London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2012

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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 2011/12. These accounts set out how the Council has dealt with income and expenditure during the year and provide details about the council's financial position.

Like all councils and public bodies, over the last year, the council has continued to play its part to help reduce the national debt burden. We have done this through strong and efficient management of our budget, delivering £26.2 million in savings. We have done this with very little impact on our front-line services to our residents. By reducing the number of departments, senior posts and by improving some of our back-office functions, we have been able to maintain our services at a time when many are making difficult decisions about cutting services. This means we can keep things such as weekly rubbish collections which so many residents favour. At the same time we were able to freeze council tax for a fourth year, keep any increases to our fees and charges to a minimum and even find money to invest in some of the things you have told us are important to you – improving and repairing our roads and pavements, providing more school places for our children and continuing to improve our libraries.

At the same time, our strong financial management has helped us to build up our balances to £23.3 million which puts us in a strong position for the future should councils be faced with further reduction in funding from central government. Last year we felt it was prudent to set aside £2.5 million, although we haven't actually lost any money, to cover any losses from the money we had invested in Icelandic banks when they collapsed. To date almost 64% of the monies invested have been repaid and we are confident going forward that any loss will be adequately covered by the reserve.

Hillingdon's older residents have continued to benefit from our investment in schemes to help and support them. We have now installed 4,000 free burglar alarms and by investing extra money in our TeleCareLine scheme, more than 1,100 residents have signed up in the last year. Last winter, we also provided a number of new electric blankets for older residents.

In the last year, we completed our programme of investment in children's centres and youth centres and we have committed nearly £130 million to ensure all of the borough's children have a primary school place and our education facilities are of the highest quality.

We have continued our library refurbishment and rebuilding programme and visitor numbers continue to increase. Our ward budgets scheme gave every ward in the borough money to spend on local improvements and there have been many examples of residents suggesting ideas to improve their local area.

We have already started work on enhancing the facilities at Ruislip Lido and in the coming months, will be investing more money in improving this wonderful facility.

In our most recent residents' survey, you have told us that we are getting most things right and we are making sure we spend money on the things that are important to you. Satisfaction across all the main areas of our work – waste and recycling, libraries, youth and leisure – has continued to rise and more people than ever before feel we are offering residents good value for money.

As ever, our approach remains to put our residents first and we will continue to do so, delivering good quality services that offer our residents value for money.

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 2012. 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 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 £172.8 million on the provision of services for 2011/12 attributable to a single payment to Central Government of £191.6 million as settlement on the introduction of the HRA self-financing regime.

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 2011/12 were £175.8 million. This transformed the deficit of £172.8 million into an overall General Fund surplus of £3.0 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 2011/12 was £536.1 million largely constituting non-current assets valued at £1,187.7 million, net pension liabilities of £313.2 million and long term borrowing of £343.2 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 2011/12 from £56.3 million in 2010/11 to £73.8 million in 2011/12, however these include £14.9 million of capital grants that will predominantly be applied to the Primary Schools Capital Programme in 2012/13. Unusable reserves decreased from £720.4 million in 2010/11 to £462.3 million in 2011/12 following the payment of HRA settlement debt to Central Government.

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 an increase in cash and cash equivalents in 2011/12 of £11.3 million. This was made up of a decrease in cash held of £0.4 million and an increase in cashable short term investments of £11.7million.

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 2011/12 on HRA services of £194.1 million; largely resulting from the payment to Central Government of £191.6 million settlement debt on the transition to self-financing within the HRA.

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 deficit for the year, after adjustments made in the Statement of Movement on the HRA Balance, was £0.5 million in 2011/12.

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 £2.0 million in 2011/12. Council Tax income for the year was £142.4 million, which was £1.4 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

2011/12 was once again a very challenging year financially for the Council. It was the first year of the two year local government finance settlement following the Comprehensive Spending Review 2010, which imposed severe cuts in government funding. These cuts were heavily frontloaded, posing significant financial challenges to the Council to overcome during 2011/12.

The original budget set in February 2011 contained £26,200k of savings, agreed in response to Central Government's austerity measures and the resultant cut in local government funding. Over the full year the Council responded exceptionally well to this challenge, not only delivering the required level of savings, but going further, ending the year underspent by £8,084k. The Council's Business Improvement Delivery (BID) transformation programme continued to gather pace during 2011/12, reaching many more services and enabling the Council to deliver planned savings for 2011/12 and to start the early delivery of 2012/13 savings across all groups whilst maintaining front-line services. By the end of the year over £6,861k was added to reserves placing the Council in a strong starting position for the 2012/13 financial year.

Throughout the year, as details of the Local Government resource review emerged and Central Government economic forecasts began to look increasingly optimistic, the Council continued to further develop its transformation plans, knowing cuts and austerity measures were going to go deeper and last longer than anticipated. The budget for 2012/13 was largely complete before the end of 2011, which once again included no increase in the Hillingdon element of Council Tax, facilitating an early start to the £17,700k revenue savings planned for 2012/13. Within the capital programme, investment focussed chiefly on the primary schools building programme and the continuation of libraries refurbishment. The most significant challenge within Treasury related to the Housing Reform settlement which saw the Council undertake an additional £191,571k borrowing to finance settlement debt within the HRA.

Revenue Budget

The Council's General Fund net budget requirement for 2011/12 was set at £194.75 million, which once again included a freeze on Council Tax. Throughout the year, monthly budget monitoring reports were reviewed by Cabinet enabling corrective action to be taken in response to emerging pressures whilst ensuring Council priorities continued to be delivered. At the same time, the Council pressed ahead with the BID transformation programme, not only delivering the savings required for 2011/12 but also the early delivery of some of the 2012/13 savings. As a result the final outturn for the year showed an underspend against budget of £8,084k.

The outturn position for the General Fund revenue budget by department is set out in the table below:

General Fund Services			
Services	**Budget £000's**	**Actual £000's**	**Variance £000's**
Central and Corporate Services	23,071	22,602	(469)
Planning, Environment, Education & Community Services	85,896	83,628	(2,268)
Social Care, Health & Housing	120,495	118,270	(2,225)
Corporately held Funds and Contingencies	3,953	3,084	(869)
Net Cost of Services	233,415	227,584	(5,831)
Asset Management Revenue Account	(28,976)	(28,980)	(4)
Appropriates to IAS19 Pensions Reserve	2,733	2,733	0
Interest & Investment Income	10,113	7,864	(2,249)
Corporate Government Grants	(20,746)	(20,746)	0
Contribution to / from balances	(1,793)	6,291	8,084
Budget requirement	**194,746**	**194,746**	
Other movements in balances			**(1,223)**
Overall General Fund surplus for the year			**6,861**

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

Ending the year with a significant underspend of £8,084k was a considerable achievement, particularly when the budget included £26,200k of savings. There were large underspends across all groups and the major reasons for these were as follows:

- **Central Services** underspent by £469k mainly due to the BID transformation programme across Central Services resulting in the early delivery of 2012/13 savings.

- **Planning, Environment, Education and Community Services** underspent by £2,268k as a result of the widespread BID transformation programme and the early delivery of 2012/13 savings. Part of this related to Education where service provision was realigned to match significant ongoing cuts in funding. The group also benefited this year from a reduction in the waste levy payment.

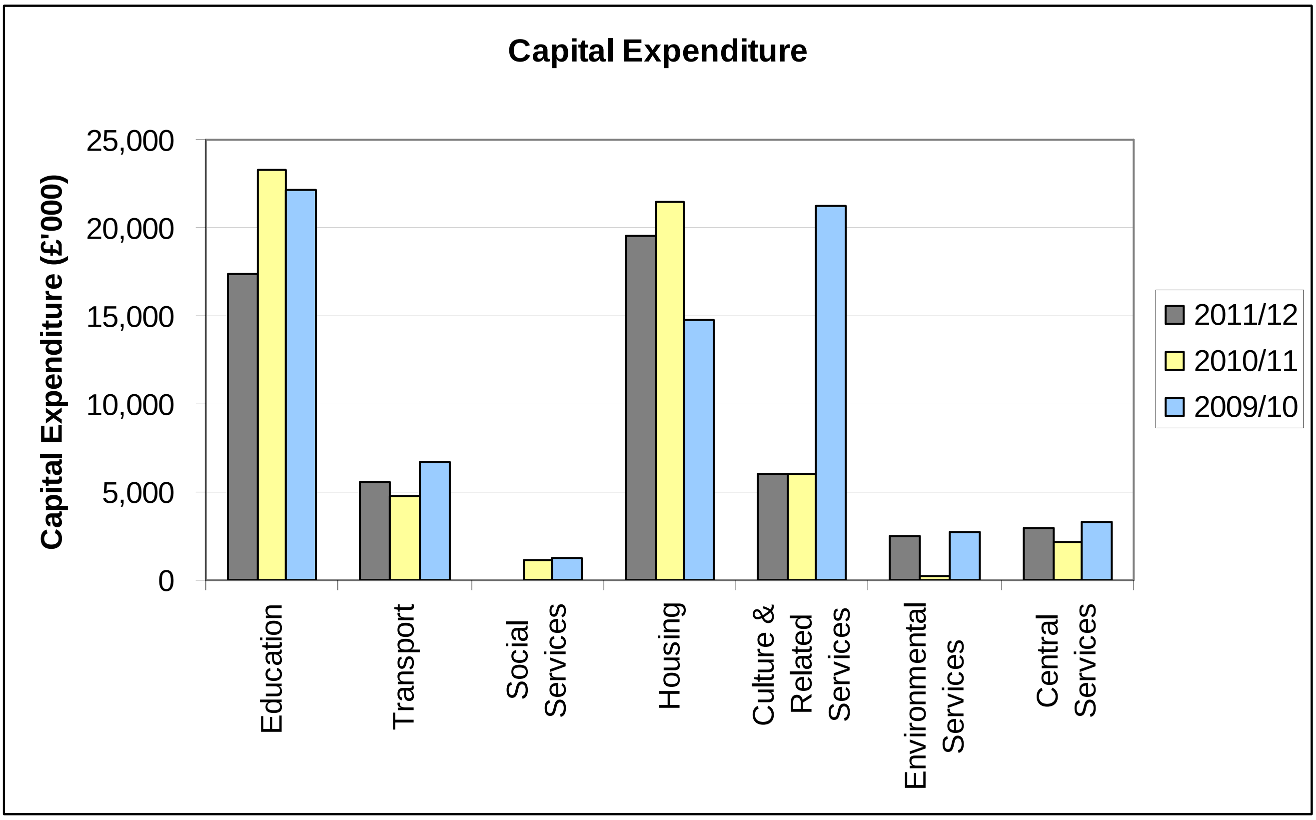
- **Social Care, Health and Housing** underspent by £2,226k. The most significant contribution resulted from the release of a balance sheet provision in respect of 2009/10 and 2010/11Housing Benefit Grant claims, which credited £1.8m to the in year revenue budget.

- In addition, there was £1,939k underspend on contingencies prudently set aside that were not required to be drawn down. In addition, at year end there was £1,193k of the priority growth budget remaining.

Such prudent management of finances during 2011/12 has provided the Council with additional balances, in the knowledge that further savings will be needed over the next few years which will become increasingly challenging to deliver.

Capital Spending in 2011/12

Capital investment amounted to £54,028k in 2011/12 (£59,027k in 2010/11) and was financed from a range of funding streams: capital receipts (£4,973k); central government and other grants (£29,736k); Section 106 Contributions (£3,501k); other external contributions (£1,406k) and revenue contributions (£2,033k). The remaining £12,379k was funded by external borrowing sourced under Prudential Borrowing powers.



During 2011/12 the Council continued its major investment in Primary Schools, successfully meeting demand for places in September 2011 and making sound progress towards delivery of 30+ forms of entry across the borough. The Council financed 2011/12 investment from a combination of DfE grant funding and Section 106 contributions. However, in the absence of increased support from Central Government, further borrowing in excess of £50,000k will be required to successfully complete this programme.

Alongside school expansions, investment in the Libraries Refurbishment programme continued with the construction of new libraries at Hayes End and South Ruislip due to be completed in 2012 and refurbishments of Northwood Hills and Eastcote having been completed during 2011/12. This major programme of investment is set to continue over the next year with works to Yeading and Uxbridge libraries.

The Housing Revenue Account successfully delivered 47 new dwellings through the Pipeline programme and construction was completed on the new Triscott House development during 2011/12. Investment is set to continue into 2012/13 and beyond with works commencing on the delivery of 225 supported dwellings by 2015.

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 2011/12 it was assessed that the appropriate level of reserves needed to support the continuation of Hillingdon's services was between £12.0 million and £26.5 million. The general reserve for non-school services now stands at £23.7 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 2012 School reserves amounted to £16.3 million. This is approximately 9% 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 £5 million at 31 March 2012.

Post Balance Sheet Events

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 2012 or require disclosure in these financial statements. However the impact of schools which are expected to become academies during 2012/13 is set out in note 42.

Treasury Management

A major focus for treasury management during 2011/12 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 facilitating easy placement of income.

As a consequence of this, only £7.0 million of new long term borrowing was taken for the General Fund, compared with an original budget of £32.0 million, and £3.4 million of debt which naturally matured, was not refinanced. Due to high premiums on outstanding debt, there was no debt rescheduling or repayments during 2011/12. Towards the end of the year, in order to finance the Housing Reform Settlement, the Council was obliged to take new HRA borrowing totalling £191.6 million. This resulted in a year end loan balance of £356.8 million (£100.21m General Fund, £256.57m HRA) at an overall average interest rate of 3.01%, one of the lowest average rates across London. Total interest costs for the year amounted to £6.1million (£6.0m at an average rate 3.6% for 2010/11).

The Bank of England maintained base rates at 0.5% which resulted in short term money market rates remaining low. This restricts investment income with returns of just £0.8 million yielding 0.85%.

At the start of the financial year there were unpaid investments with Icelandic banks: Heritable (£7.44 million) and Landsbanki (£5.00 million). The administrators of Heritable issued dividends during the year totalling £2.69 million leaving an outstanding balance of £4.75 million. Total dividends received for Heritable now equate to 68% of the claim value, with an overall total dividend expected of 88%. WithLandsbanki, creditors lost their appeal and the Icelandic courts upheld their decision to awarded priority status to UK Local Authorities. Therefore the expected recovery rate is now 100%. During the year Landsbanki issued a dividend totalling £1.5 million, 29% of the claim value. In addition to this first distribution, 6,962k of Icelandic Krona (ISK) is being held in an Icelandic escrow account. As there are currently controls on the distribution of ISK, these funds will remain in this account until the winding up board has obtained permission from the Central Bank of Iceland (CBI) to pay the money to Creditors. The Local Authorities' Steering Committee and Bevan Britten are negotiating with CBI to release funds.

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 Employee Benefits) 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 £2.702 million for 2011/12 (a £0.745 million surplus for 2010/11). 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 2011/12 this was 78.2% for the Council and 21.8% for the GLA.

Outlook for the Future

In February 2012 the Council agreed a budget requirement for 2012/13 of £190.7 million, which once again included no increase in the Hillingdon element of Council Tax. 2012/13 is the second year of a two year finance settlement following the 2010 Comprehensive Spending Review and this budget contains £17.7 million of savings.

During 2011/12 details of a review of local government finance began to emerge, which will radically change the way local authorities are financed going forward. Most significantly, a portion of Business Rates will be retained locally to fund services, partially replacing the redistribution through central government and council tax benefit will be abolished to be replaced by a locally devised and managed discount scheme with an immediate cost saving to central government of approximately 10%. In addition, new burdens are being transferred to local authorities including the responsibility for Public Health budgets. Education funding is also subject to a major review, with the intention of directing more funding straight to schools and not through local authorities as is the current system. Together these initiatives create high levels of uncertainty with future funding levels making financial planning even more challenging.

The financial landscape for local government remains one of austerity with cuts beyond the current spending review period being widely forecast. The economic outlook remains uncertain but is likely to feature low growth in a low interest rate environment. Furthermore, the impacts of cuts elsewhere in the economy, particularly with the transition to Universal Benefits is likely to increase the demand on Council services at a time of diminishing resources. Whilst the Council has prudently managed cuts in funding to date whilst protecting front-line services, sustained cost-cutting will undoubtedly become increasingly challenging in future years. However, Hillingdon is in a relatively favourable position to ‘weather the storm’ having successfully built up balances over the last decade through sound management and strict financial controls.

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 2011/12 (The Code).

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

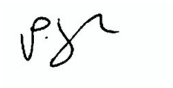
   - Selected suitable accounting policies and then applied them consistently;
   - Made judgements and estimates that were reasonable and prudent; and
   - Complied with the Local Authority Code.

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 position of the London Borough of Hillingdon, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the code of practice'), as at 31 March 2012 and its income and expenditure for the year then ended.



Paul Whaymand
CHIEF FINANCE OFFICER
20 September 2012

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 20 September 2012.

Signed on behalf of London Borough of Hillingdon

John Morley
CHAIRMAN (AUDIT COMMITTEE)
20 September 2012

5. Independent Auditor's Report to the Members of the London Borough of Hillingdon

Opinion on the Authority accounting statements

We have audited the accounting statements of London Borough of Hillingdon for the year ended 31 March 2012 under the Audit Commission Act 1998. The accounting statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement and the related notes 1 to 48, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related noted 1 to 8, and the Collection Fund and related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial 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 accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the financial 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 Chief Finance Officer; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the explanatory foreword 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 financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Hillingdon as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- We issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- We designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- We exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Opinion on the pension fund accounting statements

We have audited the pension fund accounting statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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.

Respective responsibilities of the Chief Finance Officer and auditor

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

An audit involves obtaining evidence about the amounts and disclosures in the financial 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 Chief Finance Officer; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the explanatory foreword 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 my report.

Opinion on pension fund's 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 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, 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 2011/12.

Opinion on other matters

In our opinion, the information given in the explanatory foreword 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

Respective responsibilities of the Authority and the auditor
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.

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
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 2011, 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 2012.

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 2011, we are satisfied that, in all significant respects, the London Borough of Hillingdon has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Heather Bygrave (Engagement lead)
For and behalf of Deloitte LLP
Appointed auditor, St Albans, UK
25 September 2012

6. Statement of Accounting Policies

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. 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 2011/12 and the Service Reporting Code of Practice 2010/11 (SeRCOP), 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 depreciated 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. Heritage Assets

FRS30 Heritage Assets was adopted by the Council in 2011/12 resulting in Mayoral Regalia and the statue ‘Anticipation’ being brought onto the balance sheet.

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

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

3. Intangible Assets

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

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

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

4. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are charged the following amounts to record the real cost of holding 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.

5. Revenue Expenditure Funded from Capital Under Statute

Revenue Expenditure funded from Capital under statute represents expenditure that may properly be capitalised, but which does not result in the creation of a non-current asset, for example housing association grants, capital expenditure on 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.

6. Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are re-valued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the 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.

7. Leases

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

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

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

The Council as a Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the 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

8. 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.

9. 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 (Acquisitions and Mergers).

10. Cash and Cash Equivalents

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

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.

11. Changes in Accounting Policies and Estimates and Errors

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

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

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

12. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave 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.

Termination Benefits

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

Post Employment Benefits

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.

- o 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.
- o 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.

13. Long Term Contracts

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

14. 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.

15. 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.

16. Inventories and Work in Progress

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

17. Overheads and Support Services

In line with CIPFA recommended practice and complying with the Service Reporting Code of Practice (SERCOP), 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 SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

18. 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.

19. 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.

20. 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

21. 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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.

30. Exceptional Items and Prior Year Adjustments

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

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

31. 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 2012 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.

32. Carbon Reduction Commitment (CRC)

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

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

The 2011/12 Code of Practice does not require the amendments to IFRS7 Financial Instruments: Disclosures (transfers to financial assets) to be applied in 2011/12. The application of the Standard as revised would not have a material impact on the accounts for 2011/12, were it to be applied this year.

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 35)
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 37)
This sets out the assets and liabilities of the Council as at 31 March 2012, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 38)
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 40)
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 2012			Year Ending 31 March 2011		
	Note	**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		30,666	25,262	5,404	33,100	25,040	8,060
Culture and Related Services		19,263	2,834	16,429	27,005	2,761	24,244
Environmental and Regulatory Services		33,455	9,289	24,166	35,830	8,973	26,857
Planning Services		5,764	3,338	2,426	6,869	3,956	2,913
Education and Children's Services		281,911	222,398	59,513	326,736	274,743	51,993
Highways and Transport Services		27,882	7,544	20,338	26,432	8,236	18,196
Local Authority Housing (HRA)		60,490	57,812	2,678	244,356	54,855	189,501
- Settlement payment to Government for HRA self financing		191,571	0	191,571	0	0	0
Other Housing Services		164,368	149,688	14,680	165,490	149,024	16,466
Adult Social Care		90,502	20,900	69,602	100,178	26,087	74,091
Corporate and Democratic Core		8,643	702	7,941	7,918	341	7,577
Non-Distributed Costs		1,148	923	225	(90,898)	49	(90,947)
COST OF SERVICES		915,663	500,690	**414,973**	883,016	554,065	**328,951**
Other Operating Expenditure	*3*	1,691	0	1,691	2,797	0	2,797
Net loss on disposal of fixed asset		2,406	0	2,406	302	0	302
Financing and Investment Income and Expenditure	*4*	13,311	2,728	10,583	18,640	1,228	17,412
Taxation and Non-Specific Grant Income	*5*	0	256,856	(256,856)	0	238,162	(238,162)
Corporate Amount		17,408	259,584	**(242,176)**	21,739	239,390	**(217,651)**
DEFICIT ON PROVISION OF SERVICES		**933,071**	**760,274**	**172,797**	**904,755**	**793,455**	**111,300**
Deficit/(Surplus) on revaluation of Property, Plant and Equipment assets				417			(30,246)
Actuarial loss/(Gain) on pension assets and liabilities	*46/47*			67,442			(104,514)
Surplus on revaluation of available for sale financial assets	*24*			(20)			(6)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				**240,636**			**(23,466)**

The Comprehensive Income and Expenditure statement has been restated for 2010/11 to incorporate changes to the Service Reporting Code of Practice introduced in 2011/12 separating Cultural, Environmental, Regulatory and Planning Service.

The deficit for 2011/12 of £172,797k includes a single payment to Central Government of £191,571k as settlement on the introduction of HRA self-financing regime. This entry is reversed in the Movement in Reserve Statement.

The deficit for 2010/11 of £111,300k includes impairments to Local Authority Housing Stock of £196, 675k following changes to Economic Useful Value (Social Housing) indices by Central Government and a past service pension gain of £95,570k representing a reduction in IAS19 pension liabilities on the transition from RPI to CPI. These entries were reversed in the Movement in Reserves Statement to mitigate any impact on the council taxpayer as required by statute.

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 an expense 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 41.

	Notes	2011/12 £000's	2010/11 £000's
Deficit for the year on the Comprehensive Income and Expenditure Statement		172,797	111,300
Net additional amount required by statute or non-statutory proper practices to be credited to the General Fund balance for the year (Page 43).	*1*	(175,820)	(117,539)
Increase in General Fund balance for the year		**(3,023)**	**(6,239)**
General Fund balance brought forward		(37,029)	(30,790)
General Fund balance carried forward		**(40,052)**	**(37,029)**
Comprising			
General Fund Balance held by schools	*2*	(16,332)	(20,170)
General Fund Balance generally available for new expenditure	*2*	(23,720)	(16,859)
		(40,052)	**(37,029)**

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 28 provides a reconciliation between amounts reported internally to management and those reported in the accounting statements.

Balance Sheet

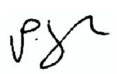
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

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 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 2012 £000's	At 31st March 2011 £000's
Property, Plant & Equipment	*6&7*	1,178,225	1,180,080
Intangible Assets	*12*	712	978
Investment properties	*11*	5,722	5,725
Long Term Investments	*13*	2,517	4,827
Long Term Debtors	*16*	516	582
LONG TERM ASSETS		**1,187,692**	**1,192,192**
Inventories	*14*	275	82
Short Term Debtors	*15*	25,413	31,889
Short term Investments	*13*	39,373	15,121
Cash and Cash Equivalents	*19*	54,179	42,912
Assets held for sale	*20*	12,966	6,996
CURRENT ASSETS		**132,206**	**97,000**
Short Term Borrowing	*13*	(11,884)	(4,463)
Short Term Creditors	*17*	(84,108)	(74,337)
CURRENT LIABILITIES		**(95,992)**	**(78,800)**
Provisions	*22*	(9,129)	(5,130)
Deferred credits		(97)	(126)
Long term borrowing	*13*	(343,149)	(155,221)
Long term creditors	*18*	(3,802)	(3,665)
Capital grant receipts in advance	*37*	(15,657)	(17,906)
Deferred liabilities	*39*	(2,735)	(3,124)
Net liabilities related to defined benefit pension schemes	*47*	(313,199)	(248,446)
LONG TERM LIABILITIES		**(687,768)**	**(433,618)**
NET ASSETS		**536,138**	**776,774**
Usable Reserves	*23*	73,819	56,348
Unusable Reserves	*24*	462,319	720,426
TOTAL RESERVES		**536,138**	**776,774**



Paul Whaymand
Chief Finance Officer
20 September 2012

Movement in Reserves Statement

This statement shows movement in the year on different reserves held by the authority, analysed into ‘usable reserves’ (i.e. 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, 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 2011		**16,859**	**20,170**	**3,979**	**12,923**	**594**	**1,823**	**56,348**	**720,426**	**776,774**
(Deficit) on provision of services		(172,797)	0	0	0	0	0	**(172,797)**	0	**(172,797)**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	**0**	(67,839)	**(67,839)**
Total Comprehensive Income and Expenditure		(172,797)	0	0	0	0	0	**(172,797)**	(67,839)	**(240,636)**
Adjustments between accounting basis & funding basis under regulations	*1*	176,929	0	0	858	14,304	(1,823)	**190,268**	(190,268)	**0**
Net increase/(decrease) before transfers to earmarked reserves		4,132	0	0	858	14,304	(1,823)	17,471	(258,107)	(240,636)
Transfers to / (from) Earmarked Reserves	*1&2*	2,729	(3,838)	1,478	(369)	0	0	**0**	0	**0**
Increase / (Decrease) in Year		6,861	(3,838)	1,478	489	14,304	(1,823)	**17,471**	(258,107)	**(240,636)**
Balance at 31 March 2012		**23,720**	**16,332**	**5,457**	**13,412**	**14,898**	**0**	**73,819**	**462,319**	**536,138**

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 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**

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	2011/12 £000's	2010/11 £000's
Net deficit on the provision of services	*25*	172,797	111,300
Adjust net surplus on the provision of services for non cash movements	*25*	(45,275)	(186,182)
Adjust for items in the net deficit on the provision of services that are investing or financing activities.	*25*	46,884	44,054
Net cash flows from operating activities	*25*	174,406	(30,828)
Net cash flows from investing activities	*26*	31,396	21,864
Net cash flows from financing activities	*27*	(217,069)	37,983
(Increase)/decrease in cash and cash equivalents		**(11,267)**	**29,019**
Cash and cash equivalents at the beginning of the reporting period		**(42,912)**	**(71,931)**
Cash and cash equivalents at the end of the reporting period		**(54,179)**	**(42,912)**

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.

2011/12	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	(304)					304
Depreciation and impairment of non current assets	(28,568)					28,568
Revenue expenditure funded from capital under statute	(7,181)					7,181
Capital grants and contributions applied	40,364			(14,304)		(26,060)
Amounts written off on disposal of non current assets	(2,407)				(3,181)	5,588
Statutory provision for the financing of capital investment	4,180					(4,180)
Capital expenditure charged in year to the General Fund balance	2,033					(2,033)
Finance Lease Principal	431					(431)
Gain/Loss Investment Property	454					(454)
Housing Reform Settlement	(191,571)					191,571
Continued on next page						

Notes to Main Financial Statements

2011/12 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:						
Use of Capital Receipts Reserve to finance new capital expenditure					4,974	(4,974)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,059)				1,059	
Other Income	1,031				(1,029)	(2)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Premiums and discounts	12					(12)
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	(19,325)					19,325
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	22,014					(22,014)
Continued on next page						

Notes to Main Financial Statements

2011/12 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	1,531					(1,531)
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	578					(578)
Other adjustments						
Housing Revenue Account balance	489		(489)			
Net transfer (to) or from earmarked reserves	1,478	(1,478)				
Total Adjustments	**(175,820)**	**(1,478)**	**(489)**	**(14,304)**	**1,823**	**190,268**

Notes to Main Financial Statements

2010/11 comparatives	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)
Continued on next page						

Notes to Main Financial Statements

2010/11 Comparatives 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)
Adjustments primarily involving the Accumulated						
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

2. EARMARKED RESERVE TRANSFERS

	At 31 March 2012 £000's	Transfers Out 2011/12 £000's	Transfers In 2011/12 £000's	At 31 March 2011 £000's	Transfers Out 2010/11 £000's	Transfers In 2010/11 £000's	At 31 March 2010 £000's
General Fund :							
- Schools delegated funds	16,332	(3,838)	0	20,170	0	8,280	11,890
- Working balance	23,720	0	6,861	16,859	(2,041)	0	18,900
Total	**40,052**	**(3,838)**	**6,861**	**37,029**	**(2,041)**	**8,280**	**30,790**
Earmarked Reserves:							
- Abbotsfield School	465	0	465	0	0	0	0
- Children Services Reserves	0	(310)	0	310	0	310	0
- Elections	208	0	208	(0)	(212)	0	212
- Grant Funded Reserves	1,080	(1,048)	639	1,489	(1,000)	759	1,730
- Highways Management	798	(694)	60	1,432	(29)	517	944
- Imported Food Service		0	0		(220)	0	220
- Insurance Provision	307	0	257	50	(33)	50	33
- Leisure Facilities Reserve	474	0	76	398	0	398	0
- Libraries Reserve	96	(43)	0	139	0	139	0
- Local Development Framework & New Years Green Lane	84	0	84	0	0	0	0
- Miscellaneous	1,077	0	977	100	(1,759)	0	1,859
- Music Bursary Fund	175	0	175	0	0	0	0
- Ward Budget Initiative	263	0	263	0	0	0	0
Total	**5,027**	**(2,095)**	**3,204**	**3,918**	**(3,253)**	**2,173**	**4,998**
- Housing Revenue Account	13,412	0	489	12,923	0	5,384	7,539
- HRA Earmarked Reserves	430	0	369	61	0	61	
Total	**13,842**	**0**	**858**	**12,984**	**0**	**5,445**	**7,539**
	58,921	**(5,933)**	**10,923**	**53,931**	**(5,294)**	**15,898**	**43,327**

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.
Abbotsfield School - Funds set aside for urgent building works.
Children Services Reserves - Grant income set aside to fund future expenditure relating to Children Services.
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.
Grant Funded Reserves - Various grant income received in year set aside to fund future expenditure.
Highways Management - Funds set aside for maintenance and improvement of Highways management.
Insurance Provision - Funds set aside to cover 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.
Local Development Framework & New Years Green Lane - Funds set aside to facilitate a public inquiry into the Council's planning polices and cover future landfill remediation work.
Miscellaneous - Funds set aside to cover various planned future expenditure.
Music Bursary Fund - Resources to be used in the review of the music service.
Ward Budget Initiative - Funds set aside to finance ward specific projects.
HRA Earmarked - Grant income set aside to fund future expenditure relating to the Housing Revenue Account and building improvements.

Notes to Main Financial Statements

3. OTHER OPERATING EXPENDITURE

	2011/12 £000's	2010/11 £000's
Payments to Government Housing Capital Receipts Pool	1,059	2,124
Precepts and Levies	632	673
Total	**1,691**	**2,797**

4. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2011/12 £000's	2010/11 £000's
Interest payable and Similar Charges	7,239	7,513
Interest receivable	(1,243)	(969)
Pensions interest cost and expected return on pension assets	6,072	11,127
Changes in the fair value of investment properties	(454)	0
Other income	(1,031)	(259)
Total	**10,583**	**17,412**

5. TAXATION AND NON-SPECIFIC GRANT INCOME

	2011/12 £000's	2010/11 £000's
Council tax income	(110,405)	(111,155)
Non domestic rates	(65,599)	(73,708)
Non-ringfenced government grants	(45,385)	(29,071)
Capital grants & contributions	(35,467)	(24,228)
Total	**(256,856)**	**(238,162)**

6. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2011/12

	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 2011	495,142	495,237	48,205	217,357	14,395	7,918	18,177	**1,296,431**
Additions	8,001	17,856	1,908	5,498	132	13,409	5	**46,809**
Derecognition - Disposals	(728)	(2,829)	0	0	0	0	0	**(3,557)**
Reclassifications	7,868	4,800	2,389	0	(1,407)	(9,275)	(4,375)	**0**
Revaluation (decreases)/increases recognised in Revaluation Reserve	(6,531)	870	178	0	0	0	300	**(5,183)**
Revaluation decreases recognised in Surplus/Deficit on the Provision of Services	0	(6,206)	0	0	(2,867)	0	(46)	**(9,119)**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	(3,759)	0	0	0	380	(3,386)	**(6,765)**
Gross book value as at 31 March 2012	**503,752**	**505,969**	**52,680**	**222,855**	**10,253**	**12,432**	**10,675**	**1,318,616**
Depreciation								
Accumulated at 1 April 2011	0	(10,199)	(35,257)	(70,571)	0	0	(324)	**(116,351)**
Depreciation charge for 2011/12	(8,581)	(9,647)	(2,767)	(5,376)	0	0	(136)	**(26,507)**
Depreciation written out to revaluation reserve	0	1,696	0	0	0	0	281	**1,977**
Depreciation written out to Surplus/Deficit on Services	0	406	0	0	0	0	0	**406**
Reclassifications	0	121	(126)	0	0	0	89	**84**
Accumulated at 31 March 2012	(8,581)	(17,623)	(38,150)	(75,947)	0	0	(90)	**(140,391)**
Balance Sheet amount 1 April 2011	495,142	485,038	12,948	146,786	14,395	7,918	17,853	**1,180,080**
Balance Sheet amount 31 March 2012	**495,171**	**488,346**	**14,530**	**146,908**	**10,253**	**12,432**	**10,585**	**1,178,225**
Nature of asset holding								
Owned	495,171	485,670	14,082	146,908	10,253	12,432	10,585	**1,175,101**
Finance Lease	0	0	448	0	0	0	0	**448**
PFI	0	2,676	0	0	0	0	0	**2,676**
Balance Sheet amount 31 March 2012	**495,171**	**488,346**	**14,530**	**146,908**	**10,253**	**12,432**	**10,585**	**1,178,225**

Additionally, PFI assets with a gross book value of £6,052k and accumulated depreciation of £3,376k are included in other Land & Buildings.

7. 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) 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

8.VALUATION OF LONG TERM ASSETS CARRIED AT CURRENT VALUE

The freehold and leasehold properties which comprise the council's property portfolio have been valued as at 1 April 2011 by the Estate and Valuation service of the council. Revaluations are made on a rolling five year period. The only external valuation included is of Council dwellings which were revalued as at 1 April 2010 by King Sturge. A valuation certificate has been given by the estates manager that the properties have been valued in accordance with the appraisal and valuation manual of the Royal 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 2011 and March 2012. Full details of the basis of valuation for each asset category is provided in the statement of accounting policies (page 16).

	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Surplus Assets £000's
Value at historical cost	0	0	14,530	0
Last valued in 2011/2012	29	3,308	0	-7,268
Last valued in 2010/2011	495,142	131,738	0	0
Last valued in 2009/2010	0	238,590	0	3,637
Last valued in 2008/2009	0	62,836	0	1,307
Last valued in Prior Years	0	51,874	0	12,909
Total	495,171	488,346	14,530	10,585

9.REVALUATION LOSSES

The freehold and leasehold properties which comprise the council's property portfolio have been valued as at 1 April 2012 by the Estate and Valuation service of the council. Revaluations are made on a rolling five year period and indexed in intervening periods. 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 2011 and March 2012. Full details of the basis of valuation for each asset category are provided in the statement of accounting policies.

During 2011/12, the Council has recognised total revaluation losses of £12,831k (£217,820k in 2010/11 due to Department for Communities & Local Government change in Economic Use Value for social housing from 37% to 25%), which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. Of this, £2,643k was the value of the Willows school written out of the Council's balance sheet on transferring to academy status. These entries were then reversed through the Movement in Reserves Statement to mitigate any impact on General Fund and Housing Revenue Account Balances.

10. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgeted to cost £20,291k. Similar commitments at 31 March 2011 were £32,498k. The major commitments are:

Year	31 March 2012 £000's	31 March 2011 £000's
2011/12	0	28,858
2012/13	19,718	3,640
2013/14	573	0
	20,291	**32,498**

Capital commitments at 31 March 2012 include £10,963k school expansions, £4,533k Highgrove Pool, £1,130k Waste & Recycling NYGL and £3,665k for other capital projects.

Notes to Main Financial Statements

11. INVESTMENT PROPERTIES

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

	2011/12 £000's	2010/11 £000's
Rental income from investment property	(449)	(412)
Direct operating expenses arising from investment property	88	25
Net gain	**(361)**	**(387)**

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

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

	2011/12 £000's	2010/11 £000's
Opening Balance	5,725	5,725
Net gains from fair value adjustments	454	0
Transfers:		
- to Property, Plant and Equipment	(457)	0
Closing Balance	**5,722**	**5,725**

12. INTANGIBLE ASSETS

The Council 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 Council. The current 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:

	2011/12 £000's	2010/11 £000's
Service		
Central Services to the Public	93	253
Cultural, Environment and Planning	189	16
Adult Social Care	22	34
Total	**304**	**303**

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

Software	2011/12 £000's	2010/11 £000's
Gross carrying amounts	2,456	2,336
Accumulated amortisations	(1,478)	(1,175)
Net carrying amount at the start of the year	**978**	**1,161**
Purchases	38	120
Amortisation for the period	(304)	(303)
Net carrying amount at end of year	**712**	**978**
Comprising		
Gross carrying amounts	2,494	2,456
Accumulated amortisation	(1,782)	(1,478)
Total	**712**	**978**

13. FINANCIAL INSTRUMENT BALANCES

		Current		Long-Term		Total	
		31 March 2012	31 March 2011	**31 March 2012**	31 March 2011	**31 March 2012**	31 March 2011
	Note	**£000's**	£000's	**£000's**	£000's	**£000's**	£000's
Investments							
Loans and receivables at nominal value		42,371	18,494	2,415	4,745	44,786	23,239
Available-for-sale financial assets		0	0	102	82	102	82
Impairment		(3,463)	(4,020)	0	0	(3,463)	(4,020)
Accrued Interest		64	90	0	0	64	90
Accrued notional Icelandic interest		401	557	0	0	401	557
Total investments		**39,373**	**15,121**	**2,517**	**4,827**	**41,890**	**19,948**
Cash Equivalents							
Cash in hand		19,471	19,909	0	0	19,471	19,909
Loans and receivables at nominal		8,500	7,700	0	0	8,500	7,700
Available-for-sale financial assets		26,200	15,300	0	0	26,200	15,300
Accrued Interest		8	3	0	0	8	3
Total Cash Equivalents	*19*	**54,179**	**42,912**	**0**	**0**	**54,179**	**42,912**
Trade Receivables							
Loans and receivables		11,724	10,060	414	449	12,138	10,509
Total Financial Instrument Debtor		**11,724**	**10,060**	**414**	**449**	**12,138**	**10,509**
Borrowings							
Financial liabilities at nominal cost		6,778	3,000	158,434	158,600	165,212	161,600
HRA Reform Settlement		3,500	0	188,071	0	191,571	0
Premium		0	0	(3,356)	(3,379)	(3,356)	(3,379)
Accrued Interest		1,606	1,463	0	0	1,606	1,463
Total borrowings	*44*	**11,884**	**4,463**	**343,149**	**155,221**	**355,033**	**159,684**
Other Long Term Liabilities							
PFI and finance lease liabilities		389	430	2,735	2,643	3,124	3,073
Total other long term liabilities	*39*	**389**	**430**	**2,735**	**2,643**	**3,124**	**3,073**
Trade Payables							
Financial liabilities at amortised cost		43,420	34,602	18,206	13,719	61,626	48,321
Total Financial Instrument Creditor		**43,420**	**34,602**	**18,206**	**13,719**	**61,626**	**48,321**
Net Total		**49,583**	**28,598**	**(361,159)**	**(166,307)**	**(311,576)**	**(137,709)**

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:

	2011/12				2010/11			
	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	(6,087)	0	0	(6,087)	(5,968)	0	0	(5,968)
Total expense in Surplus or Deficit on the Provision of Services	**(6,087)**	**0**	**0**	**(6,087)**	**(5,968)**	**0**	**0**	**(5,968)**
Interest income	0	816	0	816	0	387	0	387
Notional Icelandic Interest	0	401	0	401	0	557	0	557
Gains on derecognition	0	0	0	0	10	0	0	10
Impairment Adjustment	0	0	0	0	0	(407)	0	(407)
Total income in Surplus or Deficit on the Provision of Services	**0**	**1,217**	**0**	**1,217**	**10**	**537**	**0**	**547**
Gains on revaluation	0	0	20	20	0	0	6	6
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**20**	**20**	**0**	**0**	**6**	**6**
PFI Interest	0	0	0	(981)	0	0	0	(1,032)
Other	0	0	0	(82)	0	0	0	(98)
Net (loss)/gain for the year	**(6,087)**	**1,217**	**20**	**(5,913)**	**(5,958)**	**537**	**6**	**(6,545)**

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 instrument. 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 2012		31 March 2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000's	**£000's**	£000's	£000's
PWLB (Maturity Fixed)	150,567	146,356	83,949	78,370
PWLB (Maturity Variable)	40,003	39,825	0	0
PWLB (EIP Fixed)	103,838	97,975	13,606	13,279
PWLB (EIP Variable)	12,004	11,956	13,506	13,506
Market	48,621	58,845	48,623	49,346
Total Financial Liabilities	**355,033**	**354,957**	**159,684**	**154,501**
Trade Payables	61,626	61,626	48,321	48,321

The fair value of the liabilities is lower than the carrying amount because the Council's debt portfolio includes a number of 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 2012) arising from a commitment to pay interest to lenders below current market rates. The increase of £195,349k in the carrying amount is attributed to undertaking £191,571k of additional borrowing to forward to central Government as the HRA settlement to 'buy out' of the subsidy regime.

Financial Liabilities 2011/12

- 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 consistency 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 council 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.

- Trade Payables

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

Financial Assets 2011/12

The Council's current portfolio of investments include may include instruments where the calculation of 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, instruments that 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 fundamental. Impairments have been 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 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 an equivalent SWAP rate, however as at 31 March 2012 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 2012		31 March 2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£'000s	**£'000s**	£000's	£000's
Short Term	74,081	74,081	38,123	38,123
Long Term	2,415	2,415	4,745	4,745
Available for Sale	102	102	82	82
Financial Assets	**76,598**	**76,598**	**42,950**	**42,950**
Trade Receivables	12,138	12,138	10,509	10,509

ICELANDIC IMPAIRMENTS

At the commencement of 2011/12 the Council had a balance of unpaid deposits with Heritable Bank of £7,439k and Landsbanki Islands of £5,000k. During the year dividends received from the administrators of Heritable Bank totalling £2,688k representing 17.81% of the claim and dividends received from Landsbanki Islands totalling £1,464k representing 29.04% of the claim. In addition to this first distribution, 6,962k of Icelandic Krona (ISK) (£34k at the exchange rate on 31st March 2012) (2.18%) is being held in an Icelandic escrow account. As there are currently controls on the distribution of ISK, the funds will remain in this account until the winding up board has obtained permission from the Central Bank of Iceland (CBI) to pay the money to Creditors.

In 2010/11 the Council made a charge to the Comprehensive Income and Expenditure Account representing an estimated final impairment of £2,500k based on recovery rates published by CIPFA (LAAP 82 bulletin update). Since this publication further updates have been issued with the latest (update 6) revising the recovery rate to 88% for Heritable deposits (84.98% in 10/11) and 100% for Landsbanki deposits (94.85% in 10/11). The Council had deposits of £15,000k with Heritable and £5,000k with Landsbanki, hence the latest recovery estimates show an improvement of £700k giving an expected total impairment of £1,800k. However, the Council considered it prudent not to realise this expected extra recovery at the present time due to economic uncertainties within the Eurozone, foreign currency exchange rates risk and fluctuating asset values.

Impairments are calculated using a discounted cash flow calculation with interest credited back each year until the relevant banks' books are closed. In accordance with accounting policies £401k of notional interest was credited to the Comprehensive Income and Expenditure Statement during 2011/12.

HERITABLE BANK

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. During the year dividends have been received totalling 17.81% (6.25% in April 2011, 4.06% in July 2011, 4.18% in October 2011 and 3.32% in January 2012). A further dividend of 3.79% was received in April 2012 bringing the total received to date to £10,822k (71.71% of the claim). The remaining dividends are expected to be received during 2012/13.

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.

After the decision of the Icelandic Supreme Court awarding priority status for local authority deposits, the Winding Up Board of Landsbanki made their first distribution. This was implemented on 7 December 2011 for those local authorities whose deposits had been the subject of the test cases litigated in the Supreme Court, and on 17 February 2012 for all other local authority deposits. The February payments attracted interest from 7 December 2011 as the Winding Up Board of Landsbanki had held the relevant amounts in escrow since then. Under the terms of the distribution proposal, payment of each depositor's claim (measured in ISK terms as at 22 April 2009) was made in a basket of currencies with conversions made using Central Bank of Iceland selling rates as at 22 April 2009. The distribution currencies were Icelandic kroner, Euros, US dollars and sterling. However, Icelandic kroner distributions were placed into escrow earning interest at a rate of 3.35%. The amount distributed was £1,499k (31.22% of the claim) and a further £617k (12.23% of the claim) was received in May 2012.

The Winding Up Board announced on 9 March 2012 that it anticipated that recoveries in the Landsbanki Administration would exceed the book value of recognised priority claims by around ISK 121bn, taking into account the sale of its holding in Iceland Foods. Estimated recoveries are some 9% higher than the value of priority claims and it is therefore now considered likely that UK local authorities will recover 100% of their deposits.

The future pattern of distributions by the Landsbanki Winding Up Board is not known, but regular payments are expected with the final dividend being made in 2018.

Notes to Main Financial Statements

14. INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2011/12 £000's	2010/11 £000's	2011/12 £000's	2010/11 £000's	2011/12 £000's	2010/11 £000's
Balance outstanding at start of year	82	128	0	0	82	128
Purchases	1,081	1,170	569	232	1,650	1,402
Recognised as expense in year	(1,063)	(1,216)	(394)	(232)	(1,457)	(1,448)
Balance outstanding at year-end	**100**	**82**	**175**	**0**	**275**	**82**

15. SHORT TERM DEBTORS

	31 March 2012 £000's	31 March 2011 £000's
Central Government Bodies	7,985	11,510
Allowance for Impairment	(128)	(199)
Central Government Bodies net of Impairment	**7,857**	**12,952**
Other local authorities	**2,705**	**2,669**
NHS bodies	**25**	**36**
Housing rents	7,099	5,054
Allowance for Impairment	(4,521)	(4,005)
Housing rents net of Impairment	**2,578**	**1,049**
Council taxpayers	8,637	8,508
Allowance for Impairment	(5,961)	(5,134)
Council taxpayers net of Impairment	**2,676**	**3,374**
Other entities and individuals	20,091	24,002
Allowance for Impairment	(10,519)	(10,552)
Other entities and individuals net of Impairment	**9,572**	**13,450**
Total Debtors	46,542	51,779
Less: Provision for doubtful debts	(21,129)	(19,890)
	25,413	**31,889**

16.LONG TERM DEBTORS

	At 31 March 2012 £000's	New Advances £000's	Repayments £000's	1 April 2011 £000's
Housing advances & associations	12	0	(4)	16
Sale of Council houses	99	0	(27)	126
Long term payments in advance	103	0	(30)	133
Other loans & advances	302	0	(5)	307
	516	**0**	**(66)**	**582**

17.SHORT TERM CREDITORS

	At 31 March 2012 £000's	At 31 March 2011 £000's
Council taxpayers	(2,733)	(2,992)
Central Government departments	(7,977)	(19,008)
NHS Bodies	(1,469)	(2,303)
Housing Rents	(772)	(857)
Non-domestic rates pool	(27,197)	(5,542)
Other Local Authorities	(3,789)	(2,216)
Sundry Creditors	(40,171)	(41,419)
	(84,108)	**(74,337)**

18.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 £3,802k at 31 March 2012 (£3,665k at 31 March 2011).

19. CASH AND CASH EQUIVALENTS

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

	31 March 2012 £000's	31 March 2011 £000's
Cash held by the Council	19,471	19,909
Instant Access Accounts	34,708	23,003
Total Cash and Cash Equivalents	**54,179**	**42,912**

20. ASSETS HELD FOR SALE

At 31 March 2012 the Council held £12,966k 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 2012 £000's	At 31 March 2011 £000's
Balance outstanding at start of year	6,996	827
Assets newly classified as held for sale:		
Property Plant & Equipment	7,222	6,307
Revaluation gains	1,145	0
Impairment losses	(182)	0
Assets sold	(2,217)	(140)
Other movements	2	2
	12,966	**6,996**

Notes to Main Financial Statements

21. HERITAGE ASSETS

At 31 March 2012 the Council held Civic Regalia and a statue 'Anticipation' that were insured for £178k. As neither a current market valuation, nor a replacement cost are available, this insurance value has been used as the basis for valuation and is included under Vehicle, Plant and Equipment within Fixed Assets. In addition the Council holds an 18th Century stable block within the grounds of Cranford Park alongside a collection of antique farm equipment. These are insured through the Council's general insurance scheme but do not hold specific valuations, are non-realisable and therefore are not included on the Council's balance sheet.

	Non Current	
	At 31 March 2012 £000's	At 31 March 2011 £000's
Balance at start of year	0	0
Assets newly classified as Heritage Assets	178	0
Balance at end of year	**178**	**0**

22. PROVISIONS

	Balance at 31 March 2012	Additional provisions made in 2011/12	Amounts used in 2011/12	Unused amounts reversed in 2011/12	Balance at 1 April 2011
- Adult Services	49	0	(31)	(51)	131
- Highways - Carriage and Pavement Trips and Vehicle Damage	1,769	968	(633)	0	1,434
- Hillingdon Housing Services	264	0	0	(24)	288
- Housing - Other	122	18	(22)	0	126
- Schools and Other Education Establishments	583	116	(58)	(103)	628
- Tree Damage	526	94	(93)	0	525
- Motor Vehicles	95	97	(96)	0	94
- Other Establishments	697	462	(103)	0	338
Total Insurance Provision	**4,105**	**1,755**	**(1,036)**	**(178)**	**3,564**
- Dilapidation Provision	223	86	0	(321)	458
- Fusion Leisure Contract	200	0	0	0	200
- CRC Allowance Purchase	362	362	0	0	0
- MMI	2,429	2,429	0	0	0
- Housing Benefits Subsidy Claim	1,164	1,164	0	0	0
- Section 117 Mental Health Act	331	0	0	(52)	383
- Other Provisions	315	282	(493)	0	526
Total Provisions	**9,129**	**6,078**	**(1,529)**	**(551)**	**5,131**

All provisions have been classified as long-term, as there is no certainty as to when any of the claims or costs will be incurred.

Insurance

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

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

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 2012.

Municipal Mutual Insurance (MMI)

Provision has been made in accordance with the latest statement from MMI. MMI ceased trading in 1992 and have been only dealing with claims relating to their period of trading since that time, using existing reserves to pay for claims with the hope of achieving a solvent run off. In the event that they were unable to achieve this, a claw back clause is in place for all claims paid out on behalf of LBH since 1992. Although it is uncertain exactly when this provision will be drawn down, the Supreme Court judgement in March found insurers liable for mesothelioma claims. This will increase the call upon their reserves, making it more likely that MMI will not achieve a solvent run off and will trigger the claw back clause in the contract. This would result in LBH being liable to pay £2,429k.

22. PROVISIONS (Continued)

CRC Allowance Purchase

The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. The retrospective purchase of allowances is anticipated to take place from 1 June 2012. The Council will then be required to surrender allowances to the scheme by the last working day in July 2012 in proportion to their reported emissions for the preceding scheme year.

Housing Benefits Subsidy Claim

A provision is made each year for an amount of the HB Subsidy claim that can be withheld by the DWP if the claim does not pass the Audit process. This process is usually completed by the end of the November following submission of the final claim and the outcome will be known by the following January. The provision for 2011-12 consists of two elements, £802k for 0.5% of the overall claim and £362k for subsidy receivable against expenditure that was incurred due to errors made by the local authority.

Dilapidation Provision

The Council is contractually obliged to fund dilapidation costs on a number of leased properties. This includes a number of homes leased for use as temporary accommodation and following the transfer of a site to a new provider in April 2012 the Council's liability has been reduced by £321k. Remaining provision of £223k relates to this site and a number of commercial properties, upon which works are expected to be carried out at some future point.

Section 117 Mental Health Act

A provision has been made to accommodate possible contribution payment claims by clients who were sectioned under the S117 of the Mental Health Act.

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.

23. USABLE RESERVES

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

24. 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.

	2011/12 £000's	2010/11 £000's
Capital Adjustment Account	723,483	917,354
Financial Instruments Adjustment Account	(379)	(392)
Collection Fund Adjustment Account	2,112	581
Revaluation Reserve	57,458	59,084
Pensions Reserve	(313,199)	(248,446)
Accumulated Absences Account	7,197	(7,776)
Available for Sale Financial Instruments Reserve	41	21
Total	**476,713**	**720,426**

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 Council as finance for the costs of acquisition, construction and enhancement.

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

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

	2011/12		2010/11	
	£000's	£000's	£000's	£000's
Balance at 1 April		**917,354**		**1,123,932**
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	(17,380)		(16,978)	
- Revaluation losses on Property, Plant and Equipment	(10,641)		(217,821)	
- HRA depreciation greater than MRA	(547)		(441)	
- Amortisation of intangible assets	(304)		(303)	
- Revenue expenditure funded from capital under statute	(7,181)		(15,030)	
- 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	(5,588)	(41,641)	(3,471)	(254,044)
-HRA settlement debt		(191,571)		0
Adjusting amounts written out of the Revaluation Reserve		1,209		542
Net written out amount of the cost of non-current assets consumed in the year		(232,003)		(253,502)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	4,974		4,511	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	25,466		36,587	
- Application of grants to capital financing from the Capital Grants Unapplied Account	594		738	
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	4,180		3,997	
- Finance Lease Principal	431		657	
- Capital expenditure charged against the General Fund and HRA balances	2,033	37,678	434	46,924
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		454		0
Balance at 31 March		**723,483**		**917,354**

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 Council 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.

	2011/12 £000's	**2010/11 £000's**
Balance at 1 April	**(392)**	**(4,028)**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	99	99
Discounts incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	10
Proportion of discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(86)	(86)
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	0	3,613
Balance at 31 March	**(379)**	**(392)**

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.

The Collection Fund balance at 1 April 2011 had a deficit of £745k. An in-year deficit of £1,957k resulted in a remaining deficit balance at 31 March 2012 of £2,702k, which has been split on the basis that surpluses and deficits are shared with the Greater London Authority (78.22% to Hillingdon, 21.78% to GLA).

	At 31 March 2012 £000's	At 31 March 2011 £000's
Balance at 1 April	**581**	**(791)**
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	1,531	1,372
Balance at 31 March	**2,112**	**581**
(Creditor)/Debtor in respect of GLA share	(554)	164
	1,558	**745**

Notes to Main Financial Statements

REVALUATION RESERVE

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

	2011/12		2010/11	
	£000's	**£000's**	£000's	£000's
Balance at 1 April		**59,084**		**29,394**
Upward revaluation of assets				
- Other HRA Properties	0		9,356	
- Land & Buildings	1,307		20,900	
- Surplus Assets	567		0	
-Assets held for sale	435		0	
-Heritage Assets	178	2,487	0	30,256
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(2,647)		0	
- Surplus Assets	(18)		0	
-Assets held for sale	(123)	(2,788)	0	0
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**(301)**		**30,256**
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(1,041)		(534)	
-Surplus Assets	(2)		(3)	
- Community Assets	0		(6)	
-Assets held for sale	(8)	(1,051)	0	(543)
Accumulated gains on assets sold or scrapped				
-Assets held for sale	(158)		0	
- Land & Buildings	(116)	(274)	(23)	(23)
Amount written off to the Capital Adjustment Account		**(1,325)**		**(566)**
Balance at 31 March		**57,458**		**59,084**

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 Council 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 these costs. However, statutory arrangements require benefits earned to be financed as the Council 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 Council 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.

	2011/12 £000's	2010/11 £000's
Balance at 1 April	**(248,446)**	**(436,013)**
Actuarial (losses) or gains on pensions assets and liabilities	(67,442)	104,514
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(19,325)	58,604
Employer's pension contributions and direct payments to pensioners payable in the year	22,014	24,449
Balance at 31 March	**(313,199)**	**(248,446)**

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.

	2011/12 £000's	2010/11 £000's
Balance at 1 April	**(7,776)**	**(8,253)**
Settlement or cancellation of accrual made at the end of the preceding year	7,776	8,253
Amounts accrued at the end of the current year	(7,197)	(7,776)
Balance at 31 March	**(7,197)**	**(7,776)**

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.

	2011/12 £000's	2010/11 £000's
Balance as at 1 April	**21**	**15**
Change in Fair Value in year	20	6
Balance as at 31 March	**41**	**21**

25. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2011/12 £000's	2010/11 £000's
Deficit on the provision of services	**172,797**	**111,300**
Depreciation and Impairment of Non Current Assets	(28,568)	(235,239)
Amortisation of Intangible Fixed Assets	(304)	(303)
Revenue Expenditure Funded from Capital under Statute	(7,181)	(15,030)
Pension Fund adjustments	2,689	83,053
Increase in impairment for provision for bad debts	(1,239)	(570)
(Decrease) / Increase in creditors	(9,908)	17,676
(Decrease) in debtors	(5,303)	(2,961)
(Decrease) / Increase in inventories	193	(46)
Carrying amount of non-current assets sold	(2,407)	(3,495)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	6,753	(29,267)
Total adjusting items	**(45,275)**	**(186,182)**
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	4,210	3,430
Net proceeds from long-term investments	2,310	3,443
Capital Grants credited to Surplus or Deficit on the provision of services	40,364	37,181
Total included elsewhere on Cash Flow Statement	**46,884**	**44,054**
Net cash flows from operating activities	**174,406**	**(30,828)**

Notes to Main Financial Statements

26. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2011/12 £000's	2010/11 £000's
Cash Outflows		
Purchase of property, plant and equipment	46,847	43,997
Other payments for investing activities	7,181	15,030
	54,028	**59,027**
Cash Inflows		
Sale of property, plant and equipment	(4,210)	(3,430)
Capital grants received	(36,394)	(35,180)
Other receipts from investing activities	(3,970)	(2,001)
	(44,574)	**(40,611)**
Net Cash Outflow	**9,454**	**18,416**
Net Increase in Short-Term Investments	24,252	6,891
Net Decrease in Long-Term Investments	(2,310)	(3,443)
Net cash flows from investing activities	**31,396**	**21,864**

27. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2011/12 £000's	2010/11 £000's
Cash Outflows		
Repayments of amounts borrowed	3,389	35,360
Capital element of finance lease rental and on-balance sheet PFI payments	431	645
Cash Inflows		
Long term loans raised	(198,571)	0
Short term loans raised	0	(14,360)
Council Tax and NNDR Adjustment	(22,318)	16,338
Net cash flows from financing activities	**(217,069)**	**37,983**

28. 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 Service Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken by the Council 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 Service Reporting structure.

SERVICE INFORMATION 2011/12 RECORDED IN OUTTURN REPORT

	Central Services £000's	Social Care, Health & Housing £000's	Planning, Education, Environment and Community Services £000's	Total £000's
Total Income	(8,507)	(204,917)	(440,793)	**(654,217)**
Total operating expenses	34,189	320,108	524,606	**878,903**
Corporate Items	(13,259)	350	(184)	**(13,093)**
Net Cost of Services in Service Analysis	**12,423**	**115,541**	**83,629**	**211,593**

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

	£000's	
Cost of Services in Service Analysis (above)	**211,593**	
Corporate Items	13,093	Other movements in balances which are not directly a function of income or expenditure and are not part of service's controllable budgets.
Add services not included in main analysis	192,147	The Housing Revenue Account (HRA) Net Cost of Services does not form part of the outturn report to management. This figure includes £191,571k relating to the self-financing settlement to Government.
Add Net Cost of Service Adjustments	(2,656)	Amounts to repay the principal amounts for finance leases, revenue contribution to capital outlay and annual leave accrual 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	796	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	**414,973**	

Notes to Main Financial Statements

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

2011/12

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	(266,614)	0	(57,812)	209,047	0	**(115,379)**	(1,031)	**(116,410)**
Interest and investment income	0	0	0	0	0	**0**	(1,697)	**(1,697)**
Income from council tax	0	0	0	0	0	**0**	(110,405)	**(110,405)**
Government Grant and Contributions	(387,161)	0	0	0	1,850	**(385,311)**	(146,451)	**(531,762)**
Total Income	**(653,775)**	**0**	**(57,812)**	**209,047**	**1,850**	**(500,690)**	**(259,584)**	**(760,274)**
Employee expenses	261,791	0	0	0	(5,638)	**256,153**	0	**256,153**
Other service expenses	602,011	13,093	61,116	(211,703)	2,267	**466,784**	6,072	**472,856**
Depreciation, amortisation & impairment	0	0	0	0	0	**0**	0	**0**
Interest Payments	935	0	0	0	(411)	**524**	7,239	**7,763**
Precepts & Levies	631	0	0	0	0	**631**	631	**1,262**
Payments to Housing Cap Receipts Pool	0	0	0	0	0	**0**	1,059	**1,059**
Local Authority Housing settlement payment to Government for HRA self financing	0	0	191,571	0	0	**191,571**	0	**191,571**
Gain or Loss on Disposal of Non Current Assets	0	0	0	0	0	**0**	2,407	**2,407**
Total operating expenses	**865,368**	**13,093**	**252,687**	**(211,703)**	**(3,782)**	**915,663**	**17,408**	**933,071**
Deficit or (Surplus) on the provision of services	**211,593**	**13,093**	**194,875**	**(2,656)**	**(1,932)**	**414,973**	**(242,176)**	**172,797**

Reconciliation of net cost of services in outturn report to overall surplus reported in management

	31 March 2012 £000's	
Net Cost of Services in Service Analysis	**211,593**	
Exceptional items	2,263	Exceptional items primarily relates to the Municipal Mutual Insurance provision.
Levies and Corporate Budgets	11,000	
* Central Adjustments (excluding HRA)	(18,383)	* 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.
Budget Requirement	(194,746)	
Contribution from Balances	(1,793)	
Corporate Government Grants not included in the budget requirement	(18,018)	
Overall Surplus Reported to Management	**(8,084)**	

Notes to Main Financial Statements

SERVICE INFORMATION 2010/11 RECORDED IN OUTTURN REPORT

	Central Services	Social Care, Health & Housing	Environment and Community Services	Total
	£000's	£000's	£000's	£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	(2,354)	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.
Net Cost of Services in Comprehensive Income and Expenditure Statement	**328,951**	

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)	0	(54,855)	245,080	2,637	**(137,724)**	(750)	**(138,474)**
Interest and investment income	0	0	0	0	0	**0**	(969)	**(969)**
Income from council tax	0	0	0	0	0	**0**	(111,155)	**(111,155)**
Government Grant and Contributions	(416,341)	0	0	0	0	**(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	0	0	0	0	**308,798**	0	**308,798**
Other service expenses	682,972	(10,452)	(55,529)	(247,434)	(1,487)	**368,070**	11,618	**379,688**
Depreciation, amortisation & impairment	0	0	206,148	0	0	**206,148**	0	**206,148**
Interest Payments	584	0	0	0	(584)	**0**	7,513	**7,513**
Precepts & Levies	673	0	0	0	(673)	**0**	673	**673**
Payments to Housing Cap Receipts Pool	0	0	0	0	0	**0**	2,124	**2,124**
Gain or Loss on Disposal of Non Current Assets	0	0	0	0	0	**0**	302	**302**
Total operating expenses	**993,027**	**(10,452)**	**150,619**	**(247,434)**	**(2,744)**	**883,016**	**22,230**	**905,246**
Deficit or (Surplus) on the provision of services	**246,100**	**(10,452)**	**95,764**	**(2,354)**	**(107)**	**328,951**	**(217,651)**	**111,300**

Reconciliation of net cost of services in outturn report to overall surplus reported in management

	31 March 2011
	£000's
Net Cost of Services in Service Analysis	**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.

29. EXTERNAL AUDIT COSTS

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

	2011/12 £000's	2010/11 £000's
Fees payable in regard to external audit services carried out by the appointed auditor	348	379
Fees payable for the certification of grant claims and returns	185	155
Total External Audit costs	**533**	**534**

Non Audit Fees - The Council incurred £253k of costs during 2011/12 from Drivers Jonas Deloitte, a division forming part of Deloitte LLP, the Council's external auditors. This was in respect of project management, employers agent, quantity surveying

30. AGENCY SERVICES

The Council provides agency services through the London Airport Health Control to the British Airports Authority. The cost of this service in 2011/12 was £1,799k (£2,377k in 2010/11) which is fully reimbursable.

31. MEMBER ALLOWANCES

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

	2011/12 £000's	2010/11 £000's
Salaries & Allowances	1,542	1,536
Expenses	1	2
Total	**1,543**	**1,538**

32. POOLED BUDGETS

A Section 75 agreement is in operation between the Council and Hillingdon Primary Care Trust (HPCT) in respect of Learning Disability Services and was effective from 1 April 2008. This is not operated 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 2011/12 this service provided support to approximately 650 clients at a gross cost of £32,864k which included approximately 30 PCT clients for which the council received £3,672k.

A further Section 75 agreement is in operation between the Council and Hillingdon PCT in respect of Community Equipment Services, 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 2011/12 was £1,078k and each party funded £539k.

33. RELATED PARTY TRANSACTIONS

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

Central Government

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 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 five other London Boroughs. It is primarily funded by a levy paid by each of the six participating councils. The amount contributed for 2011/12 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 2011/12 was £19,812k (£22,213k 2010/11). A precept of £338k was paid to the London Pension Fund Authority in 2011/12.

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 2011/12 is shown in Note 32.

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
CENTRAL & NORTH WEST LONDON NHS FOUNDATION TRUST	Councillor Peter Kemp	£870,014
HILLINGDON CARERS	Councillor Judith Cooper	£411,278
HILLINGDON & EALING CITIZENS ADVICE	Councillor George Cooper	£391,243
GROUNDWORK THAMES VALLEY LTD	Councillor George Cooper	£347,820
HILLINGDON ASSOCIATION OF VOLUNTARY SERVICES	Councillor John Major	£248,500
XFOR LOCAL AUTHORITY SUPPORT LIMITED	Councillor Paul Buttivant	£135,720
AGE CONCERN	Councillor Beulah East	£127,966
HILLINGDON CROSSROADS	Councillor John Major	£97,427
RUISLIP & NORTHWOOD OLD FOLKS ASSOCIATION	Councillor Catherine Dann	£79,600
RUISLIP & NORTHWOOD OLD FOLKS ASSOCIATION	Councillor Andrew Retter	£79,600
BRUNEL UNIVERSITY	Councillor John Hensley	£69,147
LOCATA (HOUSING SERVICES) LTD	Miss Beatrice Cingtho	£48,072
HILLINGDON AIDS RESPONSE TRUST	Councillor Scott Seaman-Digby	£47,000
THE ROYAL BRITISH LEGION	Councillor Catherine Dann	£12,905

Precepts/Levies

In 2011/12 the following precepts and levies are considered related party transactions:

Greater London Authority Precept	£30,309k
Greater London Authority Crossrail	£13,189k
West London Waste Authority Levy	£7,469k
Lee Valley Regional Park Authority	£293k
Environment Agency	£195k

Notes to Main Financial Statements

34. OFFICER EMOLUMENTS

The number of employees in 2011/12 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	**2011/12**		2010/11		**2011/12**		2010/11	
	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum	Total	Due to Lump Sum
£50,000 - £54,999	63	0	49	0	46	0	77	0
£55,000 - £59,999	35	(1)	47	(5)	40	0	46	0
£60,000 - £64,999	11	0	14	0	16	0	31	0
£65,000 - £69,999	15	(2)	13	(2)	26	0	30	0
£70,000 - £74,999	10	0	16	(1)	9	0	28	0
£75,000 - £79,999	2	0	9	(4)	11	0	12	0
£80,000 - £84,999	4	0	6	(2)	3	0	6	0
£85,000 - £89,999	1	(1)	1	(1)	2	0	2	0
£90,000 - £94,999	2	0	0	0	2	0	2	0
£95,000 - £99,999	1	0	3	(1)	0	0	2	0
£100,000 - £104,999	1	0	0	0	1	0	0	0
£105,000 - £109,999	0	0	0	0	0	0	4	0
£110,000 - £114,999	1	(1)	1	(1)	0	0	1	0
£115,000 - £119,999	0	0	1	(1)	1	0	2	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	0	0	0	0	0	0
£135,000 - £139,999	0	0	0	0	0	0	0	0
£140,000 - £144,999	0	0	1	(1)	0	0	0	0
	146	**(5)**	161	(19)	**157**	**0**	243	0

Disclosure of Remuneration for Senior Employees (Schools):-

The two school employees detailed in the above table earning over £100,000 during 2011/12 are set out below.

Job Title	**Pensionable Pay**
Headteacher - Harlington Community School	£102,475
Headteacher - Cranford Park Primary School	£117,396

In the 2010/2011 Statement of Accounts an additional six head teachers earning over £100k were disclosed. The schools of these head teachers have subsequently acquired Academy status and thus are not included in the Council's financial statements.

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.

			2011/12					2010/11				
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)		£187,069	£0	£0	£0	£187,069	£183,250	£0	£0	£0	£183,250
Central Services	Deputy Chief Executive and Corporate Director for Central Services (F Beasley)		£156,420	£0	£0	£28,312	£184,732	£141,881	£0	£0	£25,680	£167,561
	Deputy Director Finance		£135,457	£285	£0	£24,518	£160,260	£123,532	£0	£0	£22,359	£145,891
	Acting Head of Human Resources	1	£67,053	£722	£0	£12,137	£79,912	£0	£0	£0	£0	£0
	Head of Legal Services		£114,957	£0	£0	£20,807	£135,764	£112,560	£0	£0	£20,373	£132,933
	Head of Policy Performance &		£77,412	£0	£0	£14,012	£91,424	£78,031	£23	£0	£14,124	£92,178
	Head of Democratic Services		£91,788	£0	£0	£16,614	£108,402	£89,391	£0	£0	£16,180	£105,571
	Head of Audit & Enforcement		£79,865	£112	£0	£14,456	£94,433	£80,165	£0	£0	£14,510	£94,675
PEECS	Deputy Chief Executive and Corporate Director for PEECS (J Palmer)		£156,420	£0	£0	£28,312	£184,732	£144,040	£0	£0	£26,071	£170,111
	Deputy Director Education		£116,424	£94	£0	£21,073	£137,591	£101,369	£0	£0	£18,348	£119,716
	Head of Corporate Property and	2	£87,168	£0	£0	£15,777	£102,945	£0	£0	£0	£0	£0
	Deputy Director Public Safety &		£97,732	£0	£0	£17,690	£115,422	£13,741	£0	£0	£2,487	£16,228
	Head of Transportation Planning Policy & Community Engagement		£116,223	£613	£0	£21,036	£137,872	£111,766	£21	£0	£20,230	£132,016
	Head of Planning Consumer Protection Sport & Green Spaces		£99,011	£0	£0	£17,921	£116,932	£89,722	£21	£0	£16,240	£105,962
	Deputy Director ICT Highways and Business Services		£112,519	£0	£0	£20,366	£132,885	£107,391	£0	£0	£19,438	£126,829
SCH&H	Corporate Director SCH&H (L Sanders)		£149,811	£10,753	£0	£27,116	£187,680	£70,596	£82	£0	£12,778	£83,455
	Deputy Director Housing Services		£122,448	£41	£0	£22,163	£144,652	£117,924	£0	£0	£21,344	£139,268
	Deputy Director Children & families		£106,155	£0	£0	£19,214	£125,369	£105,000	£399	£0	£19,005	£124,404
	Head of Commissioning Contracts &		£89,391	£534	£0	£16,180	£106,105	£85,754	£112	£0	£15,521	£101,387
	Head of Older Peoples Services		£79,806	£0	£0	£14,445	£94,251	£79,806	£0	£0	£14,445	£94,251
	Head of Disability & Mental Health		£72,150	£0	£0	£13,059	£85,209	£69,251	£0	£0	£12,534	£81,785
Leavers	Head of Corporate Communications	3	£86,988	£32	£0	£15,745	£102,765	£86,988	£0	£0	£15,745	£102,733
	Head of Human Resources	4	£79,624	£0	£0	£14,412	£94,036	£113,415	£0	£0	£20,528	£133,943
	Head of Procurement	5	£65,686	£0	£0	£11,889	£77,575	£94,185	£0	£0	£17,047	£111,232

Note: The Joint Director of Public Health is funded by both the Council and by Hillingdon PCT. The post holder's salary was paid by the PCT and the Council is charged 50% of the salary and associated on-costs. The total payable by the Council to the PCT during the year to 31 March 2012 was £120,980k.

1 - Employment commenced 01 December 2011
2 - Employment commenced 04 April 2011
3 - Post deleted 29 April 2011
4 - Post deleted 30 November 2011
5 - Post deleted 05 December 2011

Notes to Main Financial Statements

35. EXIT PACKAGES

The number of Exit packages that have been agreed by the Council during the year. These packages include redundancy costs, pension contributions in terms of added years remuneration, ex gratia payments and other departure costs. The Council does not award added years pension contributions but Pension Strain is incurred where a pension is taken early without actuarial reduction.

	LBH EMPLOYEES					
Remuneration Band	**2011/12 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	123	681	197	125	1003	396
£20,001 - £40,000	38	393	475	161	1029	238
£40,001 - £60,000	1	9	21	28	58	0
	162	**1083**	**693**	**314**	**2090**	**634**

	LBH EMPLOYEES					
Remuneration Band	**2010/11 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	44	170	59	36	265	66
£20,001 - £40,000	16	142	209	61	412	272
£40,001 - £60,000	3	21	98	24	143	0
£60,001 - £80,000	1	10	21	43	74	0
	64	**343**	**387**	**164**	**894**	**338**

	SCHOOL EMPLOYEES					
Remuneration Band	**2011/12 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	29	124	108	0	232	0
£20,001 - £40,000	2	22	42	0	64	0
	31	**146**	**150**	**0**	**296**	**0**

	SCHOOL EMPLOYEES					
Remuneration Band	**2010/11 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	3	19	12	0	31	0
£20,001 - £40,000	2	20	25	0	45	0
	5	**39**	**37**	**0**	**76**	**0**

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 Education through the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budgets as defined in the schools Finance (England) Regulations 2011. The Schools Budget includes elements for a restricted range of services provided on an council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of the DSG receivable for 2011/12 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000's	**Individual Schools Budget £000's**	**Total £000's**
Final DSG for 2011/12	14,747	162,916	177,663
Brought forward from 2010/11	3,266	0	3,266
Agreed budget distribution in 2011/12	**18,013**	**162,916**	**180,929**
In year adjustments	(458)	0	(458)
Final Budget Distribution	**17,555**	**162,916**	**180,471**
Actual Central expenditure for the year	(17,329)	0	(17,329)
Actual ISB deployed to schools	0	(162,916)	(162,916)
Carried forward to 2012/13	**226**	**0**	**226**

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37. GRANT INCOME

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

	2011/12 £000's	2010/11 £000's
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	20,277	10,703
Area Based Grant	0	15,906
Local Area Agreement Reward Grant	0	2,462
Early Intervention Grant	10,904	0
Council Tax Freeze Grant	2,758	0
Learning Disability & Health Reform Grant	5,781	0
Housing & Council Tax Benefit Subsidy Admin Grant	2,418	0
Other Grants	3,247	0
Total Non Specific Revenue Grants	**45,385**	**29,071**
Revenue Grant Income Credited to Services		
Department of Children, Schools and Families:		
Dedicated Schools Grant (DSG)	177,205	183,340
Pupil Premium	3,157	0
Schools standards fund	2,593	31,740
Refugee children	4,612	5,041
Department of Communities and Local Government:		
NNDR cost of collection	596	611
Department for Work and Pensions:		
Housing Benefits	162,264	156,332
Home Office:		
Adult asylum seekers	1,647	1,137
Other grants	33,638	38,281
Total Grants Credited to Services	**385,712**	**416,482**
Total Revenue Grant Income	**431,097**	**445,553**

	2011/12 £000's	2010/11 £000's
Capital Grant Income credited to the Comprehensive Income and Expenditure Statement		
Disabled Facilities Grant	1,698	1,627
Sports England Grant	100	250
Standards Fund	26,337	13,408
SureStart Capital Grant	0	4,333
Transport for London	3,786	2,601
West London Housing Grant	872	719
London Development Agency (LDA) Capital Grant	0	1,130
HRA Pipeline Grant	2,317	5,741
Local Area Agreement (LAA) Reward Grant	0	1,055
Outer London Fund	93	0
DH Community Capacity	521	0
London Waster & Recycling Board Grant	119	0
RE:NEW Energy Efficiency Grant	174	0
HIV Grant	0	950
Other Capital Grants	0	1,201
Schools Capital Contributions	377	1,773
S106 Contributions	3,501	2,036
Breakspear Crematorium Contributions	0	10
Other Capital Contributions	469	347
Total Capital Grants and Contributions Received	**40,364**	**37,181**

Capital Grant Income amounting to £35,467k (£24,228k in 2010/11) is included within Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. The remaining £4,897k (£12,953k in 2010/11) 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 Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the awarding body should condition for use fail to be met. Revenue grants with these conditions are included within Creditors under the amounts owed to Government Departments. The balances for Capital grants at the year-end are as follows:

	2011/12 £000's	2010/11 £000's
Capital Grant & Contribution Receipts in Advance		
DFE Capital Grants	1,207	6,976
West London Housing Grant	120	107
London Development Agency (LDA) Grant	0	672
HRA Pipeline Grant	0	72
S106	14,284	10,054
Other	46	25
Total Grants Received in Advance	**15,657**	**17,906**

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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in this note.

	2011/12 £000's	2010/11 £000's
Opening Capital Financing Requirement	217,620	213,749
Capital investment		
Property, Plant and Equipment	46,811	43,875
Intangible Assets	38	120
Revenue Expenditure Funded from Capital Under Statute	7,182	15,030
HRA settlement	191,571	0
Sources of finance		
Capital receipts	(4,973)	(4,511)
Government grants and other contributions	(34,640)	(45,548)
Sums set aside from revenue:		
Direct revenue contributions	(2,033)	(434)
Minimum Revenue Provision (MRP)	(4,179)	(3,997)
Other Revenue Provision	(439)	(664)
Closing Capital Financing Requirement	**416,958**	**217,620**
Explanation of movements in year		
Increase in underlying need to borrow :		
- supported by Government financial assistance	0	1,707
- unsupported by Government financial assistance *	199,338	2,165
Increase in Capital Financing Requirement	**199,338**	**3,871**

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. The increase in the CFR of £199.34m in 2011/12 includes £191.57m of HRA settlement debt payable to central government on 28 March 2012.

* The increase in the Capital Financing Requirement is largely attributable to £191,571k of HRA settlement debt. Although the financing cost of this is not directly supported by Central Government, the Council is now able to keep all of its housing rents within the self-financing regime. Under the previous Subsidy System, the Council paid up to £16,000k of housing rents to the CLG each year. This additional revenue supports the financing cost of having to accept settlement debt from Central Government.

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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 Council. Assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet.

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

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

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

__Finance Leases__

Plant, Property and Equipment	**Finance Lease Liabilities**		**Minimum Lease Payments**	
Outstanding obligations on 31 March	**2011/12**	**2010/11**	**2011/12**	**2010/11**
	£000's	£000's	**£000's**	£000's
Within 1 year (2012/13) held in current liabilities	389	431	1,391	1,494
2 - 5 years	1,033	1,164	4,397	4,795
More than 5 years	1,702	1,960	4,238	5,228
Total costs payable in future years	2,735	3,124	8,635	10,023
Total future lease payments	**3,124**	**3,555**	**10,026**	**11,517**

__Operating Leases__

Plant, Property and Equipment	**Operating Lease**	
Outstanding obligations on 31 March	**2011/12**	**2010/11**
	£000's	£000's
Within 1 year (2012/13) held in current liabilities	14	84
2 - 5 years	0	14
More than 5 years	0	0
Total costs payable in future years	0	14
Total future lease payments	**14**	**98**

Operating lease commitments at the start of the year were £84k. However due to additional lease extensions, expenditure of £101.3k in 2011/12 (£112.5k in 2010/11) is contained within the Cost of Services 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
Mitie Property Services	Facilities Management Services	3,438	01/11/2008	31/10/2015
Brophy Grounds Maintenance	Grounds Maintenance	1,146	01/04/2007	31/12/2012
Mouchel Traffic Support Ltd	Parking Enforcement	1,630	04/08/2008	03/08/2013

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

Brohpy Grounds Maintenance - The Council has entered into a contract with Brophy Ground Maintenance to carry out grounds maintenance throughout the North of the Borough

Mouchel Traffic Support Ltd - The Council has contracted Mouchel Ltd to provide Parking Enforcement; patrolling 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 2011/12 the Council paid principal of £257k, interest of £981k and service charges of £1,973k. Current forecasts of future payments, assuming satisfactory performance over the remaining 12 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 (2012/13)	2,248	253	926	3,427
2 - 5 years	11,133	973	3,080	15,186
6 - 10 years	19,593	1,132	2,074	22,799
11 - 12 years	10,027	318	150	10,495
Total	**43,001**	**2,676**	**6,230**	**51,907**

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 48 identifies the asset arising from this PFI.

The charge for the current year was £257k matching the principal repayment. The outstanding liability of the capital value at 31 March 2012 is £2,676k, of this £253k is due within a year and therefore included in creditors and the remaining £2,423k is shown as a deferred liability.

41. CONTINGENT LIABILITIES AND ASSETS

- Employers Liability Claim
At beginning of 2012 an Employment Tribunal upheld a claim, from an employee of London Borough of Hillingdon, of disability discrimination against the Council. It awarded the employee £15k damages for injury to feelings and adjourned a claim for monetary losses until later in 2012.

The employee has now submitted a Schedule of Loss which totals just less than £400k. The employee claims that the Council's discrimination and treatment has caused them to have infirmity with the result that they will never be fit for work again. The Council is currently awaiting the Tribunal's reasons for its decision and are likely to appeal. Once the reasons are received the Council will have 6 weeks to appeal. Furthermore, the employee has still to prove the full extent of their losses.

- 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 abattoir 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 2012 no further correspondence has been received from Persimmon Homes. Persimmon Homes have until November 2013 to bring their claim against the Council.

- New Years Green Lane Landfill Site
During the 1980's the Greater London Council transferred an area of land formerly used as a landfill to Hillingdon Council. The Environment Agency, 'EA' notified the Council that the land at New Years Green Landfill Site, (NYGL) was causing an unacceptable impact to controlled waters including underground waters and a public water supply borehole. Subsequently the landfill site was formally determined as a contaminated land site by the Council for the regulatory control of the EA.

Works in 2011-2012 have been undertaken by the Council's consultants using EA funding to assess the future remedial works. These assessment works are to continue in 2012-2013 and a bid of approximately £50,000 is to be made for EA funding. Funding is not guaranteed if other councils are deemed a higher priority than Hillingdon. It still appears likely that remediation will be necessary when the assessment is completed. Costs for installation work were estimated in 2011 at between £2.6million and £5.9m, these costs have been reviewed in 2012 and a report is pending. All of the assessment work is currently being carried out voluntarily with the EA rather than under a remediation notice. The EA could serve a remediation notice if they are not satisfied with progress at the site.

42. EVENTS AFTER THE BALANCE SHEET DATE

Following the approval of applications for Academy status, four Community schools are expected to become Academies during 2012/13. Under Academy status, such schools would not form part of the Council's accounts and hence will result in significant movements in income, expenditure, schools reserves and current assets for the 2012/13 Statement of Accounts. These schools reported income and expenditure in 2011/12 of £12,911k and £12,805k respectively and held reserves and corresponding current assets of £1,342k at 31 March 2012. In addition the net book value of £26,764k relating to school buildings will be removed from the Council's long term assets.

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, the effective control of risks associated with those activities to achieve optimum performance consistent with those risks.

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

The Council's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement which represents the cumulative capital expenditure of the council that has not been financed from internal resources (see note 39).

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 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 Council'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 Council
- liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council'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 applicable during 2012 in respect of financial assets held by the Council 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 Council'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.

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The table below summarises the amortised value of the Council's investment portfolio at 31 March 2012, and demonstrates that all investments were made in line with the Council's approved credit rating criteria. These are laid out in Note 45.

Outstanding Investments as at 31 March 2012							
			Maturity of Investments				
	Fitch Rating or equivalent at time of Deposit	Fitch Rating or equivalent at 31 March 12	1-3 Months	3-6 Months	6-12 Months	Over 12 Months	Total
UK Banks			£000's	£000's	£000's	£000's	£000's
HSBC	AA F1+ 1	AA F1+ 1	9,001	0	0	0	9,001
Lloyds TSB Bank	AA- F1+ 1	A F1 1	0	2,047	0	0	2,047
			9,001	**2,047**	**0**	**0**	**11,048**
Icelandic Banks							
Heritable Bank	A F1 1	In default Credit Rating Withdrawn	572	985	985	0	2,542
Landsbanki Islands	A F1 2	In default Credit Rating Withdrawn	267	0	0	2,415	2,682
			839	**985**	**985**	**2,415**	**5,224**
Government & Local Authorities							
DMADF	AAA	AAA	8,500	0	0	0	8,500
Birmingham Council	AA+	AA+	19,609	0	0	0	19,609
GLA	AA+	AA+	1,300	0	0	0	1,300
Lancashire Council	AA+	AA+	2,601	0	0	0	2,601
Salford Council	AAA	AAA	2,000	0	0	0	2,000
			34,010	**0**	**0**	**0**	**34,010**
Money Market Funds							
All funds held explicit money market fund ratings of AAA, with at least one of the rating agencies			**26,214**	**0**	**0**	**0**	**26,214**
Total Investments			**70,064**	**3,032**	**985**	**2,415**	**76,496**

The information above provides both current and at time of deposit credit ratings of institutions and durations of outstanding investments held by the Council. At the time investments were placed, the credit rating criteria were 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	Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.	
4	Limited probability of support	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.	
5	Possible support but cannot be relied upon		

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Aged Analysis of other Financial Instruments

Other Financial Instruments		Past Due				
	Not Overdue	1-3 Months	3-6 Months	6-12 Months	Over 12 Months	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Available for Sale	102	0	0	0	0	102
Cash in Hand	19,471	0	0	0	0	19,471
Trade Receivables	4,725	3,265	969	429	1,543	10,931
Total	**24,298**	**3,265**	**969**	**429**	**1,543**	30,504

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 2012			On 31 March 2011		
	PWLB £000's	Market £000's	**Total £000's**	PWLB £000's	Market £000's	**Total £000's**
Nominal Value	308,782	48,000	**356,782**	113,600	48,000	**161,600**
Premium	(3,356)	0	**(3,356)**	(3,379)	0	**(3,379)**
Accrued Interest	986	621	**1,607**	840	623	**1,463**
Amortised Value	306,412	48,621	**355,033**	111,061	48,623	**159,684**

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 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	Debt Maturity at 31 March 2012	**31 March 2012 £000's**	31 March 2011 £000's
Less than 1 year	25%	3.35%	11,884	4,463
Between 1 and less than 2 years	25%	2.90%	10,278	6,000
Between 2 and less than 5 years	50%	6.07%	21,556	11,000
Between 5 and less than 10 years	75%	26.19%	93,000	50,000
Between 10 and less than 20 years	100%	22.53%	80,000	15,000
Between 20 and less than 30 years	100%	15.49%	55,000	0
Between 30 and less than 40 years	100%	2.84%	10,071	0
Between 40 and less than 50 years	100%	7.11%	25,244	25,221
Over 50 years	100%	13.52%	48,000	48,000
Total			**355,033**	**159,684**

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.

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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 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	135
Increase in interest receivable on variable rate investments	(961)
Impact on Surplus or Deficit on the Provision of Services	**(826)**
Share of overall impact credited to the HRA	138
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)	35,167

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 £102k holdings are all classified as 'Available for Sale' and it is expected will not be voluntarily 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: As part of the first distribution from Landsbanki the Council currently has approximately 6,962k Icelandic Krona (ISK) (£34k at exchange rate on 31st March 2012) held in an Icelandic based escrow account. The Council is currently working with the LGA, Bevan Brittan and other affected authorities to research ways of converting the ISK funds.

All remaining financial assets and liabilities are denominated in GBP and thus have 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 2012 £256,782k was at fixed rates and £52,000k 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 £8,000k, £10,000k and £11,000k respectively are scheduled for rate change options.

In order to minimise debt costs the Council only took £7m of its long term borrowing requirement for 2011/12, the remaining requirement was financed from internal resources, thus avoiding the cost of carry presently incurred in the current interest rate environment. Due to the high premiums attached to loans throughout 11/12 there were no opportunities to prematurely redeem or reschedule debt.

Financial Assets

The Council had a weighted average balance of investments (excluding unpaid Icelandic deposits) for 2011/12 of £98,473k. 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 2012 £000's	As at 31 March 2011 £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 Council offers retirement benefits that include retirement pensions, dependent pensions, death grants and lump sum payments. Although these benefits will not actually be payable until employees retire, the Council 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 Council.
- 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 2011/12 employer's common contribution rate was 18.1% plus a lump sum of £850k, and employees contributed at variable rates between 5.5% and 7.5% of pensionable salary. The rates set for the following two years are 20.1% and 21.1%.

Defined Contribution Pension Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme. This fund is administered by the Department for Education and provides teachers with defined benefits upon their retirement. The Council contributes towards the pensions by making payments to the fund based on a percentage of members' pensionable salaries. The employer's contribution rate for 2011/12 was 14.1% (14.1% in 2010/11). The total contribution to the fund by the council in 2011/12 was £9,892k (£12,973k in 2010/11), of this amount £670k was outstanding at 31 March 2012 (£1,082k at 31 March 2011).

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 council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The 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 2011/12, 2010/11 or 2009/10, and £834k paid in respect of on-going payments in 2011/12 (£698k in 2010/11).

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	**LBH Pension Fund of the LGPS**		**LPFA Pension Fund**		**Total**
	31 March 2012 £000's	**31 March 2011 £000's**	**31 March 2012 £000's**	**31 March 2011 £000's**	**31 March 2012 £000's**
Cost of Services:					
Current service costs	18,885	24,451	0	0	18,885
Past service costs	0	(95,470)	0	(100)	0
Settlements and curtailments	(5,632)	1,388	0	0	(5,632)
Total Net Cost Of Services	**13,253**	**(69,631)**	**0**	**(100)**	**13,253**
Financing and Investment and Expenditure					
Interest costs	44,556	50,736	311	332	44,867
Expected return on assets in the scheme	(38,638)	(39,762)	(157)	(179)	(38,795)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**5,918**	**10,974**	**154**	**153**	**6,072**
Amounts to be met from Government Grants and Local Taxation					
Movement on pension reserve	**19,171**	**(58,657)**	**154**	**53**	**19,325**
Actual amount charged against council tax for pensions in the year					
Employer's contributions payable to scheme	19,812	22,213	0	0	19,812
Contributions in respect of unfunded benefits	2,196	2,227	6	9	2,202
	22,008	**24,440**	**6**	**9**	**22,014**

In addition the Comprehensive Income and Expenditure Statement included an actuarial loss of £67,442k in 2011/12 (£104,514k gain in 2010/11). The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement since 2004/05 is £273,971k.

The Council expects to make payments of £20,367k in respect of contributions to the scheme during the financial year 2011/12.

47. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund of the LGPS		LPFA Pension Fund		Total
	31 March 2012 £000's	31 March 2011 £000's	31 March 2012 £000's	31 March 2011 £000's	31 March 2012 £000's
Opening Benefit Obligation	820,944	994,245	5,946	6,158	826,890
Current Service Cost	18,885	24,451	0	0	18,885
Interest Cost	44,556	50,736	311	332	44,867
Contributions by Members	6,957	8,033	0	0	6,957
Actuarial Losses/(Gains)	48,149	(130,116)	75	215	48,224
Past Service (Gains)	0	(95,470)	0	(100)	0
Losses on Curtailments	1,779	1,796	0	0	1,779
Liabilities Extinguished on Settlements	(13,717)	(867)	0	0	(13,717)
Estimated Unfunded Benefits Paid	(2,196)	(2,227)	(6)	(9)	(2,202)
Estimated Benefits Paid	(30,079)	(29,637)	(577)	(650)	(30,656)
Closing Defined Benefit Obligation	**895,278**	**820,944**	**5,749**	**5,946**	**901,027**

Reconciliation of fair value of scheme assets

	LBH Pension Fund of the LGPS		LPFA Pension Fund		Total
	31 March 2012 £000's	31 March 2011 £000's	31 March 2012 £000's	31 March 2011 £000's	31 March 2012 £000's
Opening Fair Value of Employer Assets	575,064	561,122	3,380	3,268	578,444
Expected Return on Assets	38,638	39,762	157	179	38,795
Contributions by Members	6,957	8,033	0	0	6,957
Contributions by the Employer	19,812	22,213	0	0	19,812
Contributions in respect of Unfunded Benefits	2,196	2,227	6	9	2,202
Actuarial (Losses)/Gains	(19,218)	(25,970)	0	583	(19,218)
Assets Distributed on Settlements	(6,306)	(459)	0	0	(6,306)
Estimated Unfunded Benefits Paid	(2,196)	(2,227)	(6)	0	(2,202)
Estimated Benefits Paid	(30,079)	(29,637)	(577)	(659)	(30,656)
Closing Fair Value of Employer Assets	**584,868**	**575,064**	**2,960**	**3,380**	**587,828**

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.

Scheme history

	2011/12	2010/11	2009/10	2008/09	2007/08
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
LBH	(895,278)	(820,944)	(994,245)	(616,469)	(629,809)
LPFA	(5,749)	(5,946)	(6,158)	(5,400)	(5,857)
Fair Value of Assets:					
LBH	584,868	575,064	561,122	400,528	527,441
LPFA	2,960	3,380	3,268	3,510	4,593
Deficit in the scheme:					
LBH	(310,410)	(245,880)	(433,123)	(215,941)	(102,368)
LPFA	(2,789)	(2,566)	(2,890)	(1,890)	(1,264)
Total	**(313,199)**	**(248,446)**	**(436,013)**	**(217,831)**	**(103,632)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £901,027k is offset by the scheme assets of £587,828k to give the net pension liability of £313,199k as disclosed on the balance sheet.

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

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.

	LBH Pension Fund of the LGPS		**LPFA Pension Fund**	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
Financial Assumptions: (% p.a.)				
Pension Increase Rate	2.5%	2.8%	2.5%	2.7%
Long Term Salary Increase Rate	4.8%	5.1%	4.2%	4.5%
Expected Return on Assets	5.6%	6.8%	4.3%	5.1%
Discount Rate	4.8%	5.5%	4.6%	5.5%
Expected Return on Assets by Category:				
Cashflow Matching	N/A	N/A	3.3%	4.4%
Equities	6.3%	7.5%	6.3%	7.2%
Target Return Portfolio	N/A	N/A	4.5%	5.0%
Bonds	4.3%	4.9%	N/A	N/A
Property	4.4%	5.5%	N/A	N/A
Cash	3.5%	4.6%	3.0%	3.0%
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	20.8	20.8	21.0	20.8
- Women	24.1	24.1	23.9	23.8
Longevity at 65 for future pensioners:				
- Men	22.3	22.3	23.0	22.9
- Women	25.7	25.7	25.8	25.7
Take-up of option to convert annual pension to tax free lump sum	50%	50%	50%	50%

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 2012	31 March 2011	31 March 2012	31 March 2011
Categories of assets held:				
Cashflow Matching	0%	0%	32%	35%
Equities	66%	70%	13%	12%
Target Return Portfolio	0%	0%	53%	54%
Bonds	23%	20%	0%	0%
Property	8%	8%	0%	0%
Cash	3%	2%	2%	(1%)

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 2012.

	2011/12	2010/11	2009/10	2008/09	2007/08
Difference between expected and actual return on assets:					
LBH (Gain)/Loss	3.3%	4.2%	(22.9%)	41.2%	15.2%
LPFA (Gain)/Loss	0.0%	(17.2%)	(7.6%)	17.0%	7.9%
Experience gains and losses on liabilities:					
LBH (Gain)/Loss	1.3%	(4.9%)	0.1%	(0.0%)	(2.2%)
LPFA (Gain)/Loss	0.1%	7.1%	(0.2%)	0.3%	14.3%

Other Financial Statements

The Housing Revenue Account (page 94)

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 and other

The Collection Fund Account (page 98)

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

Pension Fund Accounts (page 101)

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. Council's charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Balance.

	Notes	Year ended 31 March 2012 £000's	Year ended 31 March 2011 £000's
Expenditure			
Repairs and maintenance		15,073	11,004
Supervision and management		13,962	15,489
Rents, rates, taxes & other charges		12	53
Increase in provision for bad debts		295	179
Housing Revenue Account Subsidy payable	*4*	15,400	11,319
Debt management costs		495	430
Depreciation and Impairment of non current assets		15,658	206,148
HRA Self Financing Loan Settlement		191,571	0
		252,466	**244,622**
Income			
Gross dwelling rents		(51,147)	(48,126)
Gross non dwelling rents		(1,940)	(1,961)
Charges for services and facilities		(3,261)	(1,961)
Contributions towards expenditure		(1,464)	(1,561)
		(57,812)	**(54,856)**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		194,654	189,766
HRA Services share of Corporate and Democratic Core		626	175
Net Cost of HRA services		**195,280**	**189,941**
(Gain)/Loss on sale of HRA non current assets		(216)	418
Interest payable and similar charges		2,112	1,971
HRA investment income		(116)	(85)
Capital Grant Income		(2,989)	(6,871)
Deficit for the year on HRA services		**194,071**	**185,374**

Depreciation and Impairment of non current fixed assets includes depreciation of £9,128k (10/11 £8,799k) and impairments of £6,530k (10/11 £197,349k).

Movement on the HRA Balance

	2011/12 £000's	2010/11 £000's
Deficit for the year on HRA services	194,071	185,374
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	216	(418)
Capital Grant Income	2,989	6,871
Premium on early redemption of HRA debt	50	94
HRA share of contributions to or from the Pension Reserve	391	0
Capital Expenditure funded by the HRA	74	423
Depreciation and Impairment on Non Current Assets	(7,078)	(197,789)
Transfer to Earmarked Reserves	369	61
HRA Self Financing Loan Settlement	(191,571)	0
Increase in HRA balance for the year	**(489)**	**(5,384)**
HRA Balance Brought forward	(12,923)	(6,045)
Hillingdon Housing Services Balance Brought Forward	0	(1,494)
HRA Reserves carried forward	**(13,412)**	**(12,923)**
HRA Share of earmarked reserves	(369)	(61)
Total HRA Balances	**(13,781)**	**(12,984)**

1. HOUSING STOCK

The Council was responsible at 31 March 2012 for managing dwellings.

The stock was as follows:

	Total Properties at 31 March 2012	Total Properties at 31 March 2011
1 Bed Properties	3,612	3,619
2 Bed Properties	3,679	3,647
3 Bed Properties	2,852	2,858
4 plus Bed Properties	234	221
Total	**10,377**	**10,345**

Notes to Housing Revenue Account

2. VALUE OF HRA ASSETS

	Gross Book Value at 31 March 2012 £000's	Depreciation for Year 31 March 2012 £000's	Accumulated Depreciation to 31 March 2012 £000's	Net Book Value at 31 March 2012 £'000s
Operational Assets				
Council dwellings	503,752	(8,581)	(8,581)	495,171
Other land & buildings	20,437	(433)	(498)	19,939
Vehicle, plant & equipment	949	(114)	(835)	114
Non Operational Assets				
Assets Under Construction	7,612	0	0	7,612
Investment Properties	70	0	0	70
Total	**532,820**	**(9,128)**	**(9,914)**	**522,906**

	Gross Book Value at 31 March 2011 £000's	Depreciation for Year 31 March 2011 £000's	Accumulated Depreciation to 31 March 2011 £000's	Net Book Value at 31 March 2011 £'000s
Operational Assets				
Council dwellings	495,142	0	0	495,142
Other land & buildings	20,553	(326)	(65)	20,488
Vehicle, plant & equipment	949	(114)	(721)	228
Non Operational Assets				
Assets Held For Sale	2,055	0	0	2,055
Assets Under Construction	7,418	0	0	7,418
Investment Properties	70	0	0	70
Total	**526,187**	**(440)**	**(786)**	**525,401**

The vacant possession value of dwellings within the council's HRA as at 31 March 2012 was £1,978m, this differs from the balance sheet value of £495m which is based on the economic use value of social housing. The difference of £1,483m between these two figures shows the economic cost to the Government of providing housing at below open market rents.

For 2011/12 depreciation of £8,581k in respect to Council dwellings, £433k in respect to other land and buildings and £114k in respect of vehicles, plant, furniture and equipment was charged to the HRA.

Council dwellings were revalued in 2010/11 resulting in all depreciation charged within that year being written back

3. CAPITAL EXPENDITURE

Capital Expenditure on HRA council dwellings during 2011/12 totalled £16,048k. This was financed by:

	Total at 31 March 2012 £000's	Total at 31 March 2011 £000's
Revenue contribution	60	423
Major repairs allowance	8,581	8,224
Capital receipts	4,418	1,677
Other contributions	2,989	6,944
	16,048	**17,268**

Capital receipts from the sale of HRA properties during 2011/12 totalled £4,074k of which £1,060k was paid to Central Government under Pooling arrangements and £353k used towards capital financing.

Notes to Housing Revenue Account

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 2010/11 and 2011/12 which was calculated as follows:

	2011/12	2010/11
Expenditure	**£000's**	£000's
Management	7,116	6,878
Maintenance	13,379	12,708
Allowance for major repairs	8,581	8,224
Charges to capital	3,367	1,558
ALMO allowance	0	4,744
Other expenditure	93	22
Income		
Rent	(47,930)	(45,446)
Interest on receipts	(6)	(7)
Subsidy payable to DCLG	**(15,400)**	**(11,319)**

5. RENT ARREARS

At 31 March 2012 the gross HRA rent arrears amounted to £3,873k (£3,638k in 2010/11) of which £3,751k (£3,456k in 2010/11) relates to dwellings and £122k (£182k in 2010/11) to commercial rent.

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2012 was £2,650k (£2,674k in 2010/11). Of this £2,492k (£2,448k in 2010/11) relates to dwellings and £158k (£226k in 2010/11) 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.

	2011/12 £000's	2010/11 £000's
Balance as at 1 April	0	0
Depreciation transferred to reserve	9,128	8,665
Amount used to finance capital expenditure	(8,581)	(8,224)
Transfer to the Capital Adjustment Account	(547)	(441)
	0	**0**

The £547k 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, to be recognised. There was an additional cost requirement of £391k as a cost adjustment for pensions in 2011/12, as the current contributions are below the Pension Reserve adjustment cost of service.

Collection Fund Account

Statement of Income and Expenditure

	Notes	Year ended 31 March 2012		Year ended 31 March 2011	
		£000's	**£000's**	£000's	£000's
Income					
Council tax	*3*		120,224		119,301
Transfers from General Fund for Council Tax benefits	*3*		22,148		21,960
Income collectable from business ratepayers	*6*		325,047		301,154
Income collectable relating to Crossrail	*6*		13,232		12,909
Contribution towards previous years' estimated surplus/(deficit)	*4*		1,837		(984)
			482,488		**454,340**
Expenditure					
Precepts & demands:					
London Borough of Hillingdon	*4*	110,311		109,014	
Greater London Authority	*4*	30,709	141,020	30,347	139,361
Business rates:					
Cost of collection	*6*		625		610
Payment to national pool	*6*		337,654		313,453
Provision for doubtful debts					
Council Tax Write-offs	*7*		(204)		(589)
Council Tax Write-backs	*7*		379		456
Council Tax Provisions	*7*		1,057		(705)
			480,531		**452,586**
(Surplus) for the Year			**(1,957)**		**(1,754)**
COLLECTION FUND BALANCE					
Fund (surplus)/deficit at beginning of year			(745)		1,009
(Surplus) for the year			(1,957)		(1,754)
Fund (surplus) at end of year:			(2,702)		(745)
Analysis of year end deficit:					
Council tax	*5*		(2,702)		(745)
			(2,702)		(745)

Paul Whaymand
Chief Finance Officer
20 September 2012

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. The 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 2011/12 was 99,118 (97,952 in 2010/11) as calculated below.

Band	Estimated number of Properties	Discounts & Exemptions	Net estimated number of Properties	Band D Equivalent Ratio	Band D Equivalent 2011/12	Band D Equivalent 2010/11
A	772	(132)	640	6/9	427	400
B	5,247	(958)	4,289	7/9	3,336	3,317
C	21,397	(2,672)	18,725	8/9	16,644	16,127
D	43,119	(3,186)	39,933	9/9	39,933	39,465
E	17,106	(1,130)	15,976	11/9	19,526	19,395
F	9,046	(522)	8,524	13/9	12,312	12,182
G	4,298	(257)	4,041	15/9	6,735	6,798
H	358	(9)	349	18/9	698	695
	Total				99,611	98,379
	Adjustment for non-collection				(1,295)	(1,279)
	Ministry of Defence (MOD) contribution				802	852
	Council tax base				**99,118**	**97,952**
	Council Tax Rate for Band D (£)				**1,422.75**	**1,422.75**
	Demand on the Collection Fund (£000's)				**141,020**	**139,361**

The Demand on the Collection Fund of £141,020k (£139,361k in 2010/11) represents the anticipated council tax income yield for the year. The actual income yield to the Collection Fund for the year was £142,372k (£141,261k in 2010/11).

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 £1,957k and the contribution towards previous year's estimated surplus of £1,837k are also split accordingly.

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

	Precept/Demand £000's	Share of 31 March 2012 Surplus £000's	**2011/12 £000's**	2010/11 £000's
London Borough of Hillingdon	110,311	94	110,405	111,155
Greater London Authority	30,709	26	30,735	30,944
Total	141,020	120	141,140	142,099

£110,405k is the amount of council tax income included in the Comprehensive Income and Expenditure Statement. The share of the 31 March 2011 surplus of £120k is made up of the surplus on the Collection Fund for the year of £1,957k and the contribution to previous year's surplus of £1,837k.

5. CONTRIBUTIONS TO COLLECTION FUND SURPLUS OR DEFICIT

The surplus of £2,702k relating to the Council Tax will be charged in subsequent financial years to the Council and the GLA in proportion to the value of the respective demands on the Collection Fund.

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 the relevant population. The total non-domestic rateable value at 31 March 2012 was £790,757k. The National Non-Domestic multiplier for the year was 43.3p and 42.6p for small businesses.

	2011/12 £000's	2010/11 £000's
NNDR Income Collectable from ratepayers	338,279	314,063
Cost of Collection Allowance	(625)	(610)
Amount Paid to Central Government Pool	337,654	313,453
NNDR redistributed to Hillingdon Council	(65,599)	(73,708)

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 AND WRITE BACKS

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2011/12 the Council Tax bad debt provision was increased by £1,057k (bad debt provision was decreased by £705k in 2010/11).
The amounts related to irrecoverable debts written off in year are shown below:

	2011/12 £000's	2010/11 £000's
Write Offs:		
Council tax	(204)	(589)
NNDR	(4,204)	(2,390)
Write Backs:		
Council tax	379	456
NNDR	711	201
Total	**(3,318)**	**(2,322)**

Pension Fund Accounts and Net Asset Statement

	Notes	Year Ended 31 March 2012 £000's	Year Ended 31 March 2011 £000's
Contributions	*4*	30,520	31,045
Transfers In	*5*	3,703	3,968
Less: Benefits	*6*	(32,007)	(30,084)
Less: Leavers	*7*	(3,509)	(3,673)
Less: Administrative expenses	*8*	(752)	(738)
Net additions from dealings with members		**(2,045)**	**518**
Investment income	*9*	9,936	9,853
Changes in market value of investments	*10*	14,213	22,872
Taxes on income		(48)	(91)
Investment management expenses	*12*	(3,539)	(3,109)
Net return on investments		**20,562**	**29,525**
Net Increase/(Decrease) in the fund during the year		**18,517**	**30,043**
Net Assets at start of year		**594,333**	**564,290**
Net Assets at end of year		**612,850**	**594,333**

		31 March 2011 £000's	31 March 2010 £000's
Investment Assets	*10*	612,095	596,505
Investment Liabilities	*11*	(544)	(1,911)
Current Assets	*13*	1,956	426
Current Liabilities	*14*	(657)	(687)
TOTAL NET ASSETS		**612,850**	**594,333**

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 Pension Fund Annual Report on pages 21-23 and these accounts should be read in conjunction with this.

Paul Whaymand
Chief Finance Officer
20 September 2012

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

A) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:
- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the borough.

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

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.

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:

Bishop Ramsey School
Bishopshalt School
Douay Martyrs School
Guru Nanak Academy
Harefield Academy
Haydon School
London Housing Consortium
Northwood School
Rosedale Hewens Academy
Stockley Academy
Swakeleys Academy
Uxbridge College
Uxbridge High School
Vyners Academy
Willows Academy

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2012 there were 5,948 active employees contributing to the fund, with 5,378 in receipt of benefit and 5,492 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2012	31 March 2011
Number of employers with active members	23	13
Number of employees in scheme		
London Borough of Hillingdon	4,987	5,170
Other employers	961	869
Total	**5,948**	**6,039**
Number of Pensioners		
London Borough of Hillingdon	4,969	4,818
Other employers	409	369
Total	**5,378**	**5,187**
Deferred pensioners		
London Borough of Hillingdon	4,363	4,305
Other employers	1,129	585
Total	**5,492**	**4,890**

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

The fund is overseen by London Borough of Hillingdon Pension Fund Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2011/12:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Paul Harmsworth
Cllr Richard Lewis
Cllr David Simmons
Cllr Janet Duncan
Mr John Holroyd (Pensioner/Deferred Scheme Member Representative) (Non Voting)
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)

2. BASIS OF PREPARATION

The accounts have been compiled in accordance the CIPFA code of practice on local authority accounting in the United Kingdom 2011/12 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.

3. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of CIPFA 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. Group transfers are accounted for under the agreement which they are made.

Notes To Pension Fund Accounts

3. ACCOUNTING POLICIES (CONTINUED)

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 Net Assets Statement date.

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

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.

Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2012 was £37.07m (£34.93 million at 31 March 2011).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
The items in the net assets statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

item	Uncertainties	Effect if actual results differ from
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the	The total private equity investments in the financial statements are £37 million. There is a risk that this investment may be under- or overstated in the accounts.

Notes To Pension Fund Accounts

4. CONTRIBUTIONS

	31 March 2012 £000's	31 March 2011 £000's
Employers		
Normal	17,566	17,923
Deficit funding	4,954	4,764
Members		
Normal	7,877	8,229
Additional contributions	123	129
	30,520	**31,045**

Deficit Funding:- At the last actuarial valuation as at 31 March 2010 the fund was 78%

Schedule of contributions by body	31 March 2012 £000's	31 March 2011 £000's
Employers		
LB Hillingdon	19,568	21,309
Scheduled Bodies	2,580	979
Admitted Bodies	372	399
Members		
LB Hillingdon	6,905	7,795
Scheduled Bodies	971	445
Admitted Bodies	124	118
	30,520	**31,045**

5. TRANSFERS IN

	31 March 2012 £000's	31 March 2011 £000's
Individual transfers in from other schemes	3,703	3,968

6. BENEFITS

	31 March 2012 £000's	31 March 2011 £000's
Pensions	24,874	23,243
Commutations and lump sum retirement	6,440	5,850
Lump sum death benefits	693	991
	32,007	**30,084**

Schedule of benefits by employer	31 March 2012 £000's	31 March 2011 £000's
LB Hillingdon	31,525	29,666
Scheduled Bodies	386	282
Admitted Bodies	96	136
	32,007	**30,084**

Notes To Pension Fund Accounts

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2012 £000's	31 March 2011 £000's
Refunds of contributions	4	8
State scheme premiums	1	2
Individual transfers out to other schemes	3,504	3,663
	3,509	**3,673**

8. ADMINISTRATIVE EXPENSES

	31 March 2012 £000's	31 March 2011 £000's
Administration and processing	683	630
Audit fee	37	37
Actuarial fee	32	71
	752	**738**

9. INVESTMENT INCOME

	31 March 2012 £000's	31 March 2011 £000's
Dividends from equities	6,132	5,507
Income from index-linked securities	737	461
Income from pooled investment vehicles	1,648	1,594
Interest on cash deposits	83	232
Other (for example from stock lending or underwriting)	1,336	2,059
	9,936	**9,853**

10. INVESTMENT ASSETS

	Value at 1 April 2011 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value at 31 March 2012 £000's
Equities	190,121	75,379	(92,577)	(5,732)	167,191
Government Bonds	0	905	(904)	(1)	0
Index-linked securities	40,560	37,475	(46,277)	7,836	39,594
Pooled investment vehicles	350,726	121,937	(117,239)	7,791	363,215
	581,407	**235,696**	**(256,997)**	**9,894**	**570,000**
Other investment balances	1,459			3,055	4,217
Fund managers' cash	13,639			1,264	37,878
Total Investment Assets	**596,505**			**14,213**	**612,095**

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 £337k (£438k in 2010/11). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Notes To Pension Fund Accounts

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value at 31 March 20112 £000's	Market Value at 31 March 2011 £000's
Adams Street	20,791	19,321
Alliance Bernstein	0	62,177
Goldman Sachs Asset Management	0	65,974
Fauchier	0	25,519
JP Morgan Asset Management	72,012	0
LGT	17,011	16,555
M&G	11,149	5,314
Macquarie	1,205	1,277
Marathon	58,670	58,767
Ruffer	118,378	53,204
State Street Global Advisors	132,251	130,919
UBS	112,777	110,694
UBS (Property)	48,628	45,899
Other*	18,679	(1,026)
Total	**611,551**	**594,594**

* 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 - JPY	12,743	11,511	1,232.00	10/01/2012	13/04/2012
Northern Trust GBP - JPY	2,292	2,131	161.00	13/02/2012	13/04/2012
Northern Trust GBP - JPY	2,406	2,298	109.00	17/02/2012	13/04/2012
Northern Trust GBP - JPY	1,243	1,211	32.00	06/03/2012	13/04/2012
Northern Trust GBP - EUR	26,458	26,397	61.00	08/02/2012	14/05/2012
Northern Trust GBP - USD	5,324	5,262	62.00	13/02/2012	16/05/2012
Northern Trust GBP - EUR	3,319	3,288	31.00	12/03/2012	15/06/2012
Total unrealised gains			**1,688**		

As at 31 March 2012 seven forward foreign exchange contracts were in place for £53,785k with unrealised gains of £1,688k 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.

Investment Assets by Asset Class

	31 March 2012 £000's	31 March 2011 £000's
Equities		
UK quoted	126,322	114,967
Overseas quoted	40,869	78,793
	167,191	**193,760**
Index Linked Securities		
UK Public Sector quoted	13,933	28,922
Overseas Public Sector Quoted	25,661	11,638
	39,594	**40,560**
Pooled Investment Vehicles		
UK Managed funds - other	107,174	122,187
UK Unit Trusts - property	48,076	44,793
Overseas Unit Trusts - other	170,893	145,181
Private Equity	37,072	34,926
	363,215	**347,087**
Other Investment balances		
Forward foreign exchange unrealised gain	1,688	72
Amount due from brokers	1,081	355
Outstanding dividend entitlements and recoverable withholding tax	1,448	1,032
	4,217	**1,459**
Cash deposits		
Sterling	37,878	13,639
	37,878	**13,639**

Note: There are no investments > 5% of the Net Asset Value

Notes To Pension Fund Accounts

10. INVESTMENT ASSETS (CONTINUED)

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 2012 were £5,440k, and as at 31 March 2011 £5,771k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

11. INVESTMENT LIABILITIES

	31 March 2012 £000's	31 March 2011 £000's
Amount outstanding to brokers	544	470
Forward foreign exchange unrealised loss	0	1,441
	544	**1,911**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2012 £000's	31 March 2011 £000's
Administration, management and custody	3,412	3,070
Performance measurement services	4	4
Other advisory fees	123	35
	3,539	**3,109**

13. CURRENT ASSETS

	31 March 2012 £000's	31 March 2011 £000's
Employers' contributions due	151	179
Employees' contributions due	56	71
Debtor: London Borough of Hillingdon	858	52
Debtor: Other Entities	3	10
Cash balances	888	114
	1,956	**426**

NB: The current assets all relate to amounts due from local government bodies with the exception of cash which is held with bodies external to government.

14. CURRENT LIABILITIES

	31 March 2012 £000's	31 March 2011 £000's
Creditor: Other Entities	656	668
Creditor: London Borough of Hillingdon	1	19
	657	**687**

NB: A total of £656,000 is due to bodies external to government, being the investment managers, with all remaining amounts due to local government bodies.

Notes To Pension Fund Accounts

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

Financial Assets	31 March 2012 £000's	31 March 2011 £000's
Fixed Interest Securities	39,594	40,560
Equities	167,191	193,760
Pooled Investments	276,863	266,091
Pooled Property Investments	48,076	44,793
Private Equity/Infrastructure	38,277	36,203
Derivative Contracts	1,687	72
Cash	37,878	13,639
Debtors	2,529	1,387
	612,095	596,505
Financial Liabilities		
Derivative Contracts	0	(1,441)
Creditors	(544)	(470)
	(544)	(1,911)
	611,551	**594,594**

b) Net Gains and Losses on Financial Instruments

Financial Assets	31 March 2012 £000's	31 March 2011 £000's
Fair Value through profit and loss	30,589	27,085
Financial Liabilities		
Fair Value through profit and loss	(16,376)	(4,213)
	14,213	**22,872**

c) Fair Value of Financial Instruments and liabilities

Financial Assets	31 March 2012 £000's Fair Value	31 March 2012 £000's Carrying Value	31 March 2011 £000's Fair Value	31 March 2011 £000's Carrying Value
Fair Value through profit and loss	570,000	522,461	581,407	501,641
Loans and receivables	42,095	27,292	15,098	13,926
Total Financial assets	**612,095**	**549,753**	**596,505**	**515,567**
Financial Liabilities				
Fair Value through profit and loss	(544)	(544)	(470)	(470)
Loans and receivables	0	0	(1,441)	0
Total Financial Liabilities	**(544)**	**(544)**	(1,911)	(470)

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2012	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Totals £000s
Financial assets at fair value through profit and loss	484,187	48,075	49,404	581,666
Loans and Receivables	29,059	576	794	30,429
Total Financial Assets	**513,246**	**48,651**	**50,198**	**612,095**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(544)	0	0	(544)
Total Financial Liabilities	**(544)**	**0**	**0**	**(544)**
Net Financial Assets	**512,702**	**48,651**	**50,198**	**611,551**

Values as at 31 March 2011	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Totals £000s
Financial assets at fair value through profit and loss	467,369	44,793	69,245	581,407
Loans and Receivables	12,983	1,127	988	15,098
Total Financial Assets	**480,352**	**45,920**	**70,233**	**596,505**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(1,911)	0	0	(1,911)
Total Financial Liabilities	**(1,911)**	**0**	**0**	**(1,911)**
Net Financial Assets	**478,441**	**45,920**	**70,233**	**594,594**

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

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. This fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

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

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Other price risk - Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy statement.

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	15.60%
Overseas quoted equities	14.70%
UK Public Sector quoted Index-Linked Securities	6.00%
Overseas Public Sector quoted Index-Linked Securities	6.00%
UK Managed funds - other	15.60%
UK Unit Trusts - property	4.70%
Overseas Unit Trusts - other	14.70%
Private Equity	3.30%

The potential price changes disclosed above are broadly consistent with a one-third standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Asset type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash equivalents	37,878	0.00	37,878	37,878
Investment Assets				
UK quoted equities	126,322	15.60	146,027	106,617
Overseas quoted equities	40,869	14.70	46,877	34,861
UK Public Sector quoted Index-Linked Securities	13,933	6.00	14,769	13,097
Overseas Public Sector quoted Index-Linked Securities	25,661	6.00	27,201	24,121
UK Managed funds - Equities	56,402	15.60	65,201	47,603
UK Managed funds - Bonds	50,772	6.00	53,818	47,726
UK Unit Trusts - property	48,076	4.70	50,335	45,815
Overseas Unit Trusts - Equities	110,429	14.70	126,662	94,196
Overseas Unit Trusts - Bonds	59,259	6.00	62,815	55,703
Private Equity/Infrastructure	38,277	3.30	39,040	36,546
Net Derivative assets	1,688	0.00	1,688	1,688
Investment income due	1,448	0.00	1,449	1,449
Amounts receivable for sales	1,081	0.00	1,081	1,081
Amounts payable for purchases	(544)	0.00	(544)	(544)
Total Assets Available to pay benefits	**611,551**		**674,297**	**547,837**

Asset type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash equivalents	13,639	0.50	13,707	13,571
Investment Assets				
UK quoted equities	114,967	20.50	138,535	91,399
Overseas quoted equities	78,793	21.60	95,812	61,774
UK Public Sector quoted Index-Linked Securities	28,922	10.70	32,017	25,827
Overseas Public Sector quoted Index-Linked Securities	11,638	10.70	12,883	10,393
UK Managed funds - Equities	84,390	20.50	101,690	67,090
UK Managed funds - Bonds	37,797	10.70	41,841	33,753
UK Unit Trusts - property	44,793	12.00	50,168	39,418
Overseas Unit Trusts - Equities	97,985	21.60	119,150	76,820
Overseas Unit Trusts - Bonds	45,921	10.70	50,835	41,007
Private Equity/Infrastructure	36,201	4.90	37,975	34,427
Net Derivative assets	(1,369)	0.00	(1,369)	(1,369)
Investment income due	1,032	0.00	1,032	1,032
Amounts receivable for sales	355	0.00	355	355
Amounts payable for purchases	(470)	0.00	(470)	(470)
Total Assets Available to pay benefits	**594,594**		**694,161**	**495,027**

Notes To Pension Fund Accounts

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

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 and cash. Based on interest received on Fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2012	31 March 2011
	£000's	£000's
Cash and cash equivalents	11,667	6,743
Cash	26,211	6,896
Fixed Interest Securities	149,625	124,278
Total	**187,503**	**137,917**

Interest rate risk sensitivity analysis - The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Carrying amount as at 31 March 2012	Change in the net assets available to pay benefits	
		1%	-1%
	£000s	£000s	£000s
Cash and cash equivalents	11,667	117	-117
Cash	26,211	262	-262
Fixed Interest Securities	149,625	1,496	-1,496
Total change in assets available	**187,503**	**1,875**	-1,875

Asset Type	Carrying amount as at 31 March 2011	Change in the net assets available to pay benefits	
		1%	-1%
	£000s	£000s	£000s
Cash and cash equivalents	6,743	67	-67
Cash	6,896	69	-69
Fixed Interest Securities	124,278	1,243	-1,243
Total change in assets available	**137,917**	**1,379**	**-1,379**

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 2012 the Fund had a 100% Euro hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end.

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value as at 31 March 2012	Asset value as at 31 March 2011
	£000s	£000s
Overseas quoted Securities	40,869	78,793
Overseas Corporate Bonds	59,259	45,921
Overseas Index-linked Bonds	25,661	11,638
Overseas managed funds	110,429	97,985
Private Equity/Infrastructure	38,277	36,201
	274,495	**270,538**

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data analysts and provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 10%, based on the data provided by WM. A 10% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 10% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure by asset type

	Asset value as at 31 March 2012	Change in the net assets available to pay benefits	
		+10%	-10%
	£000s	£000s	£000s
Overseas quoted Securities	40,869	44,956	36,781
Overseas Corporate Bonds	59,259	65,185	53,333
Overseas Index-linked Bonds	25,661	28,227	23,095
Overseas managed funds	110,429	121,472	99,386
Private Equity/Infrastructure	38,277	42,105	34,449
	274,495	**301,945**	**247,045**

Currency exposure by asset type

	Asset value as at 31 March 2011	Change in the net assets available to pay benefits	
		+13%	-13%
	£000s	£000s	£000s
Overseas quoted Securities	78,793	89,036	68,550
Overseas Corporate Bonds	45,921	51,891	39,951
Overseas Index-linked Bonds	11,638	13,151	10,125
Overseas managed funds	97,985	110,723	85,247
Private Equity/Infrastructure	36,201	40,907	31,495
	270,538	**305,708**	**235,368**

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

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's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

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 AAAm rated Northern Trust Money Market Fund and SSgA Sterling Liquidity sub-Fund which offers the benefits of a diversified pool of underlying investments, ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2012 was £29.5million (31 March 2011: £6.8million) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2012	Rating	Balances as at 31 March 2011
Money market funds		**£000**		**£000**
Northern Trust Global Sterling Fund A	AAAm	17,494	AAAm	0
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	11,667	AAAm	6,743
Bank current accounts				
HSBC Plc	AA-	388	AA	114
Total		29,549		6,857

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 2012 these assets totalled £532.2m, with a further £29.5m held in cash by fund managers.

Notes To Pension Fund Accounts

17. 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%

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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 IAS 19. The general financial assumptions used in preparing the IAS26 valuation are summarised below:

Description	**31 March 2012 % P.a.**	**31 March 2011 % P.a.**
Inflation /Pensions Increase Rate	2.5%	2.8%
Salary Increase Rate	4.8%*	5.1%**
Discount Rate	4.8%	5.5%

*Salary increase are assumed to be 1% p.a. until 31 March 2015 reverting to long term assumption shown thereafter

**Salary increase are assumed to be 1% p.a. until 31 March 2013 reverting to long term assumption shown thereafter

An IAS 26 valuation was carried out for the fund as at 31 March 2012 by Hymans Robertson LLP with the following results:

Description	**31-Mar-12 £000**	**31-Mar-11 £000**
Present Value of Promised Retirement Benefits	889,000	800,000
Assets	612,394	594,333
Deficit	276,606	205,667

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net asset Statement surrounding future liabilities of the fund.

19. 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 (4) to the Pension Fund accounts. The Council provides administration services for the pension fund. In 2011/12 a charge of £683k (£630k in 2010/2011) was made for these services.

No senior officers or Pension committee member had any interest with any related parties to the pension fund.

Notes To Pension Fund Accounts

19. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There are five members of the pension fund committee who are active members of the pension fund. These members are Cllr Philip Corthorne (Chairman), Cllr David Simmons, Cllr Paul Harmsworth, Cllr Janet Duncan and Cllr Richard Lewis. Each member is required to declare their interest at each meeting.

Key management personnel

Two key employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension as at 31 March 2012	Accrued pension as at 31 March 2011
Paul Whaymand, Chief Finance Officer	£657,921.03	£498,547.69
Nancy Leroux, Senior Service Manager - Corporate Finance	£442,102.60	£352,467.69

20. 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 2012, securities worth £19,575k were on loan by Northern Trust from our portfolio and collateral worth £28,285k was held within the pool including Hillingdon. In the same period, a net income of £44.4k was received.

21. 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.

22. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2011/12.

23. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2012 totalled £53.8m (31 March 2011: £65.5m).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

24. CONTINGENT ASSETS

Three admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

London Borough of Hillingdon

Annual Governance Statement 2011-12

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 include 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 2012 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. There is a new ethical framework governing the conduct of members and co-opted members, introduced by the Localism Act 2011, which came into force on 1st July 2012. 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 and a Code of Conduct for Members and Co-opted Members

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. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Director's responsibilities.

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. This is periodically updated to reflect the changes to Director's responsibilities in line with business priorities.

3.5. Part 5 of the Constitution sets out formal **'Codes of Conduct'** governing the behaviour and actions of all elected Council members and Council officers. An updated 'Code of Conduct for Members and Co-opted Members' was adopted on 5 July 2012 to meet the provisions of the Localism Act 2011. The code ensures that councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority regularly reviews the code and guidance to ensure these requirements reflect changes to the Council structure.

3.6. **A Member training programme** is devised for each municipal year. Given that there is a new ethical regime in place for Members and Co-opted Members of the Council, training on the new Code of Conduct has been arranged for September/October 2012 and it will be delivered by the Borough Solicitor and Head of Democratic Services. Complaints about a breach of the Code will be handled in accordance with the requirements of the Localism Act 2011. A Whips Protocol has been introduced as part of the new framework and complainants are now expected to use it first, with complaints only be escalated to the Monitoring Officer and Standards Committee if they cannot be resolved through this process. The Council has also put in place a comprehensive induction and training programme for elected councillors along with specific training on risk, scrutiny, planning and licensing rules. This includes a personal development tool-kit and knowledge library.

3.7. **A Code of Corporate Governance** sets out the London Borough of Hillingdon's governance structure, decision making process and areas of responsibility. Originally adopted in 2002, the code reflects the authority's governance structure and corporate responsibilities, and 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 Member 'Register of Interests'** 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 Our 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 programmes, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and the financial and service planning process (Medium Term Financial Forecast).

3.12. **The Hillingdon Improvement Programme (HIP)** is Hillingdon's strategic improvement programme which aims to deliver excellence as set out in the Council vision – ‘Putting Our Residents First’. The HIP Vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. HIP has helped to change the culture of the organisation and to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from customer care, waste and recycling services, libraries, our primary and secondary schools and how well our residents feel informed, through regular feedback. HIP is consistently trying to improve Hillingdon by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance Hillingdon's reputation. 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 HIP projects.

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 £69 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)** sets out the Local Strategic Partnership aims and ambitions for the London Borough of Hillingdon over the next 10 years. The Local Strategic Partnership (Hillingdon Partners) has overall responsibility for the Sustainable Community Strategy; the priorities have been reviewed and updated to reflect the changing circumstances of the borough.

3.16. **Hillingdon Partners** reviewed its structure and governance arrangements following the abolition of the Comprehensive Area Assessment and the Local Area Agreement. The review agreed to focus partnership work around key priorities, and streamline delivery theme groups and arrangements for reporting partnership performance and risk.

3.17. **A Joint Strategic Needs Assessment** (JSNA) outlines the current and future health and wellbeing needs of the population over the short-term (three to five years) and informs service planning, commissioning strategies and links to strategic plans such as the Sustainable Community Strategy. Following a redesign of the JSNA in 2011, further work has been undertaken to refresh the content in 2012 to reflect changes in regional and local data and to ensure it functions as a flexible and comprehensive needs assessment. The JSNA is ‘live’ and can be accessed via the Council’s website and as such can be updated throughout the year rather than refreshed annually.

3.18. **An independent Audit Committee** 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 a Council-wide framework requiring service areas and teams to set annual team plans, targets, identify risk and report performance against Council priorities and SCS priorities. Performance is monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.

3.20. The London Borough of Hillingdon has established an effective **risk management system**, including:

- **A corporate risk management framework** outlining the, roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. Team, directorate and corporate risk registers enable the identification, quantification and treatment of risks against the Council'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. The framework is reviewed annually.

- **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.

- **Risk management training** is provided when required. An e-learning training package is in place and accessible for all staff and is included in the induction programme.

3.21. 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.

3.22. **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.

3.23. The London Borough of Hillingdon operates a system to **monitor legislative changes** and ensure that the authority is fully compliant with laws and regulations. During 2011-12 the Council has undertaken a project to prepare for the implementation of the Localism Act 2011 by designing and establishing new mechanisms and procedures to meet the provisions.

3.24. **Hillingdon's training and development programme** enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon' to ensure they have the skills, knowledge & behaviours to deliver the Councils priorities. This includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework. In addition, the Hillingdon Academy is now well established as a leadership programme aimed at providing the Council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.

3.25. The **Performance and Development Appraisal (PADA)** process, completed by all officers and senior managers, 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. Hillingdon has a set of **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out Hillingdon's commitment to engage, consult and respond to the views of local communities. The standards also support Hillingdon's commitment to transparency and the need for sharing information with residents. Resident and stakeholder feedback supports and informs corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. An annual customer engagement plan is in place covering all Council services to align customer engagement to support the delivery of Council priorities

3.27. **Hillingdon's Pride of Place** initiative encourages residents to contribute their ideas on neighbourhood improvements so that they can feel PROUD to live in Hillingdon. The aim is to raise civic pride by showing how residents can make a real difference and contribute directly to a range of activities and specific projects to improve their local area. The initiative brings together other successful programmes such as 'Street Champions' and 'Chrysalis', and gives residents the opportunity to meet informally with their ward councillors and discuss improvements directly with Council officers through a variety of community engagement events across the borough.

3.28. The Council has in place a well-established **Petition Scheme**, including e-Petitions. This is widely used by people in the borough to submit their views on local matters directly to decision-makers.

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 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 2012 and, except for the internal control issues detailed in section 5, management and control systems are operating effectively in accordance with good practice.

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 and Enforcement 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 2011-12.

4.5. Internal control assurance statements were received from all Service Directors and Heads of Service covering the financial year 2011-12. 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 £23.313 million as at 31 March 2012.

4.7. The London Borough of Hillingdon has a clear commitment to a capable and fit for purpose procurement function. Working through a co-located business partner model, Procurement ensures a best value approach to expenditure commitment. By engaging with directorates, Procurement supports the delivery of financial and service level requirements to meet the wider corporate objectives with a ‘Resident First’ approach. Progress and performance of Procurement delivery is regularly reviewed with directorate Senior Management Teams and the Corporate Management Team. Processes and procedures are regulated through revised Procurement & Contract Standing Orders enabling the appropriate oversight of decisions.

4.8. Implementation of performance measures ensures that each area achieves its targets in service delivery, financial control, and good governance.

4.9. Throughout 2011-12 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
- Adopting an updated Code of Conduct for Members and Co-opted Members
- Updating the scheme of delegations for each directorate

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 2010-11 AGS have been resolved, except that:

- The water management strategy has not yet been implemented as the considerable investment of time and resources in water management outweigh the savings benefits when compared to other areas of the Council’s energy spend.

- Historic weaknesses were identified in the monitoring and control of some construction projects. Some weaknesses have been addressed. Work is continuing to ensure that all processes and procedures are robustly applied.

Following a review of the effectiveness of the system of internal control the following governance issues have been identified in 2011-12:

- An investigation into an attempted fraud found that payment system procedure controls were in place but not consistently applied. The procedure has been reviewed, re-written and validated by Internal Audit. A formal validation of the procedures has been carried out as part of a full audit.

- Investigations highlighted a lack of transparency in the historic financial reporting on some housing construction projects. Corporate finance comments are now being added to Cabinet Member reports to improve control. In addition, there is ongoing work in the area of housing supply and it is likely that other substantial changes in processes and procedures will be needed in the coming year.

- Following a recent data protection issue, it was recognised that data protection policies need to be refreshed and disseminated to staff. This is being addressed via a corporate programme of actions under the auspices of the Hillingdon Information Assurance Group (HIAG) chaired by the Deputy Chief Executive and Director for Corporate Services.

- Non compliance issues were raised relating to providing alternative education for those children not in school (Section 19 Education Act 1996). This has been addressed through a review of the Fair Access Protocol and through provision of alternative education which involves other services areas. There have been improvements and the process and protocol will be monitored on a regular basis.

- As part of the ongoing changes to the organisation as part of the BID process, there is a need to constantly review and update policies and procedures to take account of the change in roles and responsibilities.

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 — 20 September 2012

Cllr Ray Puddifoot
Leader of the Council — 20 September 2012

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.

INVENTORIES - The amount of unused or unconsumed stocks held in expectation for future use.

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

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

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

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

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.

SERCOP - Service Reporting Code of Practice

SOLACE - Society of Local Authority Chief Executives

SPECIFIC GRANTS - These are grants paid by various government departments outside the main formula. They include ring-fenced grants and specific formula grants.

SURPLUS ASSETS - Assets which are no longer in use by the Authority but which are not being actively marketed and are not expected to be sold within the next financial year.

TAXBASE - The number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

TRANSFER VALUE - A payment one superannuation fund makes to another when a member changes employment.

TRUST FUNDS - Money held in trust by the Council for a specified purpose.

USABLE RESERVES - Balances held by the Council which can be used to meet service expenditure.

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.