value at 1 April 2010 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value at 31 March 2011 £000's
Equities	210,854	156,173	(168,305)	(4,962)	193,760
Index-linked securities	18,438	26,298	(5,145)	969	40,560
Pooled investment vehicles	316,490	60,254	(57,924)	28,267	347,087
	545,782	**242,725**	**(231,374)**	**24,274**	**581,407**
Other investment balances	1,761			(1,407)	1,459
Fund managers' cash	16,628		(3,171)	5	13,639
Total Investment Assets	**564,171**			**22,872**	**596,505**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments. The carrying amount of all assets is quoted at fair value.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £438k (£644k in 2009/10). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value at 31 March 2011 £000's	Market Value at 31 March 2010 £000's
Adams Street	19,321	15,804
Alliance Bernstein	62,177	113,639
Goldman Sachs Asset Management	65,974	62,871
Fauchier	25,519	0
LGT	16,555	12,397
M&G	5,314	0
Macquarie	1,277	0
Marathon	58,767	0
Ruffer	53,204	0
State Street Global Advisors	130,919	209,228
UBS	110,694	105,654
UBS (Property)	45,899	42,222
Other*	(1,026)	394
Total	**594,594**	**562,209**

* Other includes transition assets, pending trades and recoverable tax

Forward Foreign Exchange Contracts

Counterparty and Currency	Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust GBP - EUR	37,878	38,992	(1,114)	27/01/2011	10/05/2011
Northern Trust GBP - EUR	2,606	2,727	(120)	20/01/2011	06/04/2011
Northern Trust GBP - JPY	6,922	7,018	(96)	04/03/2011	15/06/2011
Northern Trust GBP - EUR	1,968	2,030	(62)	04/03/2011	10/05/2011
Northern Trust JPY - GBP	976	997	(20)	15/03/2011	15/06/2011
Northern Trust GBP - USD	1,580	1,597	(17)	09/03/2011	15/06/2011
Northern Trust JPY - GBP	606	614	(7)	14/03/2011	15/06/2011
Northern Trust GBP - CAD	855	858	(3)	13/01/2011	16/05/2011
Total unrealised losses			**(1,441)**		
Northern Trust GBP - JPY	13,313	13,256	57	27/01/2011	10/05/2011
Northern Trust CAD - GBP	858	845	13	28/01/2011	16/05/2011
Northern Trust GBP - JPY	944	942	2	22/03/2011	15/06/2011
Total unrealised gains			**72**		

As at 31 March 2011 eleven forward foreign exchange contracts were in place for £68,506k with unrealised gains and losses showing of £72k and £1,441k respectively. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement underlying asset value if converted into the base currency.

9. INVESTMENT ASSETS (CONTINUED)

	31 March 2011 £000's	31 March 2010 £000's
Equities		
UK quoted	114,967	154,142
Overseas quoted	78,793	56,712
	193,760	**210,854**
Index Linked Securities		
UK Public Sector quoted	28,922	18,438
Overseas Public Sector Quoted	11,638	0
	40,560	**18,438**
Pooled Investment Vehicles		
UK Managed funds - other	122,187	82,930
UK Unit Trusts - property	44,793	41,612
Overseas Unit Trusts - other	145,181	164,014
Private Equity	34,926	27,934
	347,087	**316,490**
Other Investment balances		
Forward foreign exchange unrealised gain	72	15
Amount due from brokers	355	512
Outstanding dividend entitlements and recoverable withholding tax	1,032	1,234
	1,459	**1,761**
Cash deposits		
Sterling	13,639	16,628
	13,639	**16,628**

Equities: Pooled Investment Vehicles and Other Investment Balances for year ending 31 March 2010 have been reallocated to improve the disclosure of the underlying assets within pooled funds. Forward foreign exchange unrealised losses have been reallocated to investment liabilities to provide comparable information.

The carrying value of private equity holdings has been sourced directly from the valuations provided by the private equity fund managers. Due to the inherent nature of this type of investment and the lack of a liquid market, it can be difficult to obtain precise realisable values and hence, the carrying value of these investments may differ from the realisable value.

AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.
A full reconciliation of the AVC deductions and Prudential's records agree that the value of these funds as at 31 March 2011 were £5,771k, and as at 31 March 2010 £6,133k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 4.

10. INVESTMENT LIABILITIES

	31 March 2011 £000's	31 March 2010 £000's
Amount outstanding to brokers	470	1,599
Forward foreign exchange unrealised loss	1,441	351
Dutch tax reclaim fee	0	12
	1,911	**1,962**

Investment Liabilities for year ending 31 March 2010 have been reallocated to include forward foreign exchange unrealised losses and to provide comparable information.

11. INVESTMENT MANAGEMENT EXPENSES

	31 March 2011 £000's	31 March 2010 £000's
Administration, management and custody	3,070	2,723
Performance measurement services	4	4
Other advisory fees	35	102
	3,109	**2,829**

Notes To Pension Fund Accounts

12. CURRENT ASSETS

	31 March 2011 £000's	31 March 2010 £000's
Employers' contributions due	179	187
Employees' contributions due	71	74
Debtor: London Borough of Hillingdon	52	61
Debtor: Other Entities	10	0
Cash balances	114	2,218
	426	**2,540**

13. CURRENT LIABILITIES

	31 March 2011 £000's	31 March 2010 £000's
Creditor: Other Entities	668	419
Creditor: London Borough of Hillingdon	19	40
	687	**459**

14. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2010. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 78% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2010 was £564,290k. The value of the deficit at that date was £163,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 22.4% for the period of 1 April 2011 to 31 March 2014.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:
Price Inflation (CPI) - 3.30% Gilt-based Discount Rate - 4.50%
Pay Increases - 5.30% Funding Basis Discount Rate - 6.10%

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS19.
The general financial assumptions used in preparing the IAS26 valuation are summarised below:
Inflation/Pension increase rate - 2.8% Salary increase rate - 5.1% Discount rate - 5.5%

An IAS 26 valuation was carried out for the fund as at 31 March 2011 by Hymans Robertson LLP with the following results:
Net liabilities £800,000k
Assets £594,333k
Deficit £205,667k
These figures are presented for the purposes of IAS 26 only. They are not relevant for calculations undertaken for funding purposes or other statutory purposes under UK pensions legislation. This item is not recognised in the Net Asset Statement hence is considered not to be in opposition to the assertion included on the Net Asset Statement surrounding future liabilities of the fund.

15. RELATED PARTY TRANSACTIONS

It is required under International Accounting Standard 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note (3) to the Pension Fund accounts. The Council provides administration services for the pension fund. In 2010/11 a charge of £630k (£573k in 2009/2010) was made for these services.

No senior officers had any interest with any related parties to the pension fund. From the Pension Committee, Cllr Corthorne declared an interest as the LBH Member of London Housing Consortium, Cllr Cooper as a Trustee of the Hillingdon & Ealing Citizens Advice and Cllr Cox as a Governor in Uxbridge College, however in each case no related party transactions were reported.

16. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2011, securities worth £19,475k were on loan by Northern Trust from our portfolio and collateral worth £20,995k was held within the pool including Hillingdon. In the same period, a net income of £75.2k was received.

17. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Pensions Fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

18. BULK TRANSFER
There were no bulk transfers into or out of the Fund during the financial year 2010/11.

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

Credit Risk - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.
The Pension Fund is exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

Forward Currency Contracts are with Northern Trust which holds a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank account is held with HSBC which holds a AA long term credit rating (or equivalent) across three rating agencies and it maintains its status as a well capitalised and strong financial organisation. Deposits are placed in the AAA rated Northern Trust Money Market Fund which offers the benefits of a diversified pool of underlying investments which are ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained.

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations.
The Pension Funds holds a working cash balance in its own bank account and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments. At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2011 these assets totalled £461.3m, with a further £6.6m held in cash by fund managers.

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

Interest Rate Risk is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in Bonds. Based on interest received on Bonds held on a segregated basis, a 1% change in the interest rate would result in a change in income of £862k.

Currency Risk is the risk to which the Pension fund is exposed to fluctuations in foreign currency exchange rates.
The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2011 the Fund had a 100% Euro and 50% Japanese Yen hedge in place for those managers who do not hedge their own portfolios. In general terms a 1% change in the exchange rate of all non-sterling denominated assets would result in a change in asset value of £2.2m.

Price Risk is the risk of losses associated with the movement in prices of the underlying assets.
By diversifying investments across various asset classes and fund managers the Pension Fund aims to reduce its exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing fund managers enables the fund to benefit from investment expertise. In addition to the funds own strategy, prescribed statutory limits are also in place to avoid concentration of risk in specific areas. The Fund has a long term view on expected investments returns which smooths out short term price volatility. A 1% change in the price of assets within the fund would result in a change in market value of £5.9m.

London Borough of Hillingdon

Annual Governance Statement 2010-11

1. Scope of Responsibility

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

In discharging this overall responsibility, the London Borough of Hillingdon is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that includes arrangements for the management of risk.

The London Borough of Hillingdon is following a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government'.* This statement explains how the authority has complied with the code and also meets the requirements of Regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of an Annual Governance Statement.

2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at the London Borough of Hillingdon for the year ended 31 March 2011 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

The London Borough of Hillingdon has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined below demonstrate how Hillingdon maintains effective internal controls and an effective governance system.

3.1. **The London Borough of Hillingdon's Constitution**, which sets out how the authority operates, how decisions are made, and the procedures that are followed to ensure that they are efficient, transparent and accountable to local people. The constitution is regularly reviewed at full Council meetings and also more comprehensively on an annual basis at each AGM.

3.2. Part 2 of the constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. The governance arrangements for Hillingdon comprise:

- A structure of the Leader of the council, a Cabinet and Policy Overview and Scrutiny committees
- A Corporate Management Team
- An Operational Management Group
- Senior Management Teams
- The Audit Committee, led by an independent chairman
- Standards Committee, led by an independent chairman

3.3. Part 2, article 7 of the Constitution sets out the **'Cabinet Scheme of Delegations'**. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet members. During 2010-11, the constitution was updated to reflect changes to Cabinet Member appointments, portfolio responsibilities and delegations to the Leader; allowing the decision-making process in Hillingdon to be more responsive to the needs and priorities of residents'. New delegations also provide for better financial control in the current economic climate, in particular around the use of consultants, agency and temporary workers, and contracts.

3.4. Part 3 of the Constitution sets out the **'Scheme of Delegations to Officers'**. This governs the responsibility allocated to officers of the London Borough of Hillingdon to perform the authority's activities on behalf of the executive. In 2010-11 the scheme of delegations was updated to reflect changes to the Council's new operating structure, which was implemented as part of the Business Improvement Delivery (BID) transformation programme.

3.5. Part 5 of the Constitution sets out a formal **'Code of Conduct'** governing the behaviour and actions of all elected council members. Based on national guidelines, the code ensures that councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is also a separate Officers code, which applies to all employees and is part of their contract of employment. The authority has reviewed the code and updated guidance to ensure these requirements reflect the new Council structure. Going forward the Council will review the 'Code of Conduct' in light of the Localism Bill.

3.6. **A members training programme** has been implemented to embed high standards of conduct and behaviour. All complaints against members of the Council are handled by the Monitoring Officer and Standards Committee in accordance with the requirements of the Local Government and Public Involvement in Health Act 2007, the Standards Committee (in England) Regulations 2008 and guidance issued by the Standards Board for England. The Council has put in place a comprehensive induction and training programme for elected Councillors along with specific training on risk, scrutiny, planning and licensing rules.

3.7. **A Code of Corporate Governance** setting out the London Borough of Hillingdon's governance structure, decision making process and areas of responsibility. Originally adopted in 2002, the code has been updated to accurately reflect the authority's governance structure and corporate responsibilities. The revised code is founded on the fundamental principles of openness, integrity and accountability and sets out the policies, systems and procedures in place to achieve this.

3.8. **A Members 'Register of Interests'** that records the interests of elected members of the London Borough of Hillingdon. There is a separate 'Related Parties' register that members and senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.

3.9. **A Member / Officer Protocol** to govern and regulate the relationship between the London Borough of Hillingdon's elected members and appointed officers. This has been developed in consultation with the political leadership, all council members and officers.

3.10. **A formal whistle-blowing policy**, which is based on the Public Interest Disclosure Act 1998. The policy allows council staff and contractors working for the authority to raise complaints regarding any behaviour or activity within the authority, ranging from unlawful conduct to possible fraud or corruption. The Monitoring Officer has overall responsibility for maintaining and operating the policy, along with reporting on outcomes to the Standards Committee.

3.11. **The London Borough of Hillingdon** has set out its vision of 'Putting Residents First' and established four priority themes for delivering efficient, effective and value for money services. The priority themes are; 'Our People, 'Our Natural Environment', 'Our Built Environment' and 'Financial Management'. The delivery of these priorities will be achieved through a combination of strategic management tools, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and Medium Term Financial Forecast process of service and annual budget planning.

3.12. **The Hillingdon Improvement Programme (HIP)** is the council-wide transformational programme delivering a range of performance, organisational, culture and process improvements. The programme is led by the Leader of the Council, and the Deputy Chief Executive and Corporate Director for Central Services is the programme director. Cabinet members and directors are also responsible for specific parts of HIP.

3.13. **The Business Improvement Delivery (BID)** programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates and deliver the council's savings targets of £26.2 million for 2011-12 and more than £60 million over the Comprehensive Spending Review four year period. The BID programme delivery and expenditure is overseen by the Leader of the Council, and the Deputy Chief Executive and Corporate Director of Planning, Environment, Education & Community Services.

3.14. **The Medium Term Financial Forecast (MTFF)** process is the system of service, financial and annual budget planning. This runs from the preceding spring to February with a robust challenge process involving members, Corporate Directors and the Chief Finance and S151 Officer. Monthly reports on key financial health indicators are produced and communicated through the finance management team.

3.15. **The Sustainable Community Strategy** (SCS) 2008-2018 sets out the Local Strategic Partnership aims and ambitions for the London Borough of Hillingdon over the next 10 years. The Local Strategic Partnership (LSP) 'Hillingdon Partners' and its theme groups have overall responsibility for delivering the commitments made in the Sustainable Community Strategy. The partnership is currently in the process of reviewing and updating the SCS to ensure it continues to reflect the changing circumstances of the borough.

3.16. Hillingdon Partners has undertaken a review of its structure and governance arrangements following Government action removing the requirements for authorities' to complete a Comprehensive Area Assessment (CAA) and deliver against Local Area Agreement (LAA) targets. The review agreed a list of 10 streamlined partnership priorities, new responsibilities for delivery theme groups and arrangements for reporting partnership performance and risk.

3.17. **A Joint Strategic Needs Assessment** (JSNA) that outlines the current and future health and wellbeing needs of the population over the short-term (three to five year) and informs service planning and commissioning strategies. The JSNA was refreshed and redesigned in 2011 to reflect changes in national, regional and local data, and to be a more flexible and comprehensive needs assessment. The refreshed JSNA is 'live' and can be accessed via the London Borough of Hillingdon website and as such can be updated throughout the year rather than refreshed annually.

3.18. **An independent Audit Committee** that operates to oversee the financial reporting, provide an independent scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference consistent with CIPFA's *'Audit Committees – Practical Guidance for Local Authorities 2005'.*

3.19. **The Performance Management Framework** is used to capture and report performance against Council priorities and SCS priorities. Performance is monitored on a regular basis via Senior Management Teams and reported quarterly to the Corporate Management Team.

3.20. **A Data Quality Strategy** is in place to establish a consistent standard across the authority and provides officers with a good basis on the issues surrounding data quality and its importance. The strategy refers to the Data Quality Partnership Protocol to further embed data quality across the LSP.

3.21. The London Borough of Hillingdon has established effective **risk management systems**, including:

- **A corporate risk management strategy** outlining the risk framework, roles, responsibilities and processes for capturing and reporting key corporate risks. Team, service and corporate risk registers enable the identification, quantification and treatment of risks against the authority's objectives. Group risk registers are regularly updated, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register.

- **A Corporate Risk Management Group** (CRMG) reviews the risk registers on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. Twice annually, the risk reporting arrangements are reviewed and updated, if appropriate, by the Audit Committee. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks.

- **A programme of risk management training for both council members and officers** to ensure the consistent practice of identifying and escalating risk.

3.22. The London Borough of Hillingdon has **an Anti-Fraud and Corruption Strategy** approved by members and communicated to all staff. It is underpinned by and refers to the full range of policies and procedures supporting corporate governance arrangements such as Codes of Conduct, Standing Orders, Register of interests and whistle-blowing.

3.23. **The Committee Standing Orders** (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually. The Scheme of delegation specific to each directorate is available on the Hillingdon's internal web pages. In 2010-11 these schemes were reviewed and updated to account for changes to the Council structure, and roles and responsibilities of Corporate Directors.

3.24. The London Borough of Hillingdon operates a system to monitor legislative changes and ensure that the authority is fully compliant with laws and regulations.

3.25. The London Borough of Hillingdon operates a training and development programme for elected members and senior officers. This is as follows:

- **A Member Development Service** that supports Councillors to access a range of training and development information, which includes a personal development toolkit and a knowledge library. The toolkit supports personal development of each Member and suggests competencies which will help Members identify their learning and development needs and if a need is identified the appropriate training is then organised. The service also covers the roles and responsibilities of elected members and guidance on standards and ethics.

- Officers and senior managers are able to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon'. This includes induction programmes, e-learning packages, NVQ qualifications and a range of other staff development courses. In addition, the Council offers Institute of Leadership and Management (ILM) accredited management awards and has established the Hillingdon Academy to develop the council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.

- The **Performance and Development Appraisal (PADA)** process is completed by all officers and senior managers. This records employee's key objectives and tasks, sets targets for when these must be delivered and identifies staff learning and development needs. There are competency frameworks for staff, managers, senior officers and Directors, with descriptors outlining the performance that is expected at each level. Performance reviews are completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support both staff and managers through the process.

3.26. **The Consultation Strategy** established the London Borough of Hillingdon's approach for building a strong relationship with residents, visitors and business throughout the borough. The strategy sets out the commitment to engage, consult and respond to the views and priorities of all communities. At the highest level, the strategy supports and informs corporate intelligence and policy, and decision making including commissioning and procurement of services.

3.27. **The 'Pride of Place' initiative** has been established to enable residents to get involved in community activities that are focused on making the borough cleaner, greener and safer for everyone. The initiative brings together the successful 'Street Champions' and Chrysalis programmes along with opportunities to attend full Council meetings and Council 'Question Time' events. The Council also conducts an Annual Resident's Survey to ask residents for their views on key services.

3.28. In November 2010 the Council adopted a Single Petition Scheme to incorporate new rules regarding local authorities hearing public petitions and support the Council's existing and well established petition procedures.

4. Review of Effectiveness

The London Borough of Hillingdon has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Overall the review of effectiveness concluded that internal control systems have been in place for the financial year ended 31 March 2011 and, except for the internal control issues detailed in section 5, management and control systems are operating effectively in accordance with good practice.

This review took into consideration the arm's length management organisation, Hillingdon Homes Ltd, which reported no significant control issues during the time period 5 April to 30 September 2010. On the 1 October 2010 the process of transferring the control of housing management back to the authority was completed successfully.

The review has been informed by a range of management information and improvement action, including:

4.1. A comprehensive annual programme of scrutiny and review by the Policy Overview and scrutiny Committees and the Audit Committee.

4.2. The role and responsibilities of the Chief Finance & S151 Officer, detailed in the Code of Corporate Governance, as a key member of the leadership team actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.

4.3. The work of the external auditors as reported in their annual audit letter.

4.4. The work of Internal Audit service, which develops its annual work plan after an assessment of risk. The Head of Audit reported regularly during the year to both the Corporate Management Team and the Audit Committee and has provided a satisfactory level of assurance on the internal control environment in 2010-11.

4.5. Internal control assurance statements were received from all Service Directors and Heads of Service covering the financial year 2010-11. Statements provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that any significant control issues have been raised and are being dealt with appropriately.

4.6. The London Borough of Hillingdon has continued to maintain effective financial management throughout the financial year, with unallocated reserves increasing to £17.022m million as at 31 March 2011.

4.7. The London Borough of Hillingdon has a clear commitment to a capable, fit for purpose and sustainable procurement function. Procurement, working through a co-located business partner model supporting the three Directorates of the Council, lead delivery of Procurement objectives. These objectives support the delivery of individual Directorate financial objectives and ultimately the Council's. Progress and performance of Procurement delivery is regularly reviewed with Directorate Senior Management Teams and the Corporate Management Team as appropriate.

4.8. The work of managers is vital, particularly through their implementation of performance management to ensure that each area achieves its targets in service delivery, financial control, and good governance.

4.9. Throughout 2010-11 the London Borough of Hillingdon has made substantial progress to implement new procedures and protocols and strengthen existing governance arrangements. This includes:

- A review and refresh of the Council’s Constitution
- Updating scheme of delegations for each directorate
- A review of the whistle-blowing policy

5. Significant Governance Issues

The London Borough of Hillingdon has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. All internal control issues reported in the 2009-10 AGS have been resolved, except that:

- Further work is required to fully implement a water management strategy. A tender process has been undertaken to appoint a contractor to measure the Council’s water usage. Once measurement figures are obtained a strategy to reduce water usage will be put in place from October 2011.

Following a review of the effectiveness of the system of internal control the following governance issues have been identified in 2010-11:

- In October 2010 the Council replaced the differing methods of income collection / invoicing of third parties with a single approach which included automatic interfaces between Oracle and the Capita AIM system. Although there were initial issues with reconciliations these are now largely resolved. As part of normal post implementation review, Capita have been engaged to review the many interfaces to resolve these outstanding issues and make recommendations that will further automate processing.

- The Electronic Care Management system monitors home care visits. Discussions are ongoing with some suppliers whose utilisation rate of the system is below the agreed tolerance.

- Some manager assurances have drawn attention to the fact that in a number of areas procedures need to be updated to take account of the changes in roles and responsibilities brought about by the BID process.

- Weaknesses were identified in the monitoring and control of some construction projects. Systems have now changed within the department and audit will monitor the implementation of recommendations in line with normal practice. A full audit of the area will be added to the 2012-13 plan to ensure that improvements are being maintained.

- Some sub-systems were not being regularly reconciled to the main Oracle creditors system. An action plan is in place to ensure regular full reconciliation of all feeder systems. Implementation will be monitored by Internal Audit.

The London Borough of Hillingdon will over the coming year take steps to address the above matters to further enhance our governance arrangements. The authority is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

Hugh Dunnachie
Chief Executive 28 September 2011

Cllr Ray Puddifoot
Leader of the Council 28 September 2011

Glossary of Terms

ACCRUAL - A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end of the period.

ACCUMULATED ABSENCES ACCOUNT – Absorbs the differences arising from the statutory requirement to neutralise the impact on the General Fund Balance of accruing for compensated absences earned but not taken in year.

ACTUARIAL VALUATION - A valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

ACTUARY - An independent professional who advises on the financial position of the pension fund.

AGENCY SERVICES - The provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

AMORTISED COST – The initial measurement will be at fair value, normally the amount of the originating transaction such as the receipt or loan advance less transaction costs. The effective interest rate is then calculated to the amount in the balance sheet at initial measurement. The result in the balance sheet carrying amount (the amortised cost) and a profile of interest charges that might be different from the amounts specified in the contract as being for interest and principal.

ASSET - Something that will be used by the authority over a long period of time and has a lasting value (e.g. land, buildings, and roads). See also **COMMUNITY ASSETS, NON CURRENT ASSET, INFRASTRUCTURE ASSETS, ASSETS HELD FOR SALE, NON-OPERATIONAL** and **OPERATIONAL ASSETS**.

ASSETS HELD FOR SALE – Assets that are being actively marketed for sale and are expected to be sold within the next financial year.

BAD DEBT PROVISION - Amounts set-aside in the accounts towards potentially irrecoverable debts. This amount is netted against Debtors in the Consolidated Balance Sheet.

BALANCES - Unallocated reserves held to resource unpredictable expenditure demands.

BUDGET - A statement of the authority's plans for services expressed in money shown over one or a number of years.

CAPITAL ADJUSTMENT ACCOUNT - The Capital Adjustment Account represents the balance of capital resources set aside to finance capital expenditure awaiting the consumption of those resources (i.e. depreciation or impairment).

CAPITAL CHARGE - A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE - Spending on assets (e.g. land, buildings, roads etc.) that adds to and not merely maintains the value of an existing fixed asset.

CAPITAL RECEIPTS - The proceeds from the sale of land, buildings or other assets. Capital receipts can be used to pay for new capital expenditure, within rules set down by the Government, or to repay outstanding loans.

CASH EQUIVALENT – Amounts held as short term deposits which are readily convertible into cash.

CIPFA - The Chartered Institute of Public Finance and Accountancy is the professional accounting body that specialises in the public services.

COMMUNITY ASSETS - Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CONTINGENCY – Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

CONTINGENT ASSET - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY - A contingent liability is either:
a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or
b) past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE - The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi purpose authorities with a responsibility for making choices in the use of taxpayers' money. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COUNCIL TAX - The local tax based on relative market values of residential property, which helps to fund local services.

CREDITORS / PAYABLES – Amounts owed by the authority for goods and services received where payment has not been made at the date of the balance sheet.

CURRENT ASSET - An asset held, which will be consumed or cease to have value within the next financial year; examples are stocks and debtors.

CURRENT LIABILITY - An amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

CURRENT SERVICE COST - The increase in the present value of Pension Fund Liabilities expected to arise from current year service.

DEBTORS / RECEIVABLES – Amounts owed to the authority for goods and services provided but not received at the date of the balance sheet.

DEDICATED SCHOOLS GRANT - A specific grant for the funding of schools and which is ring fenced to the Schools Budget.

DEPRECIATION - The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

DIRECT REVENUE FINANCING (revenue contributions to capital) - Resources provided from the authority's revenue budget to finance the cost of capital projects.

DISTRICT AUDITOR - An auditor employed directly by the Audit Commission to audit the accounts of local authorities.

EARMARKED RESERVES –Amounts set aside for a specific purpose or a particular service or type of expenditure.

EFFECTIVE INTEREST RATE – The rate of interest that will discount the estimated cash flows that take place over the life of the instrument.

EMOLUMENTS - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

EXCEPTIONAL ITEMS - Material items that fall within the ordinary activities of the Council that need to be disclosed in order to present the accounts fairly.

EXTRAORDINARY ITEMS - Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur.

FAIR VALUE - the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FEES AND CHARGES - Income raised by charging users of services.

FINANCE LEASE - A method of paying for capital expenditure where a rent is paid for an asset during its useful life. Finance Leases are treated as capital. See **OPERATING LEASE**.

FINANCIAL YEAR - The period covered by a set of financial accounts - the local authority financial year commences 1 April and finishes 31 March the following year.

GENERAL RESERVE – amounts remaining unspent on revenue account after taking account of all expenditure and income for the year. The General Reserve is required to enable the Council to meet potential business risks in the future so that services will not be affected financially should unexpected events occur.

GOING CONCERN - The concept that an entity will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assumes no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS – Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

GROSS EXPENDITURE - The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

IMPAIRMENT - A reduction in the value of a fixed asset below its previously assessed value in the balance sheet.

INCOME - Amounts due that has been or is expected to be received.

INFRASTRUCTURE ASSETS - Fixed assets that have no alternative use and are intended to be held in perpetuity. Examples of infrastructure assets are highways and footpaths.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – Statutory guidelines by which the accounts have to be prepared, implemented for the first time in the 2010/11 accounts.

INVESTMENT PROPERTIES – Assets held solely for capital appreciation or to earn rental and not to meet service objectives.

INVESTMENTS – Short-term investments are those maturing within one year if the balance sheet date, any investments maturing more than one year after the balance sheet date are treated as long-term investments.

LOANS AND RECEIVABLES – Financial assets (excluding derivatives) that have fixed or determinate payments and that are not quoted in any in any active market. Loans and receivables are carried at amortised cost. The income and expenditure account is charged with interest receivable, impairment losses and any gain or loss on "de-recognition". Movements in fair value during the life of the asset are not recognised.

LIABILITIES - Money owed to individuals or organisations that will be paid at some time in the future.

MINIMUM REVENUE PROVISION - (MRP) - The minimum amount, which must be charged each year to an authority's revenue account to set aside funds to repay the principal sum of borrowing for capital purposes.

NATIONAL NON-DOMESTIC RATE (NNDR) – A levy on businesses based on a national rate in the pound multiplied by the ratable value of the premises occupied. NNDR is redistributed among all local authorities and police authorities on the basis of population.

NET BOOK VALUE - The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET EXPENDITURE – Gross expenditure less specific service income but before deduction of revenue support grant.

NET CURRENT REPLACEMENT COST - The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE - The open market value of the asset in its existing use (open market value in the case of non-operational assets), or sale proceeds for stocks and stores less the expenses to be incurred in realising the asset.

NON-CURRENT ASSET - An asset that has value beyond one financial year.

NON-DISTRIBUTABLE COST - These include overheads for which no user now benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

NON-OPERATIONAL ASSETS – Non Current assets held by a local authority not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets under construction and assets that are surplus to requirements, pending sale or redevelopment.

OPERATIONAL ASSETS – Non Current Assets held, occupied, used or contracted to be used on behalf of the authority or consumed by an authority in the direct delivery of the services for which it has a responsibility, whether statutory or discretionary or for the service or strategic objectives of the authority.

OPERATING LEASE – A lease under which the asset can never become the property of the lessee.

OUTTURN - Actual income and expenditure for a financial year.

PAST SERVICE COST - The increase in present value of Pension Fund liabilities arising in the current year from previous years' service.

PENSION FUND - The Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer and employees and from investment income.

PENSION INTEREST COSTS - Expected increases in present value of Pension Fund liabilities because benefits are due one year sooner.

POST BALANCE SHEET EVENTS -Those events, both favorable and unfavorable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

PRECEPT - The charge made by one authority on another to finance its net expenditure.

PRIOR YEAR ADJUSTMENTS - Material adjustments applicable to prior years arising from changes in accounting policies or to correct errors.

PRIVATE FINANCE INITIATIVE (PFI) – A central government initiative that aims to increase the level of funding available for public services by attracting private involvement. The Council has one such scheme relating to the provision of Barnhill School. The school has been developed and its ancillary services are provided by a private-company with which the Council has a long-term contract.

PROVISION FOR DISCOUNT AND PREMIUMS ON LOAN REDEMPTION – A provision to spread over an appropriate period discounts received and premiums paid when loans from the Public Works Loan Board are prematurely repaid.

PROVISION - An amount, set-aside in the accounts, for liabilities that have to be met but where timing is uncertain.

PRUDENCE - The concept that revenue is not anticipated but is recognised only when realised in the form of cash or other assets and full and proper allowance is made for all known and foreseeable losses and liabilities.

PUBLIC WORKS LOAN BOARD (PWLB) - A government agency that provides long term and medium term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

RELATED PARTY - Relationships between a senior officer or elected member or their families with another body that has, or might develop, a business relationship with the Council.

RESERVES - Money set aside by the authorities to meet particular expenditure in future years, which do not fall within the definition of provisions.

REVALUATION RESERVE – a new account opened on 1st April 2007 that records all accumulated gains from fixed assets held by the authority offset by that part of depreciation relating to the revaluation.

REVENUE EXPENDITURE - The day-to-day running costs incurred by an authority in providing services, for example payment of salaries to employees or purchase of materials.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE – A charge arising from capital expenditure but where there is no tangible asset. An example is grants given for private property improvement. The Council is permitted to borrow for such expenditure

REVENUE SUPPORT GRANT - A grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

SOLACE – Society of Local Authority Chief Executives

SPECIFIC GRANTS - These are grants paid by various government departments outside the main formula. They include ring-fenced grants and specific formula grants.

SURPLUS ASSETS – Assets which are no longer in use by the Authority but which are not being actively marketed and are not expected to be sold within the next financial year.

INVENTORIES - The amount of unused or unconsumed stocks held in expectation for future use.

TAXBASE - The number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

TRANSFER VALUE - A payment one superannuation fund makes to another when a member changes employment.

TRUST FUNDS – Money held in trust by the Council for a specified purpose.

USABLE RESERVES – Balances held by the Council which can be used to meet service expenditure.

UNUSABLE RESERVES – Balances held by the Council which cannot be used to meet service expenditure

USEFUL LIFE - The period over which the local authority will derive benefits from the use of a fixed asset.

VIREMENT – The permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head, i.e. an authorised switch of resources between budget heads.

WORKS IN PROGRESS - Cost of work done on an uncompleted project at the balance sheet date.