London Borough of Hounslow

Statement of Accounts 2012-13

LONDON BOROUGH OF HOUNSLOW

STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2013

Contents

PART1: FOREWORD

Accounting Statements

The pages that follow are the Authority's accounts for 2012/13 and comprise:

- **Comprehensive Income and Expenditure (CI&E) Statement** – This reports the cost of performing the Authority's functions on the basis of International Financial Reporting Standards (IFRS) and shows how that cost is financed from charges made by the Authority, Council Tax and Central Government. The transactions required under statute and the use of the Authority's own reserves are shown separately in the Movement in Reserves Statement and accompanying notes.
- **Movement in Reserves Statement –** This records the increases and decreases in the Authority's reserves during the course of the year, including surpluses or deficits of expenditure and income and transfers between reserves.
- **Statement of Accounting Policies** – This explains the basis of the figures in the accounts.
- **Housing Revenue Account –** This records the Authority's statutory obligation to account separately for the costs of its landlord role. It shows the major elements of housing revenue expenditure - maintenance, administration, rent rebates - and how these are met by rents, housing subsidy and other income.
- **Collection Fund** – This shows the transactions of the Authority as a billing authority in relation to non-domestic rates and the council tax and illustrates the way in which they have been distributed to precepting authorities and the comprehensive income and expenditure statement. The Council's share of the Collection Fund is consolidated with other accounts of the Authority.
- **Balance Sheet** – This statement records the Authority's year-end financial position at 31 March. It shows the assets owned, and amounts owed in the long term, as well as the net current assets and liabilities, and the reserves at the Authority's disposal. It excludes trust funds held on behalf of individuals and organisations and the Pension Fund.
- **The Cash Flow Statement** – This summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes.
- **The Group Accounts –** This provides a group comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement for the Authority and its subsidiaries – Hounslow Homes, David Henry Waring Home and Bedfont Lakes Trust. The notes to the accounts are only restated where they are materially different from the Authority's individual accounts.
- **Pension Fund Revenue Account and Net Assets Statement** – The Revenue Account shows the contributions to the fund during 2012/13 and the benefits paid from it. The Net Assets Statement sets out the financial position for the Fund as at 31 March. The Authority acting as trustee separately manages the fund and its accounts are separate from the Authority's accounts.
- **Statement of Responsibilities for the Statement of Accounts –** This sets out the responsibilities of the Council and the Chief Financial Officer in respect of the preparation of the accounts.

General Fund revenue spend in 2012/13

The Authority set an original budget for 2012/13 including levies and contingencies of £180.3m. This included schools, which are fully funded by central government via the Dedicated Schools Grant. Amendments to this budget to adapt to changing circumstances, in particular to reflect reorganisation decisions, were reported to Cabinet as part of the monthly revenue monitoring reports. The table below shows how the revised budget was allocated across the Council's departments and how much was spent in each service.

Department	Net Budget	Out Turn	Variance
	£m	£m	£m
Chief Executive Department	7.0	6.4	(0.6)
Corporate Resources	18.1	18.0	(0.1)
Children's and Adults' Services	88.2	87.5	(0.7)
Regeneration, Economic Development and Environmental Services	52.4	52.4	0.0
Service Expenditure	**165.7**	**164.3**	**(1.4)**
Other Items	14.6	4.2	(10.4)
Other contribution to Balances		11.8	11.8
Budget Requirement	**180.3**	**180.3**	**0.0**

Overall, the General Fund service areas of the Authority achieved a net £11.8m underspend for 2012/13 from which a £10m contribution was made to the pension fund. The underlying underspend was largely due to the following factors:

- Under spend on salaries due to vacant posts and slippages in recruitment
- Reduced payments to voluntary organisations as services/programmes outcomes not delivered.
- Additional monies received from Health, alongside a net under spend on adult social care in-house services.
- Under spend on growth for new initiatives (earmarked for future years).
- Under spend on inflation and external pressure budgets.
- Increased treasury management income.
- Reduced treasury management costs on borrowing.

Although there has been a large under spend in 2012/13, it is not expected to be of the same extent in 2013/14 as £4.0m has been offered as a 2013/14 saving and £3.0m has been allocated for future investment in services.

The Cabinet received regular monitoring reports during the year. The main issues identified and reported to Cabinet as part of this process are described below:

- Adult Social Care - increased demand and cost pressures.
- Home to School Transport - increased demand due to an increase in the number of pupils using this service.
- Looked after Children External Placements – increased demand based on current known placement commitments, SEN placements, secure placements and mother & baby placements.
- Temporary Accommodation – increased cost pressure due to rise in the use of Bed and Breakfast (B&B) accommodation.
- Parking & Highways – lower than budgeted income. The pressures noted within Highways were as a result of moving to the new PFI arrangement and was met through the use of specific monies set aside to implement and mobilise the contract.

Capital spending in 2012/13

The Authority's capital spending in the year amounts to £46.1m (2011/12:£54.2m) as set out in the following statement.

Department	Expenditure	
	2012/13	2011/12
	£m	£m
Children’s and Adults’	15.3	13.0
Regeneration, Economic Development and Environment	30.8	41.2
Corporate Resources	-	-
Total	**46.1**	**54.2**

The major capital schemes in 2012/13 were:

- The main education projects were the expansion works undertaken at Hounslow Town and Isleworth Primary Schools as well as Chatsworth Infant, Nursery and Junior School.
- The main housing developments include the ongoing Heston and Manor Lane Estate Regenerations a long with an extensive ongoing investment programme for existing housing stock.
- The Sandbanks Older People’s Centre redeveloped has been completed providing better facilities for older people.
- A highways improvement programme was completed to bring some of the boroughs most dilapidated roads to the condition required for the start of the Highways PFI which began in January 2013.

The Authority’s capital spend is funded through a mixture of grant funding, capital receipts, revenue contributions or borrowing (see Note 32 of the Statement of Accounts). The Authority’s current borrowing facilities are £293.0m for 2013/14 (£307.1m for 2012/13 and £308.5m for 2011/12).

Financial Issues Affecting 2012/13

Accounting for pensions

The Authority records costs related to its pension schemes when they are earned by employees. However, the charge that the Authority is required to make to the general fund is based on the cash payable in the year. In accordance with IAS19, the Authority's balance sheet recognises a liability of £283.6m at 31 March 2013 (£286.3m at 31 March 2012). This represents liabilities of £280.7m (£284m at 31 March 2012) for the London Borough of Hounslow Pension Fund and £2.9m (£2.3m at 31 March 2012) for the London Pension Fund Authority Scheme. More information about the costs and accounting treatment for the Authority's pension schemes is set out below and in Note 15 of the Statement of Accounts.

Material amounts affecting the 2012/13 Statement of Accounts

The 2012/13 Statement of Accounts includes the impact of several material amounts in the Authority's main financial statements, including the Comprehensive Income and Expenditure Statement and the Balance Sheet as set out below.

Material amounts reflecting a real transfer of assets and changes to expenditure and income

The 2012/13 Statement of Accounts includes the following material transactions:

- Three schools transferred to Academy status during 2012/13 (six transferred in 2011/12). From the point at which schools become academies, they are largely financially independent of the Authority. Income and expenditure in respect of these schools is only included in the Authority's accounts up to the date on which they entered into Academy status. Schools that have become Academies will receive Dedicated Schools Grant and other funding direct from the Department for Education. In addition, school buildings, together with the relevant school reserves and any other relevant assets or liabilities are transferred to the schools, and so will not be included in the Authority's balance sheet.
- A one-off £10m payment was made into the London Borough of Hounslow Pension Fund. Accounting rules applying to pension contributions mean that this payment does not have an impact on the Comprehensive Income and Expenditure Statement. Instead, the contribution is charged as a cost to the general fund through the Movement in Reserves Statement. This cost forms part of the employer's pension contributions paid figure. More information about the pension fund costs, assets and liabilities can be found in Note 15.

More details are set out in Note 6 of the Statement of Accounts.

Material Amounts in respect of Technical Accounting Adjustments

The 2012/13 Statement of Accounts also includes the impact of two material amounts in the Comprehensive Income and Expenditure Account which relate to the application of accounting practices rather than in-year expenditure. These are:

- The overall deficit position on London Borough of Hounslow Pension Fund scheme would have been £290.7m as at 31 March 2013 (an increase of £6.7m from 31 March 2012), however a one-off £10m contribution has been made into the scheme following the 2012/13 outturn and this has resulted in a decrease in the pension fund liability to £280.7m as at 31 March 2013 (an overall decrease of £3.3m)..
- The Authority's non-current assets have been revalued in accordance with the accounting policies resulting in a net downwards movement in net book value of £62.678m. Of this, £47.7m has been reflected as an exceptional item and shown on a separate line within the Net cost of Services shown in the Comprehensive Income and Expenditure Statement. The downwards revaluation is due to an overall reduction in property values in 2012/13.

Outlook for 2013/14

The Authority was able to reduce its element of council tax for 2013/14 by 0.5%, giving a band D council tax of £1085.20. The London Mayor also reduced its element of council tax, resulting in a GLA precept of £303.00 on a Band D property.

Highways PFI

The Authority signed a PFI contract for the maintenance and updating of all the highways and street lighting and associated infrastructure (a 'fence to fence' contract) that came into affect from 1 January 2013. The contract is for 25 years. The total cost is estimated at around £600m. In the first five years of the contract there will be substantial investment to improve the overall condition of the borough's highways, followed by further ongoing lifecycle works over the remaining twenty years of the contract. The Council will also receive grants from central Government estimated at £320m over the life of the contract which will fund the debt servicing costs of the capital expenditure over the contract life.

This contract is larger than any other that the Council has entered into, and there are therefore inherent risks due to its overall cost and duration. The Council has taken a number of steps to minimise these risks, including the use of the Government approved standard form of PFI contract, plus the use of advisors to give assurance on the viability of the scheme. The scheme will be delivered by one main contractor (Vinci-Ringway) and this option is expected to minimise the risk inherent in employing a number of different contractors for different highway activities and possible conflicts of interest. It also encourages economies of scale and significant efficiencies. The contract is being managed by a senior level Partnership Board and is designed to encourage collaborative working between the Authority and the new service provider. The contract does contain remedies, and financial deductions if appropriate, for below standard performance.

A number of staff previously employed by the Council whose service areas are now being provided by the PFI scheme transfered to the new service provider, while a small number of Highways staff remained with the Council to provide overall management of the contract, plus any other services which will not be covered by the contract.

The annual payments to the PFI provider are called the 'unitary charge' and will be met from the Highways budget. Specific accounting practices apply to PFI contracts, which require a proportion of these payments to be treated as a finance lease. The capital expenditure over the life of the contract is being added to the Council's balance sheet as an asset in the year in which it is incurred, in the same way as capital expenditure undertaken using more traditional funding methods. More details about the PFI costs for 2012/13 and the impact of the contract in future years are set out in Note 34. The estimated capital expenditure will be included as a capital scheme within the Council's Capital Programme from 2013/14 onwards, and progress on the scheme will be monitored in the Council's capital programme reporting systems.

Transfer of Public Health function

The successful transfer of a range of public health services from the NHS to the Council resulted in the Council securing funding from central government to provide public health services within the borough. A public health and wellbeing business plan is currently being finalised which will set out the strategy of how the Council will develop, promote and deliver future public health services for local residents.

Community Infrastructure Levy

The Planning Act 2008 introduced the Community Infrastructure Levy (CIL), a charge on all developments with an area greater than 100m^2 and all new residential units. The charge is effective from 1 April 2012. The Government's aim is to enable local authorities to implement charges to reflect the impact of that development on the area. In London, there may be two levels of CIL charges for each development, one payable to The Mayor of London, and one payable to the relevant local authority. In addition, there is discretion for different levels of CIL charges to be levied across and within individual boroughs.

The Mayor of London has set a CIL charge of £35 per square metre. The charge, which will be used towards funding Crossrail, will be collected by the Authority on behalf of the GLA. The CIL charge will gradually replace the S106 contributions which were previously paid by developers, but it will apply to many more developments than the S106 charge. The Authority is currently reviewing its strategy for implementing its own CIL charge, with outline proposals being developed to introduce this in 2015, subject to examination of the borough's needs and completion of statutory consultation process.

Council Tax Localisation

Changes by Central Government for the payment and administration of Council Tax Benefit (CTB) were introduced with effect from 1 April 2013, as part of the wider welfare reforms. CTB has been abolished and replaced with a Local Support Scheme. To coincide with this there will be an overall 10% cut to the national funding available.

CTB expenditure for the Authority during 2012/13 was approximately £25m per annum. If the Authority were to replicate the existing scheme it is likely that there would be a £2.5m shortfall in subsidy funding. As a result, under the new Council Tax Support scheme, all customers of working age will have to make some payment towards their Council Tax as the maximum help available has been limited to 91.5%. This scheme will be reviewed annually.

Conclusion

In a time of significant change for the Authority, the successful delivery of savings in 2012/13, and the ability for the Council to reduce its council tax for 2013/14, highlights the efforts being made to ensure the sound financial management of the Council. This strength will be important for the next few years as further reductions in Government support for local authorities are expected.

PART2: MAIN LOCAL AUTHORITY FINANCIAL STATEMENTS

Amounts Reported for Resource Allocation Decisions – Directorate Analysis

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 for Local Authorities (SeRCOP). However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Directorates. These reports are prepared and monitored on a different basis from the accounting policies used in the financial statements.

The Authority is now entering the final stages of a major reorganisation of its directorate structure. The Directorate analysis in the following table is based on a structure that was implemented during 2012/13. The most significant difference between this and the structure set out in the 2011/12 Statement of Accounts is the combination of children's and adults' social care services into a single Directorate, and the merging of a number of services to form a Regeneration, Economic Development and Environmental Services Directorate, which includes housing services. The 2011/12 figures have been adjusted to reflect this reorganisation.

Directorate Income and Expenditure 2012/13 Results	Chief Executive	Corporate Resources	Children's and Adults' Services	Regeneraction, Economic Development and Environment	General Fund Directorates	Housing Revenue Account	Total
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Fees, charges & other service income	(443)	(7,368)	(25,111)	(43,194)	(76,116)	(77,347)	(153,463)
Support services recharge income	(189)	(4,138)	(5,027)	(6,248)	(15,602)	(407)	(16,009)
Government grants	(145)	(24,636)	(195,343)	(148,095)	(368,219)	(237)	(368,456)
Total Income	**(777)**	**(36,142)**	**(225,481)**	**(197,537)**	**(459,937)**	**(77,991)**	**(537,928)**
Employee expenses	4,210	15,616	166,427	24,846	211,099	1,047	212,146
Other service expenses	2,895	37,360	139,813	221,392	401,460	51,183	452,643
Depreciation and other capital charges	0	6	1	41	48	21,198	21,246
Support service recharges	53	1,156	6,779	3,649	11,637	2,333	13,970
Total Expenditure	**7,158**	**54,138**	**313,020**	**249,928**	**624,244**	**75,761**	**700,005**
Net Expenditure	**6,381**	**17,996**	**87,539**	**52,391**	**164,307**	**(2,230)**	**162,077**

Directorate Income and Expenditure 2011/12 Comparative Figures Restated	Chief Executive	Corporate Resources	Children's and Adults' Services	Regeneraction, Economic Development and Environment	General Fund Directorates	Housing Revenue Account	Total
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Fees, charges & other service income	(246)	(6,680)	(13,210)	(43,911)	(64,047)	(72,896)	(136,943)
Support services recharge income	(292)	(5,150)	(8,528)	(5,688)	(19,658)	(613)	(20,271)
Government grants	6	(24,937)	(221,005)	(139,588)	(385,524)	4,529	(380,995)
Total Income	(532)	(36,767)	(242,743)	(189,187)	**(469,229)**	(68,980)	**(538,209)**
Employee expenses	4,247	13,779	184,696	25,385	228,107	1,055	229,162
Other service expenses	3,181	37,822	136,219	210,958	388,180	43,202	431,382
Depreciation and other capital charges	0	36	0	273	309	16,677	16,986
Support service recharges	136	1,854	11,127	3,435	16,552	2,150	18,702
Total Expenditure	**7,564**	**53,491**	**332,042**	**240,051**	**633,148**	**63,084**	**696,232**
Net Expenditure	**7,032**	**16,724**	**89,299**	**50,864**	**163,919**	**(5,896)**	**158,023**

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement for the Net Cost of Services.

	2012/13	2011/12
	£000s	£000s
Net Expenditure in the Directorate Analysis		
General Fund	164,307	163,919
HRA	(2,230)	(5,896)
Net Expenditure in the Directorate Analysis	**162,077**	**158,023**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	68,478	75,777
Amounts reported to management that fall in the net cost of the provision of services, but not in the net cost of services	(22,296)	(7,188)
Amounts reported to management that do not fall within the Comprehensive Income and Expenditure Statement	(16,316)	2,950
Cost of Services in Comprehensive Income and Expenditure Statement	**191,943**	**229,562**

2012/13 Results	Directorate Analysis	Amounts not reported to management	Amounts not in Net Cost of Services	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Reported as part of Directorates	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges and other services income	(153,161)	84	5,930	541	7,402	**(139,204)**	(5,095)	(5,930)	**(150,229)**
Support services recharge income	(16,009)	0	4,079	0	3,104	**(8,826)**	(245)	(4,079)	**(13,150)**
Interest and investment income	(302)	0	302	0	0	**0**	(2,382)	(302)	**(2,684)**
Income from council tax	0	0	0	0	0	**0**	(96,740)	0	**(96,740)**
Government grants and contributions	(368,456)	(345)	0	0	836	**(367,965)**	(130,867)	0	**(498,832)**
Total Income	**(537,928)**	**(261)**	**10,311**	**541**	**11,342**	**(515,995)**	**(235,329)**	**(10,311)**	**(761,635)**
Employee expenses	212,146	(6,584)	(5,203)	(1,360)	(30,832)	**168,167**	10,576	5,203	**183,946**
Other services expenses	443,779	(1,787)	(3,590)	(15,497)	(17,619)	**405,286**	(461)	3,590	**408,415**
Support service recharges	13,970	0	(1,636)	0	37,109	**49,443**	708	1,636	**51,787**
Depreciation, amortisation and impairment	8,168	77,110	(236)	0	0	**85,042**	2,565	236	**87,843**
Interest payments	13,078	0	(13,078)	0	0	**0**	2,331	13,078	**15,409**
Precepts and levies	8,864	0	(8,864)	0	0	**0**	0	8,864	**8,864**
Payments to housing capital receipts pool	0	0	0	0	0	**0**	993	0	**993**
Gain or loss on disposal of fixed assets	0	0	0	0	0	**0**	38,763	0	**38,763**
Total Expenditure	**700,005**	**68,739**	**(32,607)**	**(16,857)**	**(11,342)**	**707,938**	**55,475**	**32,607**	**796,020**
Surplus or deficit on the provision of services	**162,077**	**68,478**	**(22,296)**	**(16,316)**	**0**	**191,943**	**(179,854)**	**22,296**	**34,385**

2011/12 Comparative Figures Restated	Directorate Analysis	Amounts not reported to management	Amounts not in Net Cost of Services	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Reported as part of Directorates	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
Fees, charges and other services income	(136,943)	(1,451)	4,705	0	3,280	**(130,409)**	(14,326)	(4,705)	**(149,440)**
Support services recharge income	(20,271)	(6,197)	4,725	0	55,377	**33,634**	0	(4,725)	**28,909**
Interest and investment income	0	0	0	0	0	**0**	(1,671)	0	**(1,671)**
Income from council tax	0	0	0	0	0	**0**	(95,905)	0	**(95,905)**
Government grants and contributions	(380,995)	(150)	0	150	18	**(380,977)**	(135,859)	0	**(516,836)**
Total Income	**(538,209)**	**(7,798)**	**9,430**	**150**	**58,675**	**(477,752)**	**(247,761)**	**(9,430)**	**(734,943)**
Employee expenses	229,162	(2,210)	(9,223)	0	(33,446)	**184,283**	0	9,223	**193,506**
Other services expenses	431,382	(10,204)	(5,219)	2,800	(10,687)	**408,072**	(4,678)	5,219	**408,613**
Support service recharges	18,702	0	(2,176)	0	(14,542)	**1,984**	0	2,176	**4,160**
Depreciation, amortisation and impairment	16,986	95,989	0	0	0	**112,975**	0	0	**112,975**
Interest payments	0	0	0	0	0	**0**	14,512	0	**14,512**
Precepts and levies	0	0	0	0	0	**0**	7,637	0	**7,637**
Payments to housing capital receipts pool	0	0	0	0	0	**0**	534	0	**534**
Gain or loss on disposal of fixed assets	0	0	0	0	0	**0**	131,101	0	**131,101**
Total Expenditure	**696,232**	**83,575**	**(16,618)**	**2,800**	**(58,675)**	**707,314**	**149,106**	**16,618**	**873,038**
(Surplus) or deficit on the provision of services	**158,023**	**75,777**	**(7,188)**	**2,950**	**0**	**229,562**	**(98,655)**	**7,188**	**138,095**

Comprehensive Income & Expenditure Statement 2012/13

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.

	2012/13			2011/12			Note
	Expenditure £000s	Income £000s	Net £000s	Expenditure £000s	Income £000s	Net £000s	
Central services to the public	33,572	(30,355)	3,217	35,698	(30,034)	5,664	
Environmental and regulatory services	18,907	(2,739)	16,168	19,178	(2,812)	16,366	
Planning services	8,131	(7,510)	621	7,795	(7,215)	580	
Cultural and related services	18,095	(1,052)	17,043	17,977	(2,167)	15,810	
Education and children's services	254,694	(202,641)	52,053	272,762	(222,917)	49,845	
Highways and transport services	26,088	(13,942)	12,146	27,696	(16,550)	11,146	
Local authority housing (HRA)	57,070	(77,602)	(20,532)	65,776	(73,767)	(7,991)	
Other housing services	169,708	(159,594)	10,114	170,636	(150,754)	19,882	
Adult social care	72,788	(19,464)	53,324	75,861	(21,208)	54,653	
Exceptional costs of revaluation	47,741	0	47,741	63,084	0	63,084	6
Corporate and democratic core	6,666	(1,079)	5,587	5,910	(412)	5,498	
Other non distributed costs	(5,522)	(17)	(5,539)	(936)	(4,039)	(4,975)	
Cost Of Services	**707,938**	**(515,995)**	**191,943**	**761,437**	**(531,875)**	**229,562**	
Other Operating Expenditure	24,962	(15,349)	9,613	17,468	(17,567)	(99)	7
Exceptional derecognition of Academy assets	39,317	0	39,317	138,528	0	138,528	7
Financing and Investment Income and Expenditure	23,803	(2,684)	21,119	30,661	(11,601)	19,060	9
Surplus or Deficit of Discontinued Operations	0	0	0	0	0	0	
Taxation and Non-Specific Grant Income	0	(227,607)	(227,607)	0	(248,956)	(248,956)	10
Surplus or Deficit on Provision of Services			**34,385**			**138,095**	
Surplus or deficit on revaluation of fixed assets			13,914			10,633	6
Actuarial gains / losses on pension assets / liabilities			7,489			101,720	
Other Comprehensive Income and Expenditure			**21,403**			**112,353**	
Total Comprehensive Income and Expenditure			**55,788**			**250,448**	

In the above table figures shown as positive represent a cost to the Council, while figures shown as negative represent an income.

Movement in Reserves Statement 2012/13

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

	2012/13										Note
	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Balance as at 31 March 2012	**(14,038)**	**(88,383)**	**(17,237)**	**(6,668)**	**(6,052)**	**0**	**(46,320)**	**(178,698)**	**(848,528)**	**(1,027,226)**	
Surplus or deficit on provision of services (accounting basis)	48,554		(14,169)					34,385		34,385	
Other Comprehensive Expenditure and Income								0	21,403	21,403	
Total Comprehensive Expenditure and Income	**48,554**	**0**	**(14,169)**	**0**	**0**	**0**	**0**	**34,385**	**21,403**	**55,788**	
Adjustments between accounting basis & funding basis under regulations	(53,787)		9,270		712	1,439	(23,413)	(65,779)	65,779	0	20
Net Increase / Decrease before Transfers to Earmarked Reserves	**(5,233)**	**0**	**(4,899)**	**0**	**712**	**1,439**	**(23,413)**	**(31,394)**	**87,182**	**55,788**	
Transfers to / from Earmarked Reserves	5,628	(5,628)	2,674	(1,235)		(1,439)		0		0	21
Increase / Decrease in Year	**395**	**(5,628)**	**(2,225)**	**(1,235)**	**712**	**0**	**(23,413)**	**(31,394)**	**87,182**	**55,788**	
Other items	(14)	0	0	0	0	0	0	(14)	14	0	
Balance at 31 March 2013	**(13,657)**	**(94,011)**	**(19,462)**	**(7,903)**	**(5,340)**	**0**	**(69,733)**	**(210,106)**	**(761,332)**	**(971,438)**	

	2011/12										Note
	General Fund Balance	**Earmarked GF Reserves**	**Housing Revenue Account**	**Earmarked HRA Reserves**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**	
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	
Balance as at 31 March 2011	**(10,441)**	**(72,761)**	**(23,385)**	**(3,683)**	**(2,183)**	**(925)**	**(9,522)**	**(122,900)**	**(1,154,774)**	**(1,277,674)**	
Surplus or deficit on provision of services (accounting basis)	141,713		(3,618)					138,095		138,095	
Other Comprehensive Expenditure and Income								0	112,353	112,353	
Total Comprehensive Expenditure and Income	**141,713**	**0**	**(3,618)**	**0**	**0**	**0**	**0**	**138,095**	**112,353**	**250,448**	
Adjustments between accounting basis & funding basis under regulations	(160,894)		6,503		(3,869)	1,203	(36,798)	(193,855)	193,855	0	20
Net Increase / Decrease before Transfers to Earmarked Reserves	**(19,181)**	**0**	**2,885**	**0**	**(3,869)**	**1,203**	**(36,798)**	**(55,760)**	**306,208**	**250,448**	
Transfers to / from Earmarked Reserves	15,622	(15,622)	3,263	(2,985)		(278)		0		0	21
Increase / Decrease in Year	**(3,559)**	**(15,622)**	**6,148**	**(2,985)**	**(3,869)**	**925**	**(36,798)**	**(55,760)**	**306,208**	**250,448**	
Other items	(38)	0	0	0	0	0	0	(38)	38	0	
Balance at 31 March 2012	**(14,038)**	**(88,383)**	**(17,237)**	**(6,668)**	**(6,052)**	**0**	**(46,320)**	**(178,698)**	**(848,528)**	**(1,027,226)**	

Balance Sheet as at 31 March 2013

	31 Mar 13	31 Mar 12	Note
	£000s	**£000s**	
Property, Plant & Equipment	1,357,122	1,451,517	27
Investment Property	29,234	31,465	29
Intangible Assets	0	0	25
Long Term Investments	39,259	9	41
Heritage Assets	3,620	3,572	30
Long Term Debtors	3,885	4,009	33 & 41
Long Term Deferred Asset Related to PFI	93,284	0	
Long Term Assets	**1,526,404**	**1,490,572**	
Short Term Deferred Asset Related to PFI	2,768	0	
Short Term Investments	106,806	106,509	
Assets held for sale	1,679	0	
Inventories	707	1,182	
Short Term Debtors	40,865	30,882	35 & 41
Cash and Cash Equivalents	48,296	58,491	46
Current Assets	**201,121**	**197,064**	
Bank overdrafts	0	0	46
Short Term Borrowing	(12,547)	(5,640)	
Short Term Creditors	(88,172)	(82,893)	36
Short Term Provisions	(3,320)	(3,051)	37
Liabilities in disposal groups	0	0	
Current Liabilities	**(104,039)**	**(91,584)**	
Long Term Creditors	(21,568)	(20,329)	39
Provisions	(2,885)	(2,869)	37
Long Term Borrowing	(240,935)	(251,174)	
Other Long Term Liabilities	(380,279)	(288,556)	40
Capital Grants Receipts in advance	(6,379)	(5,896)	18
Long Term Liabilities	**(652,046)**	**(568,824)**	
Net Assets	**971,440**	**1,027,228**	

Usable reserves	(210,106)	(178,700)	22
Unusable Reserves	(761,334)	(848,528)	23
Total Reserves	**(971,440)**	**(1,027,228)**	

Cash Flow Statement 2012/13

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 (ie borrowing) to the authority.

	2012/13	2011/12	Note
	£000s	£000s	
Net surplus or (deficit) on the provision of services	(34,385)	(138,095)	
Adjust net surplus or deficit on the provision of services for noncash movements	117,958	241,587	
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(4,585)	0	
Net cash flows from Operating Activities	**78,988**	**103,492**	43
Investing Activities	(78,360)	(87,221)	44
Financing Activities	(10,824)	736	45
Net increase or decrease in cash and cash equivalents	**(10,196)**	**17,007**	
Cash and cash equivalents at the beginning of the reporting period	58,492	41,485	
Cash and cash equivalents at the end of the reporting period	**48,296**	**58,492**	46

Notes to the Accounts

Explaining how the Statement of Accounts has been prepared

Note 1. Accounting policies

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 (as amended in 2004, 2006, 2009 and 2011), which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (CIPFA Code) and the Service Reporting Code of Practice 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The CIPFA Code, section 3.4.2.25, allows authorities not to disclose information that is not material. The Council has where appropriate adopted this approach to only provide information which is material and either aids the reader of the accounts or can be provided on a value for money basis.

More details about the individual accounting policies used by the Authority are set out from page 89.

Note 2. Accounting standards issued not yet adopted

For 2012/13 the only accounting standard issued that will affect the financial position of the Council but that has not yet been adopted by the Authority relates to IAS 19, accounting for employee benefits and in particular accounting for pension funds. The IAS 19 change makes some amendments to the disclosure of pension fund transactions reflected in the Comprehensive Income and Expenditure Statement, and has a small impact on the value of the transactions that need to be reflected as administration expenses (as opposed to being deducted from actual and expected return on assets). The table below shows the Comprehensive Income and Expenditure Statement figures that would have applied if the revised IAS 19 had applied to the 2012/13 statement. This table should be compared with the table 'Transactions relating to post employment benefits' table in Note 15.

	2012/13		
	LBH Pension Fund	LPFA Pension Fund	Total
	£000s	£000s	£000s
Comprehensive Income and Expenditure Statement			
Cost of services:			
Service cost	11,123		11,123
Administration expenses	760	6	766
Financing and investment income and expenditure:			
Net interest on the defined liability (asset)	12,500	104	12,604
Total post employment benefit charged to the surplus or deficit on the provision of services	**24,383**	**110**	**24,493**

Note 3. Critical judgements in applying accounting policies

In applying the accounting policies set out from page 89, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Valuation Review

The Authority's valuer is required to revalue at least 20% of the Council's assets each year (as part of a five year rolling programme in which all assets are revalued) in order to ensure that the Council's asset values recognised in the balance sheet are up to date. The valuer uses a variety of local and national indices to assist in this process. However, given the wide range of council properties, with varying conditions, ages and locations, it must be understood that the asset values are based on judgements, and where appropriate the use of averages. When valuing the Council's dwelling stock, the valuer is required to use a discount factor issued by the Department for Communities and Local Government (DCLG) in order to reduce the valuation from an open market level to a level which is intended to reflect its use as social housing. Changes in the value of the Authority's non-current assets as a result of revaluation are set out in Note 6. Judgements are also required when the review of council properties is made for estimated impairments.

- Investment Properties

Under IFRS, those properties which are held purely for rental or capital growth should be classed as investment properties. One such property, comprising industrial buildings in Derby Road, is leased from a private company and then rented out to various users on leases with an average life of five years. These industrial buildings were revalued during 2011/12 as part of the regular cycle of non-current asset revaluations. The valuer's judgement is that the onerous lease terms provide for guaranteed rent increases payable by the Authority that exceed the forecast rises in rental income that the Authority can expect from users. As a result, the latest valuation sets the value of the Derby Road industrial buildings at nil. However, in the event that rental income should rise faster in the future than the Authority's rent payments to the owner, and return the development to an annual surplus after meeting all costs, the site may have an economic value and a future valuation would reflect that.

- Leasing Review

A detailed schedule of properties leased out by the Authority has been produced which identifies the bulk of the Authority's rental income, and which is included in the leasing note (Note 24). However, properties with annual rental of under £1k have not been included in the review, while a small number of leases are estimated to be held by schools and other establishments which have not been included due to the significant resources which would be required to identify and value them. The potential impact of these unidentified contracts is not considered to be material compared to the overall level of lease payments.

- Assumptions Used in Leasing

The Authority as lessor reclassified two operating leases to finance leases in 2010/11 following the implementation of IFRS. A judgement was made in 2010/11 to use an interest rate of 6% to calculate the net present value of each lease including the financing element. At the time, the interest rate of 6% was close to the authority's own average long term borrowing rate and was therefore judged reasonable to use. Long term borrowing rates are currently lower than this at 4%. The lease calculations have not been changed to 4% in 2012/13 as reducing the interest rate to 4% would not have a significant impact on the Statement of Accounts.

- Judgements made in Establishment of Provisions

A provision of £2m was made in 2012/13 (£2m for 2011/12) for future redundancy costs based on decisions made during 2012/13. Although a best estimate of the likely numbers involved has been undertaken, it is not possible to accurately assess at this stage the actual costs which will be incurred in 2013/14 due to the uncertainties over how many staff will be eligible to receive the redundancy payments and how many may be redeployed to other areas of the Authority.

Based on previous actuarial advice the Authority has made a prudent decision to keep the insurance reserve stable at 2012 levels. The Authority has set aside funds in an insurance provision, and a separate insurance reserve, to cover the potential cost of claims made against the Council. The level of the insurance provision and reserve is set using the best available information at the time. Given that insurance claims can take a number of years both to arise and to be settled, the actual final costs of any claims not yet made for the period to 31 March 2013 may be different to the amount in the provision.

- Accruing for untaken annual leave at the year end

The Authority is required to include the estimated cost of any annual leave and other pay related costs such as bonuses due to its officers and teachers at 31 March each year. The cost of teachers untaken leave is calculated by a formula developed for use on a national basis, and this reduces the judgements required to calculate the cost. The cost of officers' untaken leave is estimated using annual leave data for a sample of employees.

- Highways PFI

Specific accounting principles apply to PFI contracts. In applying these principles to the Council's Highways PFI contract it has been assumed that the contract comprises a combination of finance lease, with an initial liability equal to the value of planned intial investment (£97,964k) and ongoing revenue maintenance contract. It has been assumed that lease payments will be made at a constant rate throughout the contract at an annual rate of interest of 2.825%. A deferred asset equal to the expected capital investment (and therefore equal to the initial value of the lease liability) was recognised at the start of the contract. Assets are then recognised based on delivery data from the PFI provider.

Note 4. Assumptions and other sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority 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 Authority's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are set out in the following table:

Item	*Uncertainties*	*Effect if actual results differ from assumptions*
Property, Plant and Equipment	The Council's Valuation Service estimates the useful economic lives of asset when assets are revalued. This is then used to calculate the annual depreciation charge. It is very difficult to assess accurately the life of many buildings, some of which may be expected to last forty or more years. The valuation process has become more complex due to the introduction of componentisation under IFRS from April 2010 onwards. This requires local authorities to separately account for major components in buildings, and assign them a different life to the main building structure. The revaluation process cannot take account of the detailed condition of every building revalued, given the large size, and diverse nature and age, of the building stock, and the relatively small level of resources which can be allocated for this function.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. Similarly, if the life of assets is increased by a revaluation, depreciation will reduce but the carrying amount of the asset will increase. Although depreciation itself does not affect council tax levels (as it is a notional charge), there is a capital cost to the council if a building has to be replaced early, or a capital saving if a building lasts longer than expected. Running costs may also be effected if the actual life of a building is different to that which was expected.
Provisions	The outcome of outstanding insurance claims is always very difficult to estimate, especially if a large number of unrelated cases go through the court system. However, as stated above, the Authority's insurance officer is confident that the provision is at an appropriate level at 31 March 2013. Provision has also been made for the cost of redundancy as a result of a major reorganisation affecting the senior management of the Authority. The value of the provision is based on the best estimate of the eligible staff who are considered likely to be affected by the reorganisation decisions made during 2012/13.	Certain insurance claims, such as severe weather or environment issues, cannot be predicted far in advance and can have a significant impact. However, these are considered to be relatively infrequent and unlikely to have a significant financial impact on the Authority. If the actual costs are higher than the Authority's provisions, the extra costs will have to be met by a contribution from the Council's resources. If costs are lower than provisions, there will be a saving to the Council.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied (see Note 15). The actuary undertakes an assessment of the actuarial gain or loss facing the Authority's pension schemes each year, based on an assessment of future investment returns. However, this valuation is based on an assumption that all of the pension fund assets are invested in government bonds, whereas only 17% of the pensions fund assets were invested in bonds at 31 March 2012.	The actuarial loss or gain provided by the actuary's calculation can be significant. This charge to the Comprehensive Income & Expenditure Statement is notional as it is not charged to the general fund, and does not affect council tax levels. If the future investment returns are different to the actuarial assumptions, it will not affect the council tax in 2013/14. However, if the pension fund assets and liabilities vary significantly from those forecast by the actuary, it could mean that either higher or lower pension contributions would be payable by the Authority in the future.

Item	*Uncertainties*	*Effect if actual results differ from assumptions*
Annual leave accrual	The element of the estimated value of outstanding accrued leave as at 31 March that relates to the Authority's own staff (rather than those working for the schools) is based upon a sample of employee records. While the sample represents a significant proportion of employees, there is the risk that the actual total level of leave untaken at the year end differs from the estimate.	An error in the estimated value of untaken annual leave at the year end will lead to a mis-statement of the Authority's creditors (where an accrual for the value is recorded) and an offsetting difference in the Accumulated Absences Account reserve. Any difference in the movement in the accrual is reflected in the service lines of the Net Cost of Services. Any changes to the level of the accrual are a purely notional charge, with the impact of this reversed out through the Movement in Reserves Statement, having no impact on council tax levels.
Bad Debt Provision	The Authority has made a provision of £33.1m against its debtors as at 31 March 2013 (£34.6m at 31 March 2012). This amount is made up of a specific provision related to some long standing debts where there is significant risk that the funds will not be recovered, plus a general provision representing an estimate of the proportion of the remainder of the debt which past experience suggests is unlikely to be fully recovered. The level of bad debt provision required will be kept under review to ensure that it reflects the latest information about the likelihood of collecting the Council's debts.	The creation of the bad debt provision has generated a charge to the Comprehensive Income and Expenditure Statement. If the Authority has over provided for bad debts (i.e. collects more debt than the calculation of the provision has estimated), this will increase the income to be recognised by the Authority. Conversely, if the Authority has under provided for bad debts, this will lead to a further charge in the Comprehensive Income and Expenditure Statement.
Central and Departmental Recharges	The 2012/13 net cost of services incorporates a revised approach for allocation of recharges of central services, such as financial services, human resources, legal and information technology charges. Recharges to each service line are allocated pro rata to employee or wider costs directly attributable to the service, whichever is most applicable.As with all recharges they cannot always accurately reflect each service department's use of a support service.	There is no impact on the Authority's net surplus or deficit each year, and no material impact is expected for any individual service line in the net cost of services.
Highways PFI	The accounting treatment applied to the highways PFI assumes a level of future delivery of capital investment. This amount was recognised as a long term liability at the point the PFI contract was signed, to be reduced as payments are made. The reduction in the liability (together with an amount treated as interest on this balance) is based on a calculated split of the underlying unitary charge paid each month. This calculation assumes that the lease related repayments remains fixed for the duration fo the contract. A deffered asset has also been recognised, to recognise the future delivery of assets (ie capital investment in the infrastructure) that are expected from the PFI provider.	Any changes to the underlying split of the unitary charge payments (capital repayment, interest and revenue cost) will have an impact on the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement. The total amount, however, is given by the actual payments. The whole cost will fall as a charge on the general fund what ever the split. The value of the initial deferred asset is offset by the initial lease liability. It is expected that any error in the value of the deferred asset will similarly be offset in the value of the lease liability.

Note 5. Prior Year Adjustments

The Authority is required to restate the financial information for previous years where there has been any change in accounting policy or correction of an error from previous years.

Segmental Reporting

The Authority is now entering the final stages of a major reorganisation of its directorate structure. The Directorate analysis shown in the Segmental Reporting section of this statement is based on a structure that was implemented during 2012/13 (see page 9).

About the Comprehensive Income and Expenditure Statement

Note 6. Material Items of Income and Expense

The 2012/13 Statement of Accounts includes the impact of several material amounts in the Authority's main financial statements, including the Comprehensive Income and Expenditure Statement and the Balance Sheet as set out below. While PFI related income and expenditure amounts are not material for 2012/13, the impact on the balance sheet is material (£94.5m long term liability at 31 March 2013 with a similar deferred asset). More details about the PFI contract are set out in Note 34).

Material amounts reflecting a real transfer of assets and changes to expenditure and income: Pension Fund contribution

The Authority made a one-off £10m contribution to the Pension Fund in 2012/13 in addition to the regular payments made as a percentage of salary. This additional payment is not reflected in the Comprehensive Income and Expenditure Statement (IAS 19 requires that the Comprehensive Income and Expenditure Statement reflects only certain pension related costs). However, the payment does need to be reflected as a charge to the General Fund. The one-off payment is included within the £28,704k employers' contributions payable to the scheme reflected in the Movement in Reserves Statement. In comparison, the contributions made to this scheme during 2011/12 were £19,373k. See Note 15 for more information on the pension fund.

Material amounts reflecting a real transfer of assets and changes to expenditure and income: Academies

The transfer of three schools to academy status in 2012/13 had the effect of reducing the Comprehensive Income and Expenditure Statement expenditure. In addition, physical assets with a valuation of £39.3m were transferred to the schools. The transfer has been treated as a loss on disposal and included in the Other Operating Expenditure line of the Surplus or Deficit on Provision of Services within the Comprehensive Income and Expenditure Statement 2012/13. The value of the schools and the date of transfer are set out in the table below.

	Value at transfer date	Transfer date
	£000s	
Brentford School for Girls	21,510	01/04/2012
Heston Community	17,804	01/11/2012
St Marks RC	2	01/12/2012
Total Value of Assets Transferred	**39,316**	

Material Amounts in respect of Technical Accounting Adjustments

The 2012/13 Statement of Accounts also includes the impact of two material amounts in the Comprehensive Income and Expenditure Account which relate to the application of accounting practices rather than in-year expenditure. These are:

Material Amounts in respect of Technical Accounting Adjustments: Pension Fund Actuarial Valuation

The overall deficit position on the Authority's pension schemes has decreased by £2.7m from £286.3m at 31 March 2012 to £283.6m at 31 March 2013. Although this deficit has not significantly moved during the year, this is largely because of a £10m one-off contribution made at the year end. Without this contribution the pension fund deficit would have been £293.6m.

Material Amounts in respect of Technical Accounting Adjustments: Non-Current Assets Revaluation

The Authority's non-current assets have been revalued in accordance with the accounting policies resulting in a net downwards movement in net book value of £62.678m.

The movements in the values of the fixed assets through revaluation need to be recognised in the Comprehensive Income and Expenditure Statement as follows:

- The net movement in the valuation of investment properties forms part of Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.
- The surplus or deficit on the revaluation of fixed assets that forms part of the Other Comprehensive Income and Expenditure represents the net aggregate movement of:
    - Any upwards revaluation of fixed assets (other than investment properties); plus
    - Any downwards revaluation of a fixed asset (other than investment properties) that reflects a reversal of a previous year's increase in the Revaluation Reserve.
- Any downwards revaluation of a fixed asset (other than investment properties) that represents a reduction greater than the amount in the Revaluation Reserve for that asset is charged to the Net Cost of Services.

Council dwellings are valued at market value and then an adjustment factor to reflect the lower value of social housing is applied. The Department of Communities and Local Government set the adjustment factor and review it every five years. The adjustment factor was last reviewed in 2010/11 for London and was reduced to 25% for 2010/11, leading to a material reduction in valuation of the Authority's dwellings in that year. This adjustment factor will not be reviewed again until 2015/16. There has been no significant change in the number of properties or the underlying vacant possession market value.

The required proportion of the Authority's fixed assets have been revalued in 2012/13 and certain assets have been revalued downwards in total in accordance with the Authority's accounting policies, £48m of which has been treated as an exceptional item and shown on a separate line in the Comprehensive Income and Expenditure Statement. The following table summarises the amounts shown in the Comprehensive Income and Expenditure Statement that relate to revaluation movements:

	2012/13	2011/12
	£000s	**£000s**
Net Cost of Services		
Exceptional costs of revaluation	47,741	63,084
Financing and Investment Income and Expenditure		
Changes in the fair value of investment properties	1,023	2,090
Other Comprehensive Income and Expenditure		
Upward revaluation of assets	(18,403)	(26,617)
Downward revaluation of assets and impairment losses not charged to the surplus or deficit on the provision of services	32,317	37,250
Surplus or deficit on revaluation of fixed assets	**13,914**	**10,633**
Total revaluation related movement in the Comprehensive Income and Expenditure Statement	**62,678**	**75,807**

The following table allocates the downwards revaluation that forms part of the exceptional costs of revaluation identified as part of the Net Cost of Services to the most appropriate service. Where there is no direct link between the asset and any specific service (for example the Civic Centre) the revaluation movement has been allocated to Non distributed costs:

	2012/13	2011/12
	£000s	£000s
Central services to the public	210	0
Environmental and regulatory services	329	1,046
Cultural and related services	11,265	3,429
Education and children's services	41,118	55,904
Highways and transport services	0	2,076
Local authority housing (HRA)	(8,393)	0
Other housing services	145	0
Adult social care	566	542
Non distributed costs	2,501	87
Exceptional costs of revaluation in Net Cost of Services	**47,741**	**63,084**

Note 7. Other Operating Expenditure

Items shown as Other Operating Expenditure in the Comprehensive Income and Expenditure Statement comprise the following:

	2012/13	2011/12	Note
	£000s	£000s	
Levies	8,864	7,637	
(Gains)/losses on trading operations	309	(842)	8
Payments to the Government Housing Capital Receipts Pool	993	534	
(Gains)/losses on the disposal of non current assets	(554)	(7,427)	
Sub total of Other Operating Expenditure	**9,612**	**(98)**	
Exceptional derecognition of Academy assets	39,317	138,528	
Total of Other Operating Expenditure	**48,929**	**138,430**	

In accounting terms the Authority is required to treat the creation of an Academy as a disposal of the school land and buildings with no proceeds. These amounts have been separately disclosed in the above table and in the Comprehensive Income and Expenditure Statement.

Note 8. Trading Operations

The Authority has established a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Authority or other organisations. Details of the main trading services are as follows:

- The Authority runs a **catering service** which provides catering facilities to its schools and at the Civic Centre. It also provides this service to schools in other Councils. The Schools' part is required to at least break even with any surplus being returned to Hounslow schools. Income from the Civic Centre element is required to cover expenses. The cumulative surplus over the last three financial years is £Nil.
- The Authority's **highways maintenance** service has been transferred to Vinci Ringway as part of a 25 year PFI contract which commenced on 1 January 2013. The service was previously run by the Authority on the basis of an agreement following a competitive tender process. The following table shows the income and expenditure for this trading operation until the point of transfer. The trading objective was to break even. The cumulative deficit over the last three financial years is £491k.
- The Authority's **street cleansing** service has been transferred to Vinci Ringway as part of a 25 year PFI contract which commenced on 1 January 2013. The service was previously run by the Authority on the basis of an agreement following a competitive tender process. The trading objective was to break even. The cumulative surplus over the last three financial years is £126k..
- The Authority runs its **transport services** on the basis of an agreement following a competitive tender. The trading objective is to break even. The cumulative surplus over the last three financial years is £1,212k.

	2012/13			2011/12		
	Turnover	Expenditure	(Surplus) / Deficit	Turnover	Expenditure	(Surplus) / Deficit
	£000s	£000s	£000s	£000s	£000s	£000s
Catering Service	(5,341)	5,341	0	(5,459)	5,459	0
Highways Maintenance	(1,660)	2,062	402	(2,830)	2,669	(161)
Street Cleansing	(2,859)	3,089	230	(3,665)	3,431	(234)
Transport Services	(5,330)	5,020	(310)	(5,608)	5,150	(458)
Other trading accounts	(160)	147	(13)	(5)	16	11
Net surplus on trading operations	**(15,350)**	**15,659**	**309**	**(17,567)**	**16,725**	**(842)**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. The expenditure of these operations is allocated or recharged to headings in the net operating expenditure of continuing operations. Only a residual amount of the net surplus on trading operations is charged as other operating expenditure (see Note 7). The majority of the income generated by the Authority's trading services is internally generated.

Note 9. Financing and Investment Income and Expenditure

Items shown as Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement comprise the following:

	2012/13	2011/12	Note
	£000s	£000s	
Interest payable and similar charges	15,409	14,512	
Pensions interest cost and expected return on pensions assets	7,373	4,128	15
Interest receivable and similar income	(2,685)	(1,671)	
Changes in the fair value of investment properties	1,022	2,090	
Other investment income	0	0	
Total of Financing and Investment Income and Expenditure	**21,119**	**19,059**	

Note 10. Taxation and Non Specific Grant Income

Items shown as Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement comprise the following:

	2012/13	2011/12	Note
	£000s	£000s	
Council tax income	(96,740)	(95,905)	
Non domestic rates	(82,412)	(69,263)	18
Non-ring fenced government grants	(7,219)	(25,425)	18
Capital grants and contributions	(41,235)	(58,364)	18
Total of Taxation and Non-Specific Grant Income	(227,606)	(248,957)	

About Councillors, Employees and Related Parties

Note 11. Members' allowances

The aggregate amounts paid to Councillors during the year are set out below:

	2012/13	2011/12
	£000s	£000s
Allowances	807	807
Expenses	1	2
Total	808	809

Note 12. Termination Benefits

The Authority is currently undergoing a period of significant change as it responds to the reductions in grant income it receives from central Government. Savings options have been considered across the Authority, including a review of its senior management and reductions in staff numbers in different parts of the Council.

As part of the work to implement these savings, the Authority terminated the contracts of a number of employees in 2012/13, incurring liabilities of £1,339k (£1,918k in 2011/12).

The reorganisation of the Authority's senior management began in 2010/11 and was completed during 2012/13. Final termination payments were made to three senior officers during 2012/13: £120,507 payable to the former Director of Environment, £73,530 payable to the former Director of Adult Social Care and £49,019 to the Director of Children's and Lifelong Learning.

During 2012/13, £935k was paid to officers who accepted offers of voluntary redundancy or early retirement (£979k in 2011/12) and £404k was paid to officers who were made compulsorily redundant during the year (£939k in 2011/12). In addition to these, a provision of £2,000k has been set aside as at 31 March 2013 (£2,000k as at 31 March 2012) to pay the redundancy payments for staff leaving during 2013/14 as a result of the savings approved before 1 April 2013.

The amounts quoted here include all payments related to the decision to terminate a contract. This will include redundancy, severance payments, payments in lieu of notice and payments in relation to untaken annual leave.

The following table sets out the number of staff and amounts paid in exit packages per band.

Exit package cost band			2012/13				2011/12			
£		£	Voluntary redundancy	Compulsory redundancy	Total number of people	Total cost of packages £000	Voluntary redundancy	Compulsory redundancy	Total number of people	Total cost of packages £000
0	-	20,000	7	17	24	196	43	12	55	447
20,001	-	40,000	9	1	10	283	6	16	22	643
40,001	-	60,000	2	1	3	151	4	5	9	440
60,001	-	80,000	3	3	6	416	1	1	2	133
80,001	-	100,000	2	0	2	173	0	0	0	0
100,001	-	150,000	1	0	1	120	1	1	2	256
Total			**24**	**22**	**46**	**1,339**	**55**	**35**	**90**	**1,918**

Note 13. Officers' Remuneration

The remuneration paid to officers who were senior employees of the Authority during 2012/13 or 2011/12 is as set out in the following tables. The remuneration figures for the senior officers who left during the year reflect amounts received until their date of leaving.

The Chief Executive Officer also acts as the returning officer for the Borough. The other emoluments of £17,816 (£10,144 for 2011/12) shown in the tables represent the remuneration paid in respect of this returning officer role.

The Corporate Leadership team saw changes as a result of a restructure that took place during 2011/12 and 2012/13, resulting in a number of new posts being created and old posts being deleted. Details about changing roles for senior staff have been set out below the tables.

Post holder information	Salary	Bonus	Termination payments	Other emoluments	Total remuneration excluding pension contributions	Employer's pension contributions	Total remuneration including pension contributions
	£	£	£	£	£	£	£
Information for 2012/13							
Corporate Leadership Team							
Chief Executive - Mary Harpley	157,401			17,876	175,277	35,945	211,222
Director of Corporate Resources	141,994				141,994	29,182	171,176
Director Children's and Adults' Services (joined 12/9/12)	70,076				70,076	15,094	85,170
Director of Regeneration, Economic Development & Environment (joined 3/9/12)	68,847				68,847	14,830	83,677
Other senior officers							
Assistant Director Strategic Finance (s151)	72,919				72,919	15,707	88,626
Assistant Director - Corporate Governance	95,380				95,380	20,545	115,925
Assistant Director of Corporate Finance (s151) - on secondment from 6/5/12	141,994				141,994	30,585	172,579
Senior officers who left during 2012/13 (posts deleted or changed as part of reorganisation)							
Director Children's Services (left 31/10/12)	106,430		49,019		155,449	22,925	178,374
Director Community Services (left 24/6/12)	33,132		73,530		106,662	7,137	113,799
Director - Environment (left 31/10/12)	82,830		120,507		203,337	17,842	221,179

The Assistant Director of Corporate Finance post holder started a secondment from 6 May 2012, at which point he ceased to have s151 responsibilities for the Council. This person continues to be an employee of the Council and the figures in the above table include all salary received during the financial year. Of the remuneration paid during 2012/13, £14,017 relates to remuneration paid while acting as the Council's s151 officer.

The s151 responsibilities were taken over by the Chief Accountant from 6 May 2012, who was then appointed as the Assistant Director Strategic Finance from 5 November 2012. The remuneration in the above table reflects the total amount paid during 2012/13 from all roles.

The Director of Children's and Adults' Services joined on 12 September 2012 on an annual salary of £126,771.

The Director of Regeneration, Economic Development and Environment joined on 3 September 2012 on an annual salary of £119,159.

Post holder information	Salary	Bonus	Termination payments	Other emoluments	Total remuneration excluding pension contributions	Employer's pension contributions	Total remuneration including pension contributions
	£	£	£	£	£	£	£
Information for 2011/12							
Corporate Leadership Team							
Chief Executive - Mary Harpley	156,901			10,144	167,045	35,981	203,026
Director of Corporate Resources (joined 10/10/11)	63,940				63,940	13,656	77,596
Director of Children's Services	141,994				141,994	30,586	172,579
Director of Community Services	141,994				141,994	30,585	172,579
Director of Environment	134,382				134,382	28,946	163,328
Other senior officers							
Assistant Director of Corporate Finance (s151)	141,994				141,994	30,586	172,580
Assistant Director of Corporate Governance	89,284				89,284	19,232	108,515
Senior officers who left during 2011/12 (posts deleted or changed as part of reorganisation)							
Director of Corporate Services (left 31/07/11)	44,794		133,464		178,258	9,649	187,906
Borough Solicitor (left 30/04/11)	11,833		122,549		134,382	2,549	136,931

The post of Director of Finance was deleted during 2011/12, with the post holder becoming the Assistant Director of Corporate Finance, with continued responsibility as the Chief Financial (s151) Officer. The remuneration figures in the above table reflect the total amounts received during 2011/12 from both roles.

The officer who took on the role of Assistant Director of Corporate Governance during 2011/12, a new role created as part of the reorganisation, had the following roles during that year (figures in the table include remuneration received in respect of each of these roles):

- Deputy Borough Solicitor for the period 1 April 2011 to 30 April 2011
- Acting Borough Solicitor for the period 1 May 2011 to 10 July 2011
- Assistant Director of Corporate Governance from 11 July 2011

The number of the Authority's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were as set out in the following table. The amounts shown include the value of all remuneration received, including any termination payments. The senior officers set out in the previous table have been included.

Remuneration band			2012/13		2011/12	
£		£	Officers	Teachers	Officers	Teachers
50,000	-	54,999	29	48	37	68
55,000	-	59,999	25	23	21	32
60,000	-	64,999	6	18	13	17
65,000	-	69,999	12	14	6	23
70,000	-	74,999	4	21	1	25
75,000	-	79,999	1	10	3	14
80,000	-	84,999	1	9	5	10
85,000	-	89,999	4	3	6	5
90,000	-	94,999	3	1	1	3
95,000	-	99,999	2	2	4	1
100,000	-	104,999	1	0	1	1
105,000	-	109,999	1	1	1	1
110,000	-	114,999	0	0	0	1
115,000	-	119,999	2	1	0	0
120,000	-	124,999	0	0	0	0
125,000	-	129,999	0	0	1	0
130,000	-	134,999	1	0	3	0
135,000	-	139,999	1	0	0	0
140,000	-	144,999	3	0	3	0
145,000	-	149,999	0	0	0	0
150,000	-	154,999	2	0	0	0
155,000	-	159,999	1	0	0	0
160,000	-	164,999	2	0	0	0
165,000	-	169,999	0	0	1	0
170,000	-	174,999	0	0	0	0
175,000	-	179,999	1	0	1	0
200,000	-	204,999	1	0	0	0

Note 14. Teachers' Pension Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13, the Authority paid £7.7m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £10.6m and 14.1%. In addition, the Authority is responsible for all pension payments relating to added years it has awarded, together with the related increases. These amounted to less than £0.1m in 2012/13 (£0.8m in 2011/12).

Note 15. Defined Benefit Pension Schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

Officers working (or who have worked) for the Authority participate in two post employment schemes:

- The Local Government Pension Scheme (the LBH Pension Fund) - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- The London Pension Fund Authority (LPFA) Scheme - this is a funded defined benefit final salary scheme. No further contributions are paid into the scheme by employees. Additional amounts are paid into the scheme by the Authority to fund the deficit as calculated by the actuary.

Transactions relating to post employment benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against council tax is based on the cash payable in the year, so the real cost of post employment/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:

	LBH Pension Fund		LPFA Pension Fund		Total	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	£000s	£000s	£000s	£000s	£000s	£000s
Comprehensive Income and Expenditure Statement						
Cost of services:						
Current service cost	18,552	14,972	0	0	18,552	14,972
Past service costs	0	0	0	0	0	0
Losses / (gains) on settlements and curtailments	(7,430)	(4,944)	0	0	(7,430)	(4,944)
Financing and investment income and expenditure:						
Interest cost	33,646	34,862	273	334	33,919	35,196
Expected return on scheme assets	(26,387)	(30,863)	(159)	(205)	(26,546)	(31,068)
Total post employment benefit charged to the surplus or deficit on the provision of services	**18,381**	**14,027**	**114**	**129**	**18,495**	**14,156**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement						
Actuarial gains and losses	6,981	101,599	508	121	7,489	101,720
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**25,362**	**115,626**	**622**	**250**	**25,984**	**115,876**
Movement in Reserves Statement						
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits	(18,381)	(14,027)	(114)	(129)	(18,495)	(14,156)
Actual amount charged against the general fund balance in the year for pensions						
Employers' contributions payable to the scheme	28,704	19,373	24	23	28,728	19,396

The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement to the 31 March 2013 is a loss of £181.7m.

Assets and liabilities in relation to post employment benefits

The following table sets out a reconciliation of the movement in the present value of the scheme liabilities (defined benefit obligation) over the course of the year:

	LBH Pension Fund		LPFA Pension Fund		Total	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April	**749.6**	**639.7**	**6.2**	**6.3**	**755.8**	**646.0**
Current service cost	18.5	15.0	0.0	0.0	18.5	15.0
Interest cost	33.6	34.9	0.3	0.4	33.9	35.3
Contributions by scheme participants	5.4	5.6	0.0	0.0	5.4	5.6
Actuarial gains and losses	48.2	88.7	0.7	0.1	48.9	88.8
Benefits paid	(25.1)	(24.5)	(0.6)	(0.6)	(25.7)	(25.1)
Past service costs	0.0	0.0	0.0	0.0	0.0	0.0
Curtailments	(17.7)	(8.5)	0.0	0.0	(17.7)	(8.5)
Unfunded pension payments	(1.3)	(1.3)	0.0	0.0	(1.3)	(1.3)
Closing balance as at 31 March	**811.2**	**749.6**	**6.6**	**6.2**	**817.8**	**755.8**

The following table sets out a reconciliation of the movement in the fair value of the scheme assets over the course of the year:

	LBH Pension Fund		LPFA Pension Fund		Total	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April	**465.5**	**451.8**	**3.9**	**4.3**	**469.4**	**456.1**
Expected rate of return	26.4	30.9	0.2	0.2	26.6	31.1
Actuarial gains and losses	41.3	(12.9)	0.2	0.0	41.5	(12.9)
Local authority contributions	28.7	19.4	0.0	0.0	28.7	19.4
Contributions by scheme participants	5.4	5.6	0.0	0.0	5.4	5.6
Benefits paid	(26.5)	(25.8)	(0.6)	(0.6)	(27.1)	(26.4)
Receipt / (payment) of bulk transfer value	(10.2)	(3.5)	0.0	0.0	(10.2)	(3.5)
Closing balance as at 31 March	**530.6**	**465.5**	**3.7**	**3.9**	**534.3**	**469.4**

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

The actual return on scheme assets in the year was as follows.

	LBH Pension Fund		LPFA Pension Fund		Total	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	£000s	£000s	£000s	£000s	£000s	£000s
Actual return on scheme assets	**67,671**	**17,999**	**337**	**205**	**68,008**	**18,204**

Scheme history

	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08
	£m	£m	£m	£m	£m	£m
LBH Pension Fund						
Present value of liabilities	(811.2)	(749.6)	(639.7)	(755.0)	(487.8)	(527.1)
Fair value of assets in the scheme	530.5	465.5	451.9	430.8	314.5	373.8
Surplus / (deficit) in the scheme	(280.7)	(284.1)	(187.8)	(324.2)	(173.3)	(153.3)
LPFA Pension Fund						
Present value of liabilities	(6.6)	(6.2)	(6.4)	(6.8)	(6.0)	(6.4)
Fair value of assets in the scheme	3.7	3.9	4.3	3.8	4.0	5.1
Surplus / (deficit) in the scheme	(2.9)	(2.3)	(2.1)	(3.0)	(2.0)	(1.3)

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £283.6m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £283.6m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2014 is £17.2m.

Basis for estimating assets and liabilities

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

Authority Scheme liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. The latest full valuation of the LBH Pension Fund was as at 31 March 2010.

The principal assumptions used by the actuary have been:

	LBH Pension Fund		LPFA Pension Fund	
	2012/13	2011/12	2012/13	2011/12
Long-term expected rate of return on assets in the scheme:				
Equity investments		6.6%		6.3%
Gilts		3.3%		n/a
Other Bonds		4.6%		n/a
Property		4.3%		n/a
Cash		3.0%		3.0%
Target return portfolio		n/a		4.5%
Cash flow matching		n/a		3.3%
Total	**5.7%**	**5.7%**	**4.3%**	**4.3%**
Longevity at 65 for pensioners retiring now				
Men	19.2	19.0	21.3	21.2
Women	23.2	23.1	24.0	23.9
Longevity at 65 for future pensioners retiring in 20 years				
Men	21.1	21.0	23.4	23.3
Women	25.1	25.0	25.9	25.8
Rate of inflation - RPI	3.4%	3.3%	2.9%	3.3%
Rate of inflation - CPI	2.6%	2.5%	2.1%	2.5%
Rate of salary increases	4.8%	4.7%	3.8%	4.2%
Rate of pension increases	2.6%	2.5%	2.1%	2.5%
Discount rate	4.4%	4.6%	1.6%	4.6%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%	n/a	n/a

The Local Government Pension Scheme and London Pension Fund Authority Scheme assets consist of the following categories, by proportion of the total assets held:

	LBH Pension Fund		LPFA Pension Fund	
	2012/13	**2011/12**	**2012/13**	**2011/12**
	%	**%**	**%**	**%**
Equities	71	70	14	13
Gilts	6	14	n/a	n/a
Other Bonds	16	8	n/a	n/a
Property	3	3	n/a	n/a
Cash	4	5	1	2
Target return portfolio	**n/**a	**n/a**	**54**	**53**
Cash flow matching	n/a	n/a	31	32
Total	**100**	**100**	**100**	**100**

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2012/13	**2011/12**	**2010/11**	**2009/10**	**2008/09**	**2007/08**
	%	**%**	**%**	**%**	**%**	**%**
LBH Pension Fund						
Difference between expected and actual return on assets	7.8	(2.8)	(2.2)	22.6	(26.9)	(16.7)
Experience gains and losses on liabilities	0.0	0.0	0.8	0.0	0.0	(9.7)
LPFA Pension Fund						
Difference between expected and actual return on assets	4.8	0.0	21.4	7.5	(16.9)	3.2
Experience gains and losses on liabilities	0.0	0.1	(2.4)	0.7	(0.2)	(10.9)

Note 16. Related parties

The Authority is required to disclose 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 Authority 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 Authority. All councillors and officers on the Corporate Leadership Team are required to meet the requirements of IAS 24 Related Party Disclosures. Declarations have been sought from all these parties.

Central Government

Central government has effective control over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 18.

Members

Members of the council have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 11.

Officers

The Assistant Director of Corporate Governance holds the statutory position of Clerk to the West London Waste Authority (WLWA), which is responsible for waste disposal. See 'Other Public Bodies' section below for further information.

The Head of Housing Options and Partnerships is also a director of Locata Ltd., a company that operates in partnership with other London Boroughs a joint lettings scheme for housing tenants. The Authority made payments to Locata Ltd of £52k in 2012/13 in respect of services provided (£65k in 2011/12).

Voluntary Organisations and Charities

Grants paid to voluntary organisations amounted to £1,331k in 2012/13 (£954k in 2011/12). Commissioned services are subject to the council's procurement procedures and the payments made as part of individual contracts for specific services.

Hounslow Arts Trust received grants of £274k in 2012/13 (£249k in 2011/12), and it also received payments totalling £111k in 2012/13 (£244k in 2011/12) for other services provided. This includes payments through the commissioning process. Councillor Carey was a trustee of this charity.

A small grant was also paid to Elizabeth Jane Jones Charity where Councillor Mammatt is a trustee of the charity.

Chiswick House and Gardens Trust received grants of £232k in 2012/13 (£226k in 2011/12). Councillor Lynch was a Council representative on this Committee.

In all instances, the grants, which were less than £1,000 and for specific events, were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all of these relationships are recorded in the Register of Members' Interest, open to public inspection at the Civic Centre, Lampton Road, Hounslow, during office hours.

Other Public Bodies

The Council is an administering authority for the Pension Fund of LB Hounslow. The Authority charged £444k in 2012/13 for administrative services provided to the Pension Fund (£475k in 2011/12). As at 31 March 2013 the Authority held cash of £9,507k on behalf of the Pension Fund (£266k at 31 March 2012). The high cash balance is due to the decision to fund the Pension Fund by £10m from the Council's General Fund balances.

The Authority made payments of £2.65m in 2012/13 (£2.03m in 2011/12) to the National Health Service, and received income of £6.40m in 2012/13 (£5.854m in 2011/12) from the National Health Service.

The Authority is one of the six London boroughs which fund the net cost of the West London Waste Authority (WLWA), which is responsible for waste disposal. The WLWA is governed by six councillors, one from each borough. Councillor Colin Ellar was the Authority's representative on the WLWA in 2012/13. The Authority made payments of £8,145m in 2012/13 (£6.913m in 2011/12). The Authority also provided legal services to WLWA during 2012/13.

Entities Controlled or Significantly Influenced by the Authority

There are no entities to which this applies, other than its subsidiaries. The Council controls Hounslow Homes, an arm's length management organisation, through majority voting rights. The Council paid Hounslow Homes £36.7m in 2012/13 (£37.8m in 2011/12) for managing and maintaining its stock.

In addition, the Authority has more than half of the voting rights of the following charitable organisations:

- David Henry Waring Home Trust
- Bedfont Lakes Trust.

The impact of transactions with subsidiaries is set out in Part 4, Group Accounts.

Note 17. External audit costs

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

	2012/13	2011/12
	£000s	£000s
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year and in respect of statutory inspections	201	295
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	35	105
Total	**236**	**400**

About the Authority's Grant Income

Note 18. Grant income

The authority credited the following grants, contributions and donations to the comprehensive income and expenditure account in 2012/13.

	2012/13 £000s	2011/12 £000s
Credited to Services		
Dedicated Schools grant (DSG)	(157,659)	(180,632)
Pupil Premium Grant	(5,025)	(3,118)
Standard Fund Grants	(4)	(2,364)
Early Intervention Grant	(12,636)	(11,604)
Learning and Skills	(2,679)	0
YPLA	(7,939)	(17,005)
Housing Benefits subsidy	(145,762)	(140,380)
Council tax benefits	(21,854)	(22,041)
Housing Subsidy	(237)	4,529
Asylum grant	(848)	(585)
Department of Health Grants	(6,061)	(5,446)
The Private Finance Initiative (PFI)	(814)	0
Homelessness grants	0	(640)
Housing and council tax benefit admin	(2,266)	(2,423)
s106 Developer Contributions - Revenue	0	(736)
Other grants (under £1 million individually)	(5,017)	(1,410)
Total of Grants Credited to Services	**(368,801)**	**(383,855)**

	2012/13 £000s	2011/12 £000s
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(1,598)	(21,409)
Non domestic rates redistribution	(82,412)	(69,263)
Council Tax Freeze Grant	(2,391)	(2,368)
New Homes Bonus	(3,230)	(1,648)
Basic Needs Capital Grant (Schools)	(28,589)	(21,234)
Capital Maintenance Grant (Schools)	(3,320)	(4,293)
Heston School Redevelopment Grant	0	(70)
Surestart Capital Grants	0	(412)
Transport for London grants	(2,883)	(3,015)
Decent Homes Grant	(231)	(555)
Housing & Community Regeneration Grant	0	(9,264)
Schools Modernisation Grant	0	(2,745)
s106 Developer Contributions - Capital	(2,216)	(6,869)
HRA self-financing income	0	(275)
Primary Capital Grant	(707)	0
Other Capital Grants	(3,290)	(9,632)
Total of grants credited to taxation and non-specific grant	**(130,867)**	**(153,052)**

	2012/13 £000s	2011/12 £000s
Total of Grants Credited to Services	**(368,801)**	**(383,855)**
Total of grants credited to taxation and non-specific grant	**(130,867)**	**(153,052)**
Total of Grants Credited to the Statement	**(499,668)**	**(536,907)**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31 Mar 13	31 Mar 12
	£000s	£000s
Capital Grants Receipts in Advance		
Primary Capital Grant	(3,367)	(4,074)
Transport for London grants	(489)	0
Heston School Redevelopment Grant	(217)	0
Decent Homes Grant	(436)	(804)
Other Grants	(1,870)	(1,018)
Contributions	0	0
Total	**(6,379)**	**(5,896)**

Note 19. Dedicated Schools Grant

The Authority's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools budget includes elements for a range of educational services provided on an authority-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 DSG receivable for 2012/13 are as follows:

	Central expenditure	ISB	Total
	£000s	**£000s**	**£000s**
Final DSG for 2012/13			206,620
Academy Recoup 2012/13			48,960
Total DSG after Recoup			**157,660**
Plus: DSG brought forward from 2011/12			4,514
Less: carry forward of DSG to 2013/14 agreed in advance			4,514
Agreed Initial budgeted distribution in 2012/13	**31,727**	**125,957**	**157,684**
In Year Adjustments		(24)	(24)
Final budget distribution for 2012/13	**31,727**	**125,933**	**157,660**
Less: actual central expenditure	31,320		31,320
Less: actual ISB deployed to schools		125,933	125,933
Plus: local authority contribution for 2012/13			0
Total Carry Forward to 2013/14	**407**	**0**	**4,921**

About the Movement in Reserves Statement

Note 20. Adjustments between accounting and funding basis

	2012/13							
	General Fund Balance	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non current assets	(18,424)	(16,111)	0	0	0	0	(34,535)	34,535
Revaluation losses on Property, Plant and Equipment	(56,135)	9,662	0	0	0	0	(46,473)	46,473
Movements in the market value of investment properties	(105)	0	0	0	0	0	(105)	105
Amortisation of intangible assets	0	0	0	0	0	0	0	0
Capital grants and contributions that have been applied to capital financing	7,598	0	0	0	0	0	7,598	(7,598)
Movement in the donated assets account	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital	(2,542)	(163)	0	0	0	0	(2,705)	2,705
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	(41,757)	(1,691)	0	0	0	0	(43,448)	43,448
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	3,462	0	0	0	0	0	3,462	(3,462)
Voluntary provision for the financing of capital investment	3,073	0	0	0	0	0	3,073	(3,073)
Capital expenditure charged against the General Fund and HRA balances	3,592	0	0	0	0	0	3,592	(3,592)
Adjustments involving the Capital Receipts Reserves:								
Transfers of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,276	1,461	0	(4,737)	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	4,404	0	0	4,404	(4,404)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(52)	0	0	52	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(993)	0	0	993	0	0	0	0

	2012/13							
	General Fund Balance	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments involving the Major Repairs Reserves:								
Reversal of Major Repairs Allowance credited to the HRA	0	16,112	0	0	(16,112)	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	0	17,551	0	17,551	(17,551)
Adjustments involving the Capital Grants Unapplied Grant:								
Reversal of unapplied capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	33,637	0	0	0	0	(33,637)	0	0
Application of grants to capital financing	0	0	0	0	0	10,224	10,224	(10,224)
Adjustments involving the Financial Instruments Adjustment Account:								
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	21	0	0	0	0	0	21	(21)
Adjustments involving the Pensions Reserve:								
Reversal of items relating to post employment benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement (see note 28)	(18,495)	0	0	0	0	0	(18,495)	18,495
Employer's pensions contributions and direct payments to pensioners payable in the year	28,727	0	0	0	0	0	28,727	(28,727)
Adjustments involving the Collection Fund Adjustment Account:								
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	430	0	0	0	0	0	430	(430)
Adjustments involving the Accumulating Compensated Absences Adjustment 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.	900	0	0	0	0	0	900	(900)
Total Adjustments	(53,787)	9,270	0	712	1,439	(23,413)	(65,779)	65,779

	2011/12							
	General Fund Balance	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non current assets	(27,163)	(12,930)	0	0	0	0	(40,093)	40,093
Revaluation losses on Property, Plant and Equipment	(63,084)	(4,077)	0	0	0	0	(67,161)	67,161
Movements in the market value of investment properties	(2,090)	0	0	0	0	0	(2,090)	2,090
Amortisation of intangible assets	(42)	0	0	0	0	0	(42)	42
Capital grants and contributions that have been applied to capital financing	20,365	0	0	0	0	0	20,365	(20,365)
Movement in the donated assets account	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital	(5,077)	(203)	0	0	0	0	(5,280)	5,280
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	(140,038)	(565)	0	0	0	0	(140,603)	140,603
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	3,634	0	0	0	0	0	3,634	(3,634)
Voluntary provision for the financing of capital investment	3,099	0	0	0	0	0	3,099	(3,099)
Capital expenditure charged against the General Fund and HRA balances	2,800	6,409	0	0	0	0	9,209	(9,209)
Adjustments involving the Capital Receipts Reserves:								
Transfers of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,167	6,312	0	(9,479)	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	5,017	0	0	5,017	(5,017)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(59)	0	0	59	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(534)	0	0	534	0	0	0	0
Mitigation applied to Finance lease income to prevent reduction to general fund balance	0	0	0	0	0	0	0	0

	2011/12							
	General Fund Balance	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments involving the Major Repairs Reserves:								
Reversal of Major Repairs Allowance credited to the HRA	0	11,557	0	0	(11,557)	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	0	12,760	0	12,760	(12,760)
Adjustments involving the Capital Grants Unapplied Grant:								
Reversal of unapplied capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	37,724	0	0	0	0	(37,724)	0	0
Application of grants to capital financing	0	0	0	0	0	926	926	(926)
Adjustments involving the Financial Instruments Adjustment Account:								
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	50	0	0	0	0	0	50	(50)
Adjustments involving the Pensions Reserve:								
Reversal of items relating to post employment benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement (see note 28)	(14,156)	0	0	0	0	0	(14,156)	14,156
Employer's pensions contributions and direct payments to pensioners payable in the year	19,396	0	0	0	0	0	19,396	(19,396)
Adjustments involving the Collection Fund Adjustment Account:								
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	814	0	0	0	0	0	814	(814)
Adjustments involving the Accumulating Compensated Absences Adjustment 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.	300	0	0	0	0	0	300	(300)
Total Adjustments	(160,894)	6,503	0	(3,869)	1,203	(36,798)	(193,855)	193,855

Note 21. Transfers between and from earmarked reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2012/13.

The main earmarked reserves created by the Authority are:

- The Community Care Reserve reflects the uncertainty over a range of service issues in social services.
- The Savings and Improvement Reserve is set aside to meet the costs arising from the implementation of the Authority's Transformation and Savings Programme.
- The Repairs and Renewals Reserve is funded by contributions from services and is used to fund purchases of plant, vehicles and equipment.
- The Information Technology Reserves is earmarked to meet the cost of developing the Authority's IT services.
- The Authority has set aside a Special Contingency Reserve to cover major unforeseen contingencies. Separarte earmarked contingency amounts have been set aside for the following potential expenditure pressure in 2013/14: adults' social care costs (£1.0m), temporary accommodation (£1.4m), transition funding for grant reductions (£1.2m), volatility in business rates collection (£2.0m).
- A contingency for adult care investment reserve was created during 2011/12 and then drawn down in 2012/13 to cover adult social care costs.
- The new IFRS accounting principles require the Authority to immediately recognise as income any Government grants received with no conditions. These grants are often intended to support specific service expenditure or objectives, even though there are no strict ring-fenced conditions on the funding. Where this is the case any unspent grant income has been carried forward as part of an earmarked reserve.
- The Capital Funding Reserves have been set aside to meet the contingent capital costs arising from delivery of Members' priorities.
- The Committed Projects Reserve contains under spends carried forward from previous years which have been earmarked to fund future expenditure.
- The District Heating reserve is funded by contributions from tenants and is used for the repair and maintenance of the District Heating Plant.
- The Parking reserve account represents surpluses set aside from on-street parking income to fund traffic management and transport initiatives as defined by statute.
- The other funds represent the aggregate of amounts set aside for specific purposes where individually the amounts are non-material.

	Balance at 1 April 2011	2011/12		Balance at 31 March 2012	2012/13		Balance at 31 March 2013
		Transfers out	Transfers in		Transfers out	Transfers in	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Fund Earmarked Reserves							
Community Care	(1,697)	1,710	(947)	(934)	0	0	(934)
Savings and Improvement Reserves	(3,371)	805	(1,570)	(4,136)	528	(295)	(3,903)
Performance Improvement	(1,543)	0	0	(1,543)	0	0	(1,543)
Repairs and Renewals Fund	(3,863)	384	0	(3,479)	1,167	0	(2,312)
Information Technology Reserves	(5,411)	796	(1,533)	(6,148)	326	0	(5,822)
Special and Earmarked Contingencies Funds	(11,478)	1,570	(1,099)	(11,007)	879	(1,682)	(11,810)
Contingency for adult care investment	0	0	(1,000)	(1,000)	1,000	0	0
VAT Recovery Reserve	(2,220)	2,200	0	(20)	0	0	(20)
New Homes Grant	0	0	(1,648)	(1,648)	0	(3,012)	(4,660)
Total General Reserves	**(29,583)**	**7,465**	**(7,797)**	**(29,915)**	**3,900**	**(4,989)**	**(31,004)**
Government grants received but not yet spent	(8,316)	178,760	(184,435)	(13,991)	1,545	(2,787)	(15,233)
Capital Funding	(3,700)	113	(4,256)	(7,843)	382	(3,206)	(10,667)
Committed Projects	(307)	62	0	(245)	0	(2,053)	(2,298)
Area Based Grant Reserve	(2,462)	0	0	(2,462)	0	0	(2,462)
Insurance Reserve	(1,409)	0	(1,450)	(2,859)	0	0	(2,859)
Earmarked Reserves of less than £1 million	(5,087)	2,131	(4,984)	(7,940)	1,572	(4,210)	(10,578)
Total Restricted Reserves	**(21,281)**	**181,066**	**(195,125)**	**(35,340)**	**3,499**	**(12,256)**	**(44,097)**
Balances held by Schools under a scheme of delegation	(18,901)	18,985	(19,060)	(18,976)	18,759	(14,739)	(14,956)
Schools Building Maintenance Fund	(1,526)	44	(408)	(1,890)	171	(402)	(2,121)
Special Parking Area Fund	(1,469)	29	(820)	(2,260)	430	0	(1,830)
Total Statutory Reserves	**(21,896)**	**19,058**	**(20,288)**	**(23,126)**	**19,360**	**(15,141)**	**(18,907)**
Total General Fund Earmarked Reserves	**(72,760)**	**207,589**	**(223,210)**	**(88,381)**	**26,759**	**(32,386)**	**(94,008)**
Housing Revenue Account Earmarked Reserves							
District Heating	(749)	0	(233)	(982)	89	0	(893)
Major Works	(2,934)	278	(3,030)	(5,686)	0	(1,324)	(7,010)
Total HRA Earmarked Reserves	**(3,683)**	**278**	**(3,263)**	**(6,668)**	**89**	**(1,324)**	**(7,903)**

About the Value of the Authority's Reserves on the Balance Sheet

Note 22. Usable Reserves

Movements in the Authority's usable reserves are set out in the Movement in Reserves Statement and detailed in Note 21.

Note 23. Unusable Reserves

The following table sets out the Authority's unusable reserves.

	2012/13	2011/12
	£000s	**£000s**
Revaluation reserve	(154,061)	(182,163)
Capital adjustment account	(890,825)	(953,997)
Financial instruments adjustment account	52	72
Deferred capital receipts reserve	(3,064)	(3,079)
Pensions reserve	283,584	286,328
Collection fund adjustment account	(1,719)	(1,289)
Accumulated absences account	4,700	5,600
Total of unusable reserves at 31 March	**(761,333)**	**(848,528)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. 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 Revaluation Reserve contains only revaluation 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.

	2012/13	2011/12
	£000s	£000s
Balance at 1 April	**(182,163)**	**(235,719)**
Upward revaluation of assets	(18,403)	(26,617)
Downward revaluation of assets and impairment losses not charged to the surplus or deficit on the provision of services	32,317	37,250
Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	**13,914**	**10,633**
Difference between fair value depreciation and historical cost depreciation	3,991	5,061
Accumulated gains on assets sold or scrapped	10,198	37,862
Amount written off to the capital adjustment account	14,189	42,923
Balance at 31 March	**(154,060)**	**(182,163)**

Capital Adjustment Account

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

The Capital Adjustment Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. It also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2012/13	2011/12
	£000s	£000s
Balance at 1 April	**(953,997)**	**(1,111,335)**
Charges for depreciation and impairment of non-current assets	34,535	40,094
Revaluation losses on property, plant and equipment	46,472	67,161
Amortisation of intangible assets	0	42
Revenue expenditure funded from capital under statute	2,705	5,281
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	43,448	140,603
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	**127,160**	**253,181**
Adjusting amounts written out of the revaluation reserve	(14,188)	(42,923)
Net written out amount of the cost of non-current assets consumed in the year	**112,972**	**210,258**
Use of the capital receipts reserve to finance new capital expenditure	(4,404)	(5,017)
Use of the Major Repairs Reserve to finance new capital expenditure	(17,551)	(12,760)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(7,598)	(20,365)
Application of grants to capital financing from the Capital Grants Unapplied Account	(10,224)	(926)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(3,462)	(3,634)
Voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	(3,073)	(3,100)
Capital expenditure charged against the General Fund and HRA balances	(3,592)	(9,208)
Capital financing applied in the year	**(49,904)**	**(55,010)**
Movement in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	105	2,090
Movement in the donated assets debited or credited to the Comprehensive Income and Expenditure Statement	0	
Balance at 31 March	**(890,824)**	**(953,997)**

The Financial Instruments Adjustment Account

The Financial Instruments 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 per statutory provisions.

The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2012/13	2011/12
	£000s	£000s
Balance at 1 April	**72**	**122**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of premiums incurred in previous years to be charged against the General Fund balance in accordance with statutory requirements	(21)	(50)
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	**(21)**	**(50)**
Balance at 31 March	**51**	**72**

Pensions Reserve

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

	2012/13	2011/12
	£000s	**£000s**
Balance at 1 April	**286,328**	**189,848**
Actuarial gains or losses on pensions assets and liabilities	7,489	101,720
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	18,495	14,156
Employer's pensions contributions and direct payments to pensioners payable in the year	(28,728)	(19,396)
Balance at 31 March	**283,584**	**286,328**

Deferred Capital Receipts

The Deferred Capital Receipts account reflects the value of income due in future years in return for the sale or lease of a Council asset. When income is received, a sum equal to the income is transferred from the Deferred Capital Receipts account to the Capital Receipts Reserve.

	2012/13	2011/12
	£000s	**£000s**
Balance at 1 April	**(3,079)**	**(3,117)**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer to the Capital Receipts Reserve upon receipt of cash	15	38
Balance at 31 March	**(3,064)**	**(3,079)**

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.

	2012/13	2011/12
	£000s	£000s
Balance at 1 April	**(1,289)**	**(475)**
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	(429)	(814)
Balance at 31 March	**(1,718)**	**(1,289)**

Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment 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.

	2012/13	2011/12
	£000s	£000s
Balance at 1 April	**5,600**	**5,900**
Settlement or cancellation of accrual made at the end of the preceding year	(5,600)	(5,900)
Amounts accrued at the end of the current year	4,700	5,600
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in accordance with statutory requirements	**(900)**	**(300)**
Balance at 31 March	**4,700**	**5,600**

About the Authority's Non-Current Assets

Note 24. Leases

Authority as lessee:

Finance leases

The Authority has a number of industrial units on a long lease which are included as investment property in the Balance Sheet at the amounts in the table below. The Authority's valuers have revised the market value for the assets to nil at 31 March 2012 following detailed consideration of the onerous conditions of this lease, which dates back to 1984. The valuer's view is that it would be very difficult to dispose of this lease, since the estimated demand for industrial units of this type is unlikely to increase, or even remain stable. The current rental income for the units is estimated at £186k for 2013/14, while actual income for 2012/13 was £185k. The rental payments are £185k per annum, on an upwards only rental review basis, and this together with the management and maintenance costs, means the units are uneconomic at present, and severely affect their financial viability.

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 Mar 13	31 Mar 12
	£000s	£000s
Finance lease liabilities (net present value of minimum lease payments)		
current	54	51
non current	2,122	2,176
Finance costs payable in future years	1,709	1,842
Minimum lease payments	**3,885**	**4,070**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 Mar 13	31 Mar 12	31 Mar 13	31 Mar 12
	£000s	£000s	£000s	£000s
Not later than one year	185	185	54	51
Later than one year and not later than five years	740	740	252	238
Later than five years	2,960	3,145	1,870	1,938
	3,885	**4,070**	**2,176**	**2,227**

The minimum lease payments are based on contractual rental payments from July 2009 onwards and do not include any assumptions for future changes to rents. The Authority has sub-let the industrial units on operating leases.

Authority as lessor

Finance Leases

The Authority leased out two properties, in 2004 and 2006 respectively, at Dukes Meadows, Chiswick, on long term finance leases of approximately 50 years.

The Authority has an investment in the leases, made up of the estimated net present value of the assets of £2.885m at 31 March 2013. The minimum lease payments expected to be received over the remaining term total £7.989m at 31 March 2013. No residual value has been estimated for the properties when the leases end due to the remaining length of the leases. The minimum lease payments comprise settlement of the long term debtors for the interest in the properties acquired by the lessees and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 Mar 13	31 Mar 12
	£000s	£000s
Finance lease debtor (net present value of minimum lease payments)		
current	16	14
non current	2,854	2,872
Unearned finance income	0	0
Unguaranteed residual value of property	0	0
Gross investment in the lease	**2,870**	**2,886**

The gross investment in the leases and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 Mar 13	31 Mar 12	31 Mar 13	31 Mar 12
	£000s	£000s	£000s	£000s
Not later than one year	16	14	188	188
Later than one year and not later than five years	73	69	752	752
Later than five years	2,781	2,803	7,237	7,237
	2,870	**2,886**	**8,177**	**8,177**

The minimum lease payments are based on current rents at 31 March 2013 and do not include assumptions for future rent changes.

Operating Leases

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

- To assist in the provision of community services, such as community centres, scout huts, community shops, and office space for some voluntary sector bodies
- To assist in economic development through the provision of suitable affordable accommodation for local businesses.

The Council's most significant investment is the Western International Market which generates approximately £1.6m each year out of the total leasing income.

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

	31 Mar 13	31 Mar 12
	£000s	£000s
Not later than one year	2,835	2,855
Later than one year and not later than five years	9,408	9,648
Later than five years	4,579	6,547
	16,822	**19,050**

The minimum lease payments are based on current rents at 31 March 2013 and do not include any assumptions for future rent changes.

Note 25. Intangible Assets

The net book value of intangible assets as at 31 March 2013 is £nil.

Note 26. Capitalisation of Borrowing Costs

The Council’s policy is not to capitalise its borrowing costs.

Note 27. Property, Plant and Equipment

The following table sets out the movement in the balances related to property, plant and equipment during 2012/13.

	Council dwellings	Other land and buildings	Vehicles, plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2012	655,890	706,308	35,469	110,317	6,781	1,041	13,313	1,529,119
Additions	18,595	5,788	2,961	7,767	0	0	10,603	45,714
Accumulated Depreciation Written Out to Gross Carrying Amount	0	(7,730)	0	0	0	(32)	0	(7,762)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(13,914)	0	0	0	0	0	(13,914)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,895)	(56,509)	0	0	0	(83)	(812)	(59,299)
Derecognition - disposals	(1,691)	(44,439)	(303)	0	0	(86)	0	(46,519)
Assets reclassified (to)/from Held for Sale	0	(1,840)	0	0	0	0	0	(1,840)
Assets reclassified (to)/from Investment Property	0	0	0	0	0	1,208	0	1,208
Other movements in cost or valuation	0	10,819	0	0	527	576	(11,922)	0
At 31 March 2013	670,899	598,483	38,127	118,084	7,308	2,624	11,182	1,446,707
Accumulated Depreciation and Impairment								
At 1 April 2012	(11,556)	(31,081)	(17,720)	(13,811)	0	(40)	(3,389)	(77,597)
Depreciation charge	(14,865)	(13,143)	(3,505)	(3,006)	0	(17)	0	(34,536)
Depreciation written out to the Revaluation Reserve								0
Accumulated Depreciation Written Out to Gross Carrying Amount		7,730	0	0	0	32	0	7,762
Depreciation written out to the Surplus/Deficit on the Provision of Services	11,557							11,557
Derecognition - disposals		2,902	167	0	0	2	0	3,071
Derecognition - to assets held for sale		160	0	0	0	0	0	160
Other movements in depreciation or impairment		33	0	0	0	(33)	0	0
At 31 March 2013	(14,864)	(33,399)	(21,058)	(16,817)	0	(56)	(3,389)	(89,583)
Net Book Value								
At 31 March 2013	656,035	565,084	17,069	101,267	7,308	2,568	7,793	1,357,124
At 31 March 2012	644,334	675,227	17,749	96,506	6,781	1,001	9,924	1,451,522

The following table sets out the comparative movement in the balances related to property, plant and equipment during 2011/12.

	Council dwellings	Other land and buildings	Vehicles, plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2011	649,017	910,104	34,021	105,237	6,703	902	20,387	1,726,371
Additions	21,354	13,174	1,589	5,080	113	0	7,496	48,806
Donations	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(10,802)	0	0	0	169	0	(10,633)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(14,998)	(63,019)	0	0	0	(87)	0	(78,104)
Derecognition - disposals	(565)	(146,865)	(141)	0	0	0	0	(147,571)
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Investment Property	0	0	0	0	0	27	0	27
Other movements in cost or valuation	1,082	3,716	0	0	(35)	30	(14,570)	(9,777)
At 31 March 2012	655,890	706,308	35,469	110,317	6,781	1,041	13,313	1,529,119
Accumulated Depreciation and Impairment								
At 1 April 2011	(10,943)	(28,679)	(14,230)	(10,811)	0	(23)	0	(64,686)
Depreciation charge	(11,557)	(15,263)	(3,540)	(3,000)	0	(17)	0	(33,377)
Depreciation written out to the Revaluation Reserve								0
Depreciation written out to the Surplus/Deficit on the Provision of Services	10,944							10,944
Derecognition - disposals		6,923	50				(3,389)	3,584
Derecognition - other								0
Other movements in depreciation or impairment		5,938						5,938
At 31 March 2012	(11,556)	(31,081)	(17,720)	(13,811)	0	(40)	(3,389)	(77,597)
Net Book Value								
At 31 March 2012	644,334	675,227	17,749	96,506	6,781	1,001	9,924	1,451,522
At 31 March 2011	638,074	881,425	19,791	94,426	6,703	879	20,387	1,661,685

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The Council's dwelling stock is subject to an annual revaluation undertaken by professional external valuers, Jones Lang Lasalle and Deloitte LLP.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second hand market or latest list prices adjusted for the condition of the asset.

The value of Council dwellings has been adjusted annually on the basis of property valuation indices, taking into account an adjustment factor to reflect the lower value of social housing.

The following table shows the progress of the Authority's rolling programme for the revaluation of its fixed assets.

`	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000s	£000s	£000s	£000s	£000s
Carried at historical cost			17,066		**17,066**
Valued at fair value as at:					
31 March 2009	0	188,999	0	26	**189,025**
31 March 2010	0	90,716	0	18	**90,734**
31 March 2011	0	103,310	0	383	**103,693**
31 March 2012	0	81,162	0	331	**81,493**
31 March 2013	656,034	100,903	0	1,809	**758,746**
Net Book Value	**656,034**	**565,090**	**17,066**	**2,567**	**1,240,757**
Value of assets on an historical cost basis	**656,034**	**412,105**	**17,066**	**2,096**	**1,087,301**

In 2010/11 the authority moved from a five year rolling revaluation programme which revalued all the assets in a particular class, for example all the schools, to a programme which revalues 20% of the assets in a particular class.

Note 28. Capital Commitments

At 31 March 2013, the most significant capital commitment made by the Authority relates to the PFI contract (see Note 34). In aggregate the value of committed contracts for the construction or enhancement of Property, Plant and Equipment, including the PFI contract, is approximately £100m. The equivalent figure as at 31 March 2012 was £12m.

Note 29. Investment Properties

The Comprehensive Income and Expenditure Statement includes the following amounts of income and expenditure in relation to investment properties.

	2012/13	2011/12
	£000s	£000s
Rental income from investment property	(2,862)	(2,769)
Direct operating expenses arising from investment property	190	297
Net (gain)/loss	**(2,672)**	**(2,472)**

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

	2012/13	2011/12
	£000s	£000s
Balance at start of the year	**31,465**	**33,582**
Additions :		
Subsequent expenditure	0	0
Disposals	0	0
Net gains/losses from fair value adjustments	(1,023)	(2,090)
Transfers :		
To/from Property, Plant and Equipment	(1,208)	(27)
Other Changes	0	0
Balance at end of the year	**29,234**	**31,465**

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

Investment properties are revalued as part of the Authority’s programme of revaluing its other fixed assets undertaken by professional external valuers, Jones Lang Lasalle.

Note 30. Heritage assets

Heritage assets are assets that are held by the Authority principally for their contribution to culture, understanding and appreciation of the Authority’s history and local area. The Authority holds the following key heritage assets:

- Hogarth House museum including a historical letter
- Gunnersbury Park museum
- The grounds of Chiswick House, and
- Boston Manor House.

A brief description of the assets is set out below. The buildings and grounds are all accounted for at cost, and no depreciation is charged as they all have indeterminate lives. Under International Financial Reporting Standards (IFRS) some of the measurement rules are relaxed in relation to heritage assets. In particular, where cost figures are not available, and where the cost of obtaining specialist valuations for specific assets is estimated to be significant and out of proportion to the benefits obtained (for example, for the approximately 40,000 items at Gunnersbury museum) the local authority is not required to include a valuation figure in its balance sheet. The Authority does not have either actual cost or valuation figures for the items within heritage buildings and therefore does not recognise the Gunnersbury House collection, or any other artefacts within Hogarth House or Boston Manor House on the balance sheet, apart from the historical letter at Hogarth House.

Listed buildings

Hogarth House is a Grade I listed house, which was built around 1700, and was the country home of the great painter, engraver and satirist William Hogarth (1697 - 1764) from 1749 until his death. Hogarth’s House holds an extensive collection of the artist’s 18th century prints, of which a selection will always be on display, and a set of his engraving plates. Hogarth House was acquired by the Authority by an Order dated 27 September 1966 made by the Secretary of State transferring Trusteeship to and vesting ownership in the London Borough of Hounslow.

Gunnersbury Park Museum was opened in 1929 and it is the local history museum for the London Boroughs of Ealing and Hounslow. This Grade II listed building is a Regency house which once belonged to the Rothschild family. The museum's collections at Gunnersbury include a wide range of material reflecting all aspects of life and work in the area, and the role of the museum is to collect, keep safe and display the past and present history of the two boroughs. Gunnersbury Park (which includes the museum) was acquired by the two Councils in equal shares by a conveyance dated 29 December 1925 for the consideration of £125,000. The museum includes approximately 40,000 items whose value is not included on the balance sheet due to the lack of information on the cost of each item, while the cost of obtaining a specialist valuation would be out of proportion to the benefits.

Chiswick House is a Grade I listed building, which together with its contents is owned and maintained by English Heritage. However, the extensive grounds are owned by the Authority, and they include a substantial number of statues, plus a grade 1 listed conservatory, and other artefacts of historical interest. The house is considered to be the finest surviving example of Palladian architecture in Britain, with superb collections of paintings and furniture. Its surrounding grounds claim to be the birthplace of the English landscape garden and are thought to be the most important historical landscapes in England and in Wales.

Boston Manor House is a Jacobean manor house built in 1623 and is a Grade 1 Listed building. The house was built for Lady Mary Reade, a young widow whose second husband was Sir Edward Spencer of Althorp, Northamptonshire – an ancestor of the late Diana, Princess of Wales. Sir Edward and Lady Mary were still owners of Boston Manor in 1642, when the Battle of Brentford took place nearby during the English Civil War. The house has undergone substantial renovation during 2011/12 and it was recently re-opened to the public following a long period of closure.

Historical documents

This comprises the Hogarth-Kirby letter, which is the main attraction at Hogarth's House in Chiswick, owned and run by the Council. The three-page manuscript to John Joshua Kirby was written at Chiswick in 1754. Letters and manuscripts by William Hogarth are scarce and appear very rarely on the open market and this letter is on display for future generations to appreciate and learn more about Hogarth's history.

Asset values included in the balance sheet

The reconciliation of the carrying value of Heritage Assets Held by the Authority is set out below.

	Listed Buildings and/or Grounds	Historical Documents	Total
	£000s	**£000s**	**£000s**
Cost			
As at 1 April 2011	2,999	12	3,011
Additions	49	0	49
Reclassification	512	0	512
As at 31 March 2012	**3,560**	**12**	**3,572**
Cost			
As at 1 April 2012	3,560	12	3,572
Additions	48	0	48
Reclassification	0	0	0
As at 31 March 2013	**3,608**	**12**	**3,620**

Note 31. Impairment losses

During 2012/13 the Authority has recognised a total impairment loss of £nil (£6.7m for 2011/12).

Note 32. Capital Expenditure and Capital Financing

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

	2012/13	2011/12
	£000	£000
Opening Capital Financing Requirement	**350,455**	**351,329**
Capital Investment:		
Property, Plant and equipment	45,715	48,806
Investment Properties	0	0
Heritage Assets	0	49
Intangible Assets	0	0
Revenue Expenditure Funded from Capital under statute	2,705	5,281
Asset movements not reflected in Capital Adjustment Account:		
Non Dwelling HRA revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,187)	
Sources of Finance:		
Capital receipts	(4,404)	(5,018)
Government grants and other contributions	(17,822)	(21,290)
Sums set aside from revenue:		
Direct revenue contributions	(21,143)	(21,968)
MRP/Loans Fund Principal	(6,488)	(6,734)
Closing Capital Financing Requirement	**346,831**	**350,455**
Explanation of movements in year		
Increase in need to borrow (supported by government financial assistance)	1,989	206
Increase in need to borrow (not supported by government financial assistance)	1,196	5,654
Repayment of borrowing	(6,488)	(6,685)
Assets acquired under finance leases	(48)	(48)
Assets acquired under PFI/PPP contracts	1,912	
Asset movements not reflected in Capital Adjustment Account	(2,187)	
Increase/(decrease) in Capital Financing Requirement	**(3,626)**	**(873)**

Note 33. Long-Term Debtors

	31-Mar-13	31-Mar-12
	£000s	£000s
Other Local Authorities	5	5
Public Corporations and Trading Funds	2,872	2,886
Other Entities and Individuals	1,008	1,118
Total	**3,885**	**4,009**

Note 34. Private Finance Initiatives (PFI) and Similar Contracts

The Council entered into a PFI contract in August 2012 for the maintenance and updating of all the highways and street lighting and associated infrastructure (a ‘fence to fence’ contract). The contract is for 25 years and came into effect from January 2013.

The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services	Interest	Reimbursement of Capital Expenditure	Total
	£000	£000	£000	£000
Payable in 2012/13	1,831	681	680	3,193
Payable within 1 year	8,949	2,678	2,768	14,395
Payable within 2 to 5 years	54,932	9,908	11,878	76,718
Payable within 6 to 10 years	83,928	10,397	16,836	111,161
Payable within 11 to 15 years	92,527	7,881	19,352	119,760
Payable within 16 to 20 years	102,256	4,988	22,245	129,489
Payable within 21 to 25 years	107,364	1,667	24,204	133,235
Total	**451,787**	**38,200**	**97,963**	**587,951**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to the contractor for capital expenditure is as follows:

	2012/13	2011/12
	£000	£000
Balance outstanding at start of year	**0**	**0**
Liability at start of contract	(97,964)	0
Payments during the year	680	0
Balance outstanding at year-end	**(97,284)**	**0**

At the start of the contract a deferred asset was recognised. Movements during the year are as follows:

	2012/13	2011/12
	£000	£000
Balance outstanding at start of year	**0**	**0**
Deferred asset at start of contract	97,964	0
Capital expenditure delivered in the year	(1,912)	0
Balance outstanding at year-end	**96,052**	**0**

The difference between the outstanding liability and deferred asset is equal to the impact that the PFI contract has on the Authority's Capital Financing Requirement.

About the Authority's Current Assets

Note 35. Debtors

	31 Mar 13 £000s	31 Mar 12 £000s
Central Government bodies	7,060	7,425
Other Local Authorities	2,188	5,079
NHS Bodies	4,975	2,285
Public Corporations and Trading Funds	0	
Other Entities and Individuals		
- Debtors	59,755	50,669
- Less Bad Debts Provision	(33,113)	(34,576)
Total	**40,865**	**30,882**

Note 36. Creditors

The Authority is required under IFRS to estimate the cost of annual leave due to staff at 31 March each year. The cost is estimated at £4.7m at 31 March 2013 (£5.6m at 31 March 2012), and is included under the category 'Other Entities and Individuals'.

	31 Mar 13 £000s	31 Mar 12 £000s
Central Government bodies	(16,381)	(23,547)
Other Local Authorities	(6,008)	(5,532)
NHS Bodies	(543)	(267)
Other Entities and Individuals	(65,240)	(53,547)
Total	**(88,172)**	**(82,893)**

Note 37. Provisions

The Authority is required under IFRS to split its provisions between short term and long term on the balance sheet. The table below shows the overall provisions for the Council. The short term provisions are those estimated to be payable within one year of the balance sheet date and total £3.320m at 31 March 2013 (£3.051m at 31 March 2012). The long term provisions are those estimated to be payable in more than one year from the balance sheet date and total £2,885m at 31 March 2013 (£2.869m at 31 March 2012).

	Insurance	Provision for Redundancy	Other Provisions	Total
	£000s	£000s	£000s	£000s
Balance at 1 April 2011	3,762	985	540	5,287
Additional provisions made in 2011/12	888	2,000	124	3,012
Amounts used in 2011/12	(1,306)	(985)	(88)	(2,379)
Balance at 31 March 2012	3,344	2,000	576	5,920
Additional provisions made in 2012/13	1,083	1,420	357	2,860
Amounts used in 2012/13	(1,094)	(1,420)	(61)	(2,575)
Balance at 31 March 2013	3,333	2,000	872	6,205

Note 38. Contingent liabilities

At 31 March 2013 there were a number of legal claims outstanding against the Council. These claims are disputed and are still the subject of negotiation, and/or legal action, with the parties concerned. The Council has third party insurance which is sufficient to cover the majority of any payments likely to arise. As part of its normal accounting policies, the Council has set aside a provision to cover payments arising out of any losses or claims that are not covered by insurance. It is considered that the sums set aside are more than adequate to provide for any payments resulting from these claims.

About the Authority's Long-Term Liabilities

Note 39. Long-Term Creditors

The authority receives contributions from developers under the provisions of section 106 of the 1990 Town and Country Planning Act and also under sections 38 and 278 of the Highways Act 1980. Unspent amounts from these contributions are shown as long-term creditors on the balance sheet.

	31 Mar 13	31 Mar 12
	£000s	£000s
Developers' contributions unapplied	(21,568)	(20,329)
Total Long Term Creditors	**(21,568)**	**(20,329)**

Note 40. Other Long term liabilities

	31 Mar 13	31 Mar 12
	£000s	£000s
Pension fund liability	(283,584)	(286,328)
Finance lease liability	(2,179)	(2,228)
PFI liability	(94,516)	0
Total Other Long Term Creditors	**(380,279)**	**(288,556)**

About the Authority's Financial Instruments

Note 41. Financial instruments

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Long-term		Current	
	31 Mar 13	31 Mar 12	31 Mar 13	31 Mar 12
	£000s	£000s	£000s	£000s
Investments				
Loans and Receivables	39,259	9	155,102	158,638
Total Investments	**39,259**	**9**	**155,102**	**158,638**
Debtors				
Loans and receivables	3,885	4,009		
Financial assets carried at contract amounts			9,370	8,208
Total Debtors	**3,885**	**4,009**	**9,370**	**8,208**
Borrowings				
Financial liabilities at amortised cost	(240,935)	(251,174)	(12,547)	(5,640)
Total Borrowings	**(240,935)**	**(251,174)**	**(12,547)**	**(5,640)**
Other Long term Liabilities				
PFI and finance lease liabilities	(96,648)	(2,176)	(2,816)	(52)
Other Long term Liabilities	**(96,648)**	**(2,176)**	**(2,816)**	**(52)**
Creditors				
Financial liabilities carried at contract amount	0	0	(9,272)	(7,620)
Total Creditors	**0**	**0**	**(9,272)**	**(7,620)**

Reclassifications

In 2012/13 the Authority did not have to reclassify any of its investments.

Income, Expense, Gains and Losses

	2012/13					2011/12				
	Financial liabilities measured at amortised cost	Financial Assets : Loans and Receivables	Financial Assets : Available for sale	Assets and Liabilities at fair value through Profit and Loss	Total	Financial liabilities measured at amortised cost	Financial Assets : Loans and Receivables	Financial Assets : Available for sale	Assets and Liabilities at fair value through Profit and Loss	Total
	£000s	£000s	£000s	£000s	**£000s**	£000s	£000s	£000s	£000s	**£000s**
Interest expense	14,254				**14,254**	14,178				**14,178**
Total expense in Surplus or Deficit on the Provision of Services	**14,254**	**0**	**0**	**0**	**14,254**	**14,178**	**0**	**0**	**0**	**14,178**
Interest income		2,277			**2,277**		1,494			**1,494**
Total income in Surplus or Deficit on the Provision of Services	**0**	**2,277**	**0**	**0**	**2,277**	**0**	**1,494**	**0**	**0**	**1,494**

Fair values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2013 of 0.02% to 3.13% for loans from the PWLB and 0.35% to 4.30% for other loans receivable and payable, based on new lending rates for equivalent loans at that date. For 2011/12, 0.17% to 3.26% for loans from the PWLB and 0.39% to 4.47% for other loans receivable and payable.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	2012/13		2011/12	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000s	£000s
Financial liabilities	254,482	297,625	256,814	299,279
Long term creditors	21,568	21,568	20,329	20,329

The fair value of the liabilities is more than the carrying amount because the authority’s portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders above current market rates.

	2012/13		2011/12	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000s	£000s
Loans and receivables	192,010	193,163	158,638	158,617
Long term debtors	3,885	3,885	4,009	4,009

The fair value of the assets is less than the carrying amount because the authority’s portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2013) attributable to the commitment to receive interest above current market rates.

The Council has no available for sale assets or liabilities. There is, therefore, no charge through profit and loss.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Note 42. Nature and extent of risks arising from financial instruments

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

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

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the Annual Treasury Management Strategy. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the authority are as detailed below:

- The Authority had a policy of limiting deposits with institutions to a maximum of £20m for banks and building societies, £30m for local authorities and similar bodies and £50m for partially nationalised banks.
- Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £20m to £50m per counter party 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 for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at 31 March 2013 that this was likely to crystallise.

The Council has no bonds. Furthermore, no credit limits were exceeded during the financial year and the Authority expects full repayment on the due date of deposits placed with its counterparties. During 2012/13 the counterparty limit for partially nationalised banks was increased from £30m to £50m.

There are no cases, and hence no carrying value, that would otherwise be past due or impaired whose terms have been renegotiated.

The Authority does not generally allow credit for customers.

Liquidity risk

The Authority has access to a facility to borrow from the Public Works Loans Board. As a result, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Authority has safeguards in place to ensure that a significant proportion of its borrowing does not mature at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The

Authority's policy is to limit exposure on the proportion of its loans that are due to mature within any rolling five-year period. This is achieved through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity structure of financial liabilities is:

	31-Mar-13 £000s	31-Mar-12 £000s
Between one and two years	49,623	42,649
Between two and five years	37,798	77,195
Between five and ten years	49,157	36,111
More than ten years	71,857	85,224
Total Long Term Borrowing	**208,435**	**241,179**
Less than one year	45,047	15,635
Total	**253,482**	**256,814**

This is on a different basis than included in the Balance Sheet because the balance sheet figures include the accrued interest amounts as at 31 March each year in the carrying amount.

Market Risk

Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. 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 borrowings 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 on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of £60m of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31-Mar-13	31-Mar-12
	£000s	**£000s**
Increase in interest payable on variable rate borrowings	4	3
Increase in interest receivable on variable rate investments	-1,900	-1,660
Increase in government grant receivable for financing costs	0	-610
Impact on Surplus or Deficit on the Provision of Services	-1,896	-2,267
Share of overall impact credited to the HRA	254	966
Decrease in fair value of fixed rate investment assets	986	627
Impact on Other Comprehensive Income and Expenditure	-656	-674

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) of £31.508m (£29.606m in 2011/12).

The impact of a 1% fall interest is estimated to be less than the figures above (with the movements in reserve) due to the low level of interest rates earned on the Authority's short term investments, since the average interest rate on investments was below 1% in 2012/13.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

About the Cash Flow Statement

Note 43. Operating Activities

The cash flows for operating activities include the items shown in the following table.

	2012/13	2011/12
	£000s	£000s
Interest Paid	14,546	14,329
Interest Received	(2,092)	(1,898)

Note 44. Investing Activities

The cash flows for investing activities include the following items:

	2012/13	2011/12
	£000s	£000s
Purchase of property, plant and equipment, investment property and intangible assets	(43,398)	(49,570)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,585	7,358
Net change in long and short term investments	(39,547)	(45,009)
Net cash flows from investing activities	**(78,360)**	**(87,221)**

Note 45. Financing Activities

The cash flows for financing activities include the following items:

	2012/13	2011/12
	£000s	£000s
Cash receipts of short term and long term borrowing	29,413	35,389
Other receipts for financing activities	(7,432)	8,430
Repayments of short term and long term borrowing	(32,745)	(43,140)
Other payments for financing activities	(60)	57
Net cash flows from financing activities	**(10,824)**	**736**

Note 46. Cash and Cash Equivalents

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

	2012/13	2011/12
	£000s	£000s
Cash and bank current accounts held by the authority	5,446	6,362
Short Term deposits with financial institutions	42,850	52,130
Total of bank accounts and short term deposits	**48,296**	**58,492**
Bank overdrafts	0	0
Total cash and cash equivalents	**48,296**	**58,492**

Other Disclosures

Note 47. Acquired and Discontinued Operations

The Authority did not acquire or discontinue any operations during the year.

Note 48. Events after the balance sheet date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 28 June 2013. Events taking place after this date are not reflected in the financial statements or notes.

The Code defines two types of event after the reporting period:

- **Adjusting events**: those that provide evidence of conditions that existed at the balance Sheet date – where material, the financial statements and notes in the Statement of Accounts are required to be amended to reflect the impact of the events. There were no adjusting events after 31 March 2013 which require the Statement of Accounts to be amended.

- **Non Adjusting Events**: those that are indicative of conditions that arose after the Balance Sheet date – the financial statements and notes in the Statement of Accounts are not amended to reflect the events, but additional explanatory notes may need to be added. There has been a major non adjusting event after 31 March 2013 in respect of the approved conversion of a number of schools to Academy status between 1 April 2013 and 30 September 2013.

Change of status of schools

Hounslow Manor School converted to academy status from 1 April 2013, while Westbrook Primary School and Norwood Green Junior School both converted to academy status from 1 July 2013. The net book values of the land and buildings related to these schools as at 31 March 2013 were £17.8m, £2.3m and £6.2m respectively. The value of land and buildings to be recognised by the Council in its 2013/14 statement of accounts will be reduced to reflect these transfers.

In addition, the Green School for Girls converted to academy status on 1 August 2013. There is no asset value to be written out of the accounts for the land and buildings as it is a voluntary aided school, whose assets are not included on the Authority's balance sheet.

There is also one further application relating to Oriel Primary School, which is expected will convert to academy status from 1 October 2013. The capital value of the land and buildings for Oriel Primary School as at 31 March 2013 was £9.5m

ACCOUNTING POLICIES

1. Introduction

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 (as amended in 2004, 2006, 2009 and 2011), which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (CIPFA Code) and the Service Reporting Code of Practice 2011/12 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The CIPFA Code, section 3.4.2.25, allows authorities not to disclose information that is not material. The Council has where appropriate adopted this approach to only provide information which is material and either aids the reader of the accounts or can be provided on a value for money basis**.**

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of expenditure and income

Activity is accounted for in the year that it takes place, regardless of when cash payments are made. This means that:

Expenses in relation to services received are recorded as expenditure when the services are received, rather than when payments are made.

Income from the provision of services and the sale of goods is recognised when the Authority can measure reliably the completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

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.

Where income 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, a provision for bad debts will be set up by charging the appropriate account(s) and those debtors judged to be impaired will be charged against that provision.

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 the Authority is acting as an agent for another party (e.g., in the collection of NNDR and council tax), income and expenditure are recognised only to the extent that commission is receivable by the Authority for the agency services rendered or the Authority incurs expenses directly on its own behalf in rendering the services.

3. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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 Authority's cash management.

5. Contingent Assets

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

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.

6. Contingent Liabilities

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

7. Employee Benefits

(i) Benefits Payable during Employment

Short-term employee benefits (due to be settled within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense In the year in which employees render service to the Authority. 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. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

(ii) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority 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 Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements. They are replaced with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Redundancy and Early Retirement Compensation – certain statutory costs of redundancy and lump sum early retirement payments in the General Fund are capitalised under a directive by the then Secretary of State for the Environment, Transport and the Regions. Annual pension enhancements for early retirement are accounted for in the year in which they are paid.

(iii) Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by the London Borough of Hounslow (LBH).

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees of the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Authority. The scheme is therefore accounted for as if it was a defined contributions scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the London Borough of Hounslow (LBH) pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method. This is 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 projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds. The discount rate adopted by the Actuary is based on a weighted average of “spot yield” on AA related corporate bonds.
- The assets at the LBH pension fund attributable to the Authority are included in the Balance Sheet at their 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 a result of years of service earned this year. This is allocated in the CI&E Statement to the services for which the employees worked.
    - past service cast - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is debited to the Surplus or Deficit on the Provision of Services in the CI&E 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. This is debited to the Financing and Investment Income and Expenditure line in the CI&E Statement.
    - expected return on assets - the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return. To be credited to the Financing and Investment Income and Expenditure line in the CI&E Statement.

- Gains (or losses) on settlements and curtailments - the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is debited (or credited) to the Surplus/Deficit on the Provision of Services in the CI&E Statement as part of Non Distributed Costs.
- actuarial gains and losses -changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is charged to the Pensions Reserve.
- contributions paid to the LBH pension fund - cash paid as employer’s contributions 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 Authority 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 Pensions 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 the year-end. The negative balance that arises on the Pensions 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.

(iv) Discretionary Benefits

The Authority 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 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.

8. Events after the Balance Sheet date

Events after the date of the Balance Sheet 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. However, 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.

9. Exceptional Items

When items of income and expense are material, their nature and amount are disclosed separately, either in the CI&E Statement or in the notes to the Accounts. The decision on where this is reflected will depend on how significant the items are to an understanding of the Authority’s financial performance.

10. Financial Instruments

Financial Instruments are either assets or liabilities of the Council. Assets are classified into two types:

- (i) loans and receivables -assets that have fixed or determinable payments but are not quoted in an active market.
- (ii) available-for-sale assets -assets that have a quoted market price and/or do not have fixed or determinable payments.

(i) Loans and Receivables

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

If soft loans are made (these are defined as loans made at below market rates), a loss is recorded in the CI&E Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CI&E Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations; with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the CI&E Statement to the net gain 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.

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 made to the Financing and Investment Income and Expenditure line in the CI&E 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 or debited to the Financing and Investment Income and Expenditure line in the CI&E Statement.

(ii) Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority 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 CI&E Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g., dividends) is credited to the CI&E Statement when it becomes receivable by the Authority,

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.
- equity shares with no quoted market prices -independent appraisal of company valuations.
- other instruments with fixed and determinable payments - discounted cash flow analysis

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available-for-Sale Financial Assets line in the CI&E 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 Available-for-Sale Reserve.

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 (fixed or determinable payments) 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 CI&E 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 CI&E 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).

Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CI&E Statement for interest payable are based on 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 Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the CI&E Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the CI&E 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. The write-down to the CI&E 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 CI&E Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority 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 CI&E 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.

11. Government Grants and other contributions

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

- the Authority will comply with the conditions attached to the grant, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the CI&E Statement 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 in the form of 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.

Section 106 contributions received are each subject to conditions. There is a clause in each s106 agreement that requires unspent contributions to be repaid. Therefore, the s106 balances will remain as a creditor until expenditure to satisfy the condition of the agreement is incurred.

All grants received of over £1 million per annum are disclosed separately in a specific note on government grants. Individual grants below this threshold are disclosed as a total.

Monies advanced as grants and contributions for which 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 and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and contributions) in the CI&E Statement.

Where a capital grant becomes repayable because its conditions have not been met, this will be applied against the Capital Receipts in Advance account. Where a grant that has been recognised in CI&E Statement becomes repayable, the repayment will be recognised as an expense in the

CI&E Statement. Repayments of grants for capital purposes will be treated as capital expenditure. The repayment shall be transferred from the General Fund or HRA to the Capital Adjustment Account. This will be reported in the Movement in Reserves Statement.

Where capital grants are credited to the CI&E 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 Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to either the Capital Adjustment Account once they have been applied or to the Movement in Reserves Statement when used to fund expenditure treated as Revenue Expenditure Funded from Capital Under Statute (REFCUS).

12. Business Rates Supplement - Crossrail

The Authority is required by the Greater London Authority (GLA) to levy a Business Rate Supplement to assist in funding the Crossrail project. The GLA levy is authorised by the Business Rate Supplements Act 2009 (the “BRS” Act). The Authority will account for these sums in its role as a billing authority as an agent and will therefore not incorporate any of the levy and the resulting payments to the GLA in the Authority’s Comprehensive Income and Expenditure Statement, apart from a small contribution to the administrative expenses involved in the collection of the levy.

13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events, for example, computer software licences, is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase. Research expenditure is not capitalised. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CI&E 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(s) in the CI&E 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 CI&E Statement.

The Council will only capitalise expenditure on computer software licences of over £10,000. Intangible Assets will be amortised over 5 years unless its life is estimated to be higher or lower. Amortisation, impairment losses, disposal gains and losses of intangible assets 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.

14. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Work in progress under construction contracts is accounted for using the percentage of completion method. Contract revenue is matched with contract costs incurred in reaching the state of completion at the balance sheet date.

15. 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 revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CI&E Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

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.

16. Leases Section.

There are cases where (i) the Council is the lessee and others (ii) where it is lessor.

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. 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 are not legally leases 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.

(i) The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the 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 Authority 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. All finance leases for which the underlying asset value is over £100,000 and which is estimated to have a life of more than 7 years will be shown as an asset on the Balance Sheet.

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, the Authority makes a prudent annual contribution from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore replaced by a revenue contribution 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 them. 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 Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, with a value of more than £100,000, the relevant asset is written out of the Balance Sheet as a disposal. At the start of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CI&E Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the CI&E Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the CI&E Statement)

The gain credited to the CI&E Statement on disposal is not permitted by statute to increase the General Fund Balance. It is 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 Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve. However, the Authority has the option to take account of mitigation rules so that the Authority's General Fund is not negatively impacted by the reclassification of an operating lease to a finance lease prior to the introduction of IFRS. Should the Authority take account of mitigation proposals, there would not be a transfer of deferred capital receipts to the useable capital receipts reserve.

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

Operating Leases

Where the Authority 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 CI&E 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.

17. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption allocation principle is used and the full cost of overheads and support services is charged to users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Authority's status as a multifunctional, democratic organisation.

- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CI&E Statement, as part of Net Expenditure on Continuing Services.

18. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for in the current and future years affected by the change. They do not give rise to a prior period adjustment.

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

19. 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, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

<u>Recognition</u>

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A review is undertaken annually to ensure that expenditure which adds value to Property, Plant and Equipment is capitalised; otherwise it is treated as an impairment and charged to revenue.

The Council will only capitalise expenditure on Property, Plant and Equipment if it is more than £10,000 in any one transaction. Consolidation of similar assets will occur where they have a common characteristic.

<u>Measurement</u>

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
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Authority 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 Authority. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the C I&E Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the C I&E Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction -depreciated historical cost
- dwellings -fair value, determined using the basis of existing use value for social housing (EUV-SH) in accordance with Department for Communities and Local Government (CLG) rules, which require the valuation to be adjusted to reflect the ratio at a regional level of local authority rents to those rents in the private sector that are applicable for housing benefit
- all other assets -fair value, determined the amount that would be paid for the asset In its existing use (existing use value - EUV)

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 revalued 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. Valuations are on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by The Royal Institute of Chartered Surveyors (RICS). 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 loss previously charged to a service.

Revaluations are carried out in a five year rolling programme, with at least 20% of the assets in each class being revalued in year. Any high value assets are revalued more frequently than every five years to ensure they are not materially misstated in the accounts. The remaining assets in each class are reviewed and when a material change in value would result a desktop revaluation is completed for the remaining assets in the class.

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)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) 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.

Impairment

Assets are assessed at each year-end to determine whether there is evidence that an asset may be impaired (ie the asset has suffered a reduction in value due to damage to an asset, obsolescence, or changes in market value). Where it has and the differences are estimated to be material, the recoverable amount of the asset is estimated. Where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- 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)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the C I&E Statement

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the CI&E Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the C I&E Statement as a gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CI&E 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). 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 [England only]. 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 Authority'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 non-current assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the allocation of their depreciable amounts over their useful lives. An exception is made 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).

Deprecation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment - straight-line allocation over the useful life of the item
- infrastructure – straight line allocation over 40 years.

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.

IAS 16 requires that depreciation be provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation). Depreciation in these accounts is included according to the following policy:

- In accordance with CIPFA guidelines, the Major Repairs Allowance has been used as a proxy for depreciation on council dwellings;

- Where it can be separately identified, depreciation is not charged for land;
- Depreciation is calculated using the straight-line method over the following periods:
  - Buildings 5 to 60 years
  - Vehicles, plant & equipment 3 to 20 years
  - Infrastructure 40 years
  - Intangible Fixed Assets 5 to 20 years
- Newly acquired assets are not depreciated in the year of acquisition and assets in the course of construction are not depreciated until they are brought into use.
- Assets are depreciated in the year of disposal.

Componentisation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

The policy will be to componentise part of assets where the part is more than 20% of the building value of the asset and the value of the building itself is greater than £1m.

20. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the CI&E Statement in the year that the authority becomes aware of the obligation. Any provision made is based on the best estimate at the balance sheet date required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are made, they are charged to the provision on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from 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 authority settles the obligation.

21. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement. When expenditure is financed from a reserve, it is charged to the appropriate service in the Surplus/Deficit on the Provision of Services in the CI&E Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Reserves are deemed to be earmarked when they are set aside for a specific purpose.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits. They do not represent usable resources for the Authority. These reserves are explained in the relevant policies.

The HRA Resource Accounting regime also requires the maintenance of a Major Repairs Reserve, which represents the balance of the HRA Major Repairs Allowance not yet used to fund major repairs to housing stock.

22. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in a non-current asset has been charged as expenditure to the relevant service in the CI&E Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

This treatment applies to expenditure on grants and property not owned by the Authority, and statutory redundancy costs when an authority has been granted a directive under the Local Government Act 2003.

23. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

24. Group Accounts.

The Council has reviewed the relationships it has with its partner organisations and determined that it has three subsidiaries. This is because the Council has more than half of the voting rights of the bodies concerned or has effective overall control. The three organisations that the Authority considers fall within this definition are:

- Hounslow Homes Ltd
- David Henry Waring Home Trust
- Bedfont Lakes Trust

The accounts of these organisations have been consolidated with the financial statements of the London Borough of Hounslow group accounts as subsidiaries. Consolidation has been undertaken on a like by like basis by adding like items of assets, liabilities, reserves, income and expenses together line by line to those of other group members in the financial statements. Intergroup balances and transactions are eliminated in full and all transactions have been consolidated into the Group Accounts.

There are no minority interests in these organisations or acquisitions. There has been no change, and hence no loss, in the Council's ownership in subsidiaries during the year.

The subsidiaries all have the same end of the reporting period as the Council.

Because there has been no loss of control during the year, there are no cases where there has been a gain or loss attributable to recognising any investment retained.

25. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

26. Heritage Assets

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge and culture. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority so that heritage assets must be shown separately on the balance sheet. The Authority considers that its heritage assets will have indeterminate lives and a high residual value, therefore it is not appropriate to charge depreciation for the assets. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. Under International Financial Reporting Standards (IFRS) some of the measurement rules for assets can be relaxed in relation to heritage assets as detailed below, largely where it would not be cost effective or feasible to obtain regular valuations of assets. The Authority's collection of heritage assets are accounted for as follows:

<u>Listed Buildings</u>

The Authority has several heritage buildings and/or grounds which are included in the balance sheet at cost as set out below:

- Hogarth House
- Gunnersbury Museum – This is jointly owned with the London Borough of Ealing
- Chiswick House Grounds
- Boston Manor House

These are all buildings of both local and national cultural value, and more information on each of them is included in Note 30.

Letter of Historical Interest

The Authority owns the Hogarth-Kirby Letter which is on display at Hogarth House and which is of national significance. More information is provided in Note 30. This is included in the balance sheet at cost.

The Gunnersbury House Museum Collection, plus specific artefacts in other buildings

The Authority will be using the relaxation to the rules on the measurement of assets which is permitted under International Financial Reporting Standards (IFRS) in relation to heritage assets. This permits the Authority, where cost figures are not available, and where the cost of obtaining specialist valuations for specific assets is estimated to be out of proportion to the benefits obtained, not to include a valuation figure in its balance sheet. There are 40,000 items in the collection in Gunnersbury House Museum and various other heritage asset artefacts in other buildings. The authority does not have either actual cost or valuation figures for these items and therefore does not recognise on the balance sheet the Gunnersbury House collection, or any other artefacts in other premises, apart from the historical letter at Hogarth House.

27. Highways Private Finance Initiative (PFI) Contract

The Council has entered into a major contract for the maintenance and updating of all the highways and street lighting and associated infrastructure (a ‘fence to fence’ contract). The infrastructure assets remain the Council’s property. In the first five years of the contract there will be substantial investment to improve the overall condition of the borough’s highways, followed by further ongoing lifecycle works over the remaining twenty years of the contract.

At the point of signing the PFI contract the Council recognised a long term creditor, representing the level of investment in infrastructure over the first five years of the contract, together with a deferred asset of the same value. As assets are completed the they will be recognised on the Council’s balance sheet, with an appropriate reduction in the value of the deferred asset.

A proportion of the payments to the PFI provider are treated as a finance lease for accounting purposes, to reflect repayment of the long term creditor and associated notional interest. The remaining payments are treated as revenue expenditure.

The Council receives a PFI related grant from the Department for Transport. This grant is recognised as highways and transport services related income in the net cost of services.

PART 3: OTHER FINANCIAL STATEMENTS

Housing Revenue Account

The Housing Revenue Account (HRA) summarises the transactions relating to the management maintenance of the Authority’s houses and flats. The account has to be self-financing and there is a legal prohibition on cross subsidy to or from Council Tax payers. The Authority has transferred responsibility for the management of its Housing stock to Hounslow Homes, an arm’s length management company, wholly owned by the Authority. In 2012/13 the turnover of Hounslow Homes amounted to £58m. The Authority retains ownership of the housing stock and has statutory responsibility for the Housing Revenue Account. The company’s transactions are already incorporated in the Authority’s accounts in the form of payments to and receipts from the company. The accounts of the company are consolidated into the Authority’s group accounts.

Collection Fund

These statements represent the transactions of the statutory Collection Fund. The Fund accounts independently for income and expenditure relating to the Council Tax and Non-Domestic Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. Administration costs are borne by the General Fund.

Housing Revenue Account Income & Expenditure Statement

	2012/13 £000s	2011/12 £000s	Note
Expenditure			
Repairs and maintenance	14,673	16,136	
Supervision and management	12,816	14,071	
Special services	11,829	11,634	
Rents, Rates, Taxes and Other Charges	1,257	1,544	
Provision for bad and doubtful debts	359	781	
Depreciation of Non Current Assets	16,112	17,008	5
Debt Management costs	12	73	
Negative HRA subsidy payable	0	4,529	6
Exceptional change in value of fixed assets following revaluation	(8,393)	0	5
Total Expenditure	**48,665**	**65,776**	
Income			
Dwelling rents	(67,368)	(61,305)	1
Non-dwelling rents	(1,658)	(1,825)	
Charges for services and facilities	(5,100)	(5,439)	
Contributions towards expenditure (Lessees)	(3,225)	(5,192)	
HRA subsidy	(237)	0	6
Total Income	**(77,588)**	**(73,761)**	
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	**(28,923)**	**(7,985)**	
HRA share of Corporate and Democratic Core	755	410	
Net (income)/expenditure for HRA Services	**(28,168)**	**(7,575)**	
HRA Share of operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement			
Gain on disposal of non-current assets	230	(5,747)	
Changes in the fair value of investment properties	917	0	
Interest payable and similar charges	13,154	10,032	
HRA Interest and Investment income	(300)	(328)	
Pensions interest and expected return on pension assets	0	0	10
(Surplus)/deficit for the year on provision of HRA Services	**(14,167)**	**(3,618)**	

Movement on HRA Statement

	2012/13	2011/12
	£000s	£000s
Balance at start of year	**(17,238)**	**(23,386)**
Surplus or (deficit) on HRA Income and Expenditure Statement	(14,167)	(3,618)
Adjustments between accounting basis & funding basis under regulations	9,269	6,503
Net Increase / Decrease before Transfers to Reserves	(4,898)	2,885
Transfers to / from Reserves	2,674	3,263
Increase / (Decrease) in Year	(2,224)	6,148
Balance at end of year	(19,462)	(17,238)

Note 1: Rent of Dwellings

This is the total rent income collectable for the year after allowance is made for empty properties. During the year 2012/13 1.47% (2.11% 2011/12) of lettable properties were vacant.

Note 2: Housing Stock

The Authority was responsible for managing on average 13,357 dwellings during 2012/13 (13,300 in 2011/12). The stock numbers at the year-end were made up as follows:

	2012/13	2011/12
	Number	Number
Houses/Bungalows	4,236	4,236
Flats/Maisonettes	9,090	9,152
Stock as at 31 March	**13,326**	**13,388**

The change in stock can be summarised as follows:

	2012/13	2011/12
	Number	Number
Stock at 1 April	13,388	13,384
Less: Sales	(9)	(3)
Less: Demolitions, Conversions etc.	(53)	7
Stock as at 31 March	**13,326**	**13,388**

The balance sheet value of the land, houses and other property are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS) as follows:

	2012/13	2011/12
	£000	**£000**
Operational Assets		
Dwellings	656,034	644,334
Other land and buildings	7,636	8,502
Non-operational Assets		
Other land and buildings	11,765	8,730
Total	**675,435**	**661,566**

The net book value of dwellings is based on their existing use as social housing. As such, the valuations are lower than those reflecting vacant possession on the open market. The valuation of dwellings on a vacant possession basis as at 31 March 2013 was £2,624m (£2,578m as at 31 March 2012).

Note 3: Major Repairs Reserve

HRA Resource Accounting requires the maintenance of a Major Repairs Reserve (MRR). This represents the balance of the Major Repairs Allowance not used to fund major repairs to Housing stock. The statement below analyses the movement in this reserve.

	2012/13	2011/12
	£000	**£000**
Balance as at 1 April	**0**	**924**
Amount transferred in	17,551	13,063
Amount transferred out	0	(1,227)
Amount in respect of capital expenditure:		
Houses	(17,551)	(12,760)
Balance as at 31 March	**0**	**0**

Note 4: Capital Expenditure and Financing

(i) Capital Expenditure

The following statement summarises the total capital expenditure on land, houses and other property within the HRA and how it was funded.

	2012/13			2011/12		
	Houses	Other Property	Total	Houses	Other Property	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Borrowing			0			0
Usable capital receipts	929		929	2,896		2,896
Revenue contributions			0	6,239		6,239
Leaseholder reserves			0			0
Major Repairs Reserve	18,247		18,247	10,392		10,392
Section 106			0	1,467		1,467
Grants/other contributions	1,877		1,877	1,900		1,900
Capital payments on a cash basis	**21,053**	**0**	**21,053**	**22,895**	**0**	**22,895**
Accruals Adjustment	(561)		(561)	2,562		2,562
Expenditure in Year	**20,492**	**0**	**20,492**	**25,457**	**0**	**25,457**

ii) Capital Receipts

The following statement summarises the total capital receipts from disposals of land, houses and other property within the HRA during 2011/12 and 2012/13.

	2012/13	2011/12
	£000	£000
Sale of Houses and flats	1,248	667
Land Sales	0	0
Other receipts	101	30
Total	**1,349**	**697**

Note 5: Depreciation

Depreciation on dwellings and other assets is charged to operational expenditure as set out in the note on Accounting Policies. The Major Repairs Allowance, the estimated average annual running cost of maintaining the condition of housing stock over a 30-year period, has been used as an estimate of the amount of depreciation to be charged for dwellings. This amount is then set-aside in the Major Repairs Reserve in order to fund major repairs as set out in Note 3 above.

	2012/13	2011/12
	£000	£000
Houses	14,864	11,557
Other land and buildings	482	448
Infrastructure assets	169	169
Vehicles, plant and equipment	596	594
Impairment - Dwellings	2,187	4,054
Impairment - Non-Dwellings	0	186
Expenditure in Year	**18,298**	**17,008**

The HRA Income and Expenditure Statement includes the effect of a downwards revaluation in the Authority's dwellings stock. Council dwellings are valued at market value and then an adjustment factor to reflect the lower value of social housing is applied. The Department of Communities and Local Government set the adjustment factor and review it every five years. The adjustment factor to be applied in London is 25% for 2012/13 (25% for 2011/12). There has been no significant change in the number of properties or the underlying vacant possession market value. More information on this can be found at Note 6 to the Authority's main statements (page 27).

Information about the net book value of land and buildings is set out in Note 2 above. The net book value of infrastructure assets as at 31 March 2013 was £5,664k (£5,833k as at 31 March 2012), and for vehicles, plant and equipment the net book value as at 31 March 2013 was £4,807k (£5,275k as at 31 March 2012).

Note 6: Housing Subsidy

Up until 2011/12 the Housing Revenue Account paid or received Housing Subsidy based on a notional account representing the Government's assessment of what the Authority should be collecting and spending. The following statement provides a breakdown of the amount of HRA subsidy payable to the Government in the year 2011/12 and its impact on the 2012/13 statement relating to adjustments made after 31 March 2012.

2011/12 represented the final year of this Housing Subsidy system, with it being replaced by HRA Self-Financing.

	2012/13	2011/12
	£000	£000
Management and maintenance	0	29,326
Charges for capital	0	11,454
Admissible Allowance	0	0
ALMO Allowance	0	0
Rental Constraint Allowance	0	0
Notional rent	0	(56,773)
Interest on receipts	0	(9)
Major repairs allowance	0	11,557
Prior year adjustment	(237)	(83)
Total	**(237)**	**(4,528)**

Note 7: Rent Arrears

The gross rent arrears at 31 March 2013 was £2.6m (£2.8m at 31 March 2012). A bad debt provision in respect of current and former tenant arrears has been made in the accounts for potentially uncollectable rent arrears. This provision amounted to £2.07m at 31 March 2013 (£2.25m at 31 March 2012).

Note 8: District Heating

Special Services includes the District Heating Account, which is self-financing and contains the expenditure and income associated with providing communal district heating plant on some of the Authority's housing estates. During 2012/13 expenditure of £3.1m was financed by customer and client receipts of £2.9m (£2.7m financed by receipts of £2.8m in 2011/12).

Note 9: Major Works Reserve

The Major Works Reserve has been set up to account for contributions received from leaseholders to fund major works to their homes, but which was not yet been required to fund the capital programme. In 2012/13, £1.3m was transferred in to the fund (£3.030m for 2011/12). The balance will be used to fund the capital programme in 2013/14 or future years, however, it is not available for funding revenue expenditure.

Note 10: Pensions

Each year the Council reviews the policy whether to charge a proportion of gains and losses on the pension fund to HRA in accordance with IAS19. No charges have been made to the HRA in either 2012/13 or 2011/12 in respect of IAS19 retirement benefits.

COLLECTION FUND

INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2013

	2012/13					2011/12				
	LBH	GLA	NNDR	BRS	Total	LBH	GLA	NNDR	BRS	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Amounts required by statute to be credited to the Collection Fund:										
Income receivable from Council Tax	97,598	27,447			125,045	94,736	26,912			121,648
Income from business ratepayers			146,354	4,882	151,236			146,537	5,410	151,947
Contributions towards previous year's estimated Collection Fund deficit										0
Total Income	**97,598**	**27,447**	**146,354**	**4,882**	**276,281**	**94,736**	**26,912**	**146,537**	**5,410**	**273,595**
Amounts required by statute to be debited to the Collection Fund:										
Precepts and demands from LB Hounslow and Greater London Assembly	95,651	26,900			122,551	94,710	26,904			121,614
Provision for uncollectable amounts	859	241			1,100	(1,168)	(332)			(1,500)
Payment to NDR pool / GLA for Crossrail BRS			145,953	4,858	150,811			146,145	5,384	151,529
Costs of collection (NDR and Crossrail BRS)			401	24	425			392	26	418
Payment to LBH/GLA for previous year's estimated Collection Fund surplus	659	187			846	381	108			489
Total Expenditure	**97,169**	**27,328**	**146,354**	**4,882**	**275,733**	**93,923**	**26,680**	**146,537**	**5,410**	**272,550**
Movement on fund balance Increase/(Decrease)	**429**	**119**	**0**	**0**	**548**	**813**	**232**	**0**	**0**	**1,045**
Fund Balance brought forward	1,289	362			1,651	478	128	0	0	606
Fund Balance carried forward	**1,718**	**481**	**0**	**0**	**2,199**	**1,291**	**360**	**0**	**0**	**1,651**

Note 1: Council Tax

The Council Tax Base set by the Authority for 2012/13 was 87,701 approved by Executive on 17 January 2012. The number of properties and tax set for each property band is shown below:

	2012/13			2011/12		
	No of Properties	Band D Equivalents	Tax Set £ p	No of Properties	Band D Equivalents	Tax Set £ p
Band A	1,393	928	931.58	1,190	793	933.65
Band B	6,942	5,400	1,086.84	6,812	5,298	1,089.25
Band C	21,483	19,096	1,242.11	21,153	18,803	1,244.87
Band D	33,187	33,187	1,397.37	32,882	32,882	1,400.47
Band E	13,054	15,954	1,707.90	13,026	15,921	1,711.69
Band F	4,861	7,021	2,018.42	4,814	6,954	2,022.90
Band G	3,456	5,760	2,328.95	3,485	5,808	2,334.12
Band H	756	1,513	2,794.74	749	1,498	2,800.94
Relevant Amount		88,860			87,957	
Adjusted for Collection Rate 98.6%		87,616			86,726	
Defence Property		85	1,397.37		112	1,400.47
Total	**85,132**	**87,701**		**84,111**	**86,838**	

Actual collectable income from Council Tax was:

	2012/13			2011/12		
	LBH £000s	GLA £000s	Total £000s	LBH £000s	GLA £000s	Total £000s
Billed to Tax Payers	80,836	22,733	103,569	77,854	22,112	99,966
Council Tax Benefit Paid by General Fund	16,762	4,714	21,476	16,886	4,796	21,682
Total Income	**97,598**	**27,447**	**125,045**	**94,739**	**26,909**	**121,648**

The cumulative arrears of Council Tax including costs at 31 March 2013 were £27,165k and £1,284k was written off during the year.

Note 2: Non-Domestic Rates (NDR)

Non-domestic rates are organised on a national basis. The Government specifies the rate 45.8p (2011/12 43.3p) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The total rateable value applicable to Hounslow as at 31 March 2013 was £364m. The Authority is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NDR Pool administered by the Government.

The Government redistributes the sums paid into the Pool back to local authorities as part of the formula grant calculation.

The amounts collected on behalf of the Government and paid into the Pool can be analysed as follows:

	2012/13	2011/12
	£000s	**£000s**
NNDR Bills Issued	147,316	147,341
Discretionary Reliefs and Remissions	(818)	(818)
General Fund Contribution to Reliefs and Remissions	356	414
Debts Written Off or provided for	(500)	(400)
Net NDR Income	**146,354**	**146,537**
Cost of Collection Allowance	(401)	(392)
Total	**145,953**	**146,145**

GROUP ACCOUNTS

The Authority has to prepare group accounts where it has interests in subsidiaries, associates and/or jointly controlled entities. It has reviewed the relationships it has with its partner organisations and determined that it has three subsidiaries. This is because the Authority has more than half of the voting rights of the bodies concerned. The three organisations that the Authority considers fall within this definition are:

- Hounslow Homes Ltd
- David Henry Waring Home Trust
- Bedfont Lakes Trust

It needs, therefore, to produce group accounts.

The accounts of these organisations have been consolidated as subsidiaries with the financial statements of the London Borough of Hounslow to create the group accounts. Consolidation has been undertaken on a line by line basis by adding like items of assets, liabilities, reserves, income and expenses together with those of other group members in the financial statements. Intergroup balances and transactions are eliminated in full. 100% of transactions have been consolidated into the Group Accounts.

There are no minority interests in these organisations, or acquisitions. There has been no change, and hence no loss, in the Authority's ownership in subsidiaries during the year.

The subsidiaries all have the same end of the reporting period as the Authority.

There are no significant restrictions on the subsidiaries regarding the transfer of funds to the Authority in the form of cash dividends or to repay loans or advances.

Because there has been no loss of control during the year, there are no cases where there has been a gain or loss attributable to recognising any investment retained.

The activities and performance of each of the subsidiaries during the year 2012/13 is set out below:

David Henry Waring Home Trust – providing 26 units of sheltered accommodation. At 31 March 2013, net current assets amounted to £1.6m and expenditure in 2012/13 was £148k financed from rents and investment income.

Bedfont Lakes Trust – established with the object of promoting public recreation by the provision of resources for the maintenance, improvement, management and preservation of the Bedfont Lakes Country Park. At 31 March 2013 the Trust had investments valued at £4.5m, the income from these being used to finance expenditure on the park of £170k in 2012/13.

Hounslow Homes – The Authority transferred responsibility for the management of its housing stock to Hounslow Homes on 1 April 2002. In 2012/13 the turnover of Hounslow Homes amounted to £58.0m (£62.0m for 2011/12) and net liabilities were valued at £20.2m including the pension liability. The Authority is liable to contribute to the debts and liabilities of the organisation if it was wound up to the value of £1.

The performance in 2012/13 of the group including subsidiaries was as follows:

	2012/13	2011/12
	£000s	£000s
London Borough of Hounslow	34,385	138,095
Hounslow Homes	1,081	(2,913)
David Henry Waring Home Trust	43	45
Bedfont Lakes Trust	(4)	(13)
Total group (surplus)/deficit in year	35,505	135,214

The accounts of these organisations have been consolidated with the financial statements of the London Borough of Hounslow in the following group accounts as subsidiaries, using the merger basis of consolidation. Intra group transactions between the entities have been eliminated from these statements.

Group Financial Statements

The Authority is required to prepare the key statements to the accounts together with the relevant notes where they are materially different to the reporting authority's accounts.

The following Statements have been prepared:

- Group Comprehensive Income and Expenditure Account – incorporating the London Borough of Hounslow (LBH) income and expenditure account together with the profit and loss accounts of the three subsidiaries excluding intra-group transactions.
- Group Movement in Reserves statement.
- Group Balance Sheet – consolidates the balance sheets of all four entities.
- Group Cash flow Statement.

Accounting Policies

There are no material differences between the accounting policies that have been adopted by the subsidiaries and those adopted by the London Borough of Hounslow, as set out from page 89. Where there are differences (for example, the method of depreciation used in David Henry Waring Home, where assets are depreciated over 100 years) the impact of applying a consistent policy would not lead to a material change in the group accounts. The depreciation charge on the Income and Expenditure account for 2012/13 for David Henry Waring Home was £16k.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the expenditure and income for the group analysed by service and how it was financed.

	2012/13			2011/12		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000s	£000s	£000s	£000s	£000s	£000s
Central services to the public	33,572	(30,350)	3,222	35,698	(30,029)	5,669
Environmental and regulatory services	18,907	(2,739)	16,168	19,178	(2,812)	16,366
Planning services	8,131	(7,510)	621	7,795	(7,215)	580
Cultural and related services	18,260	(1,056)	17,204	18,137	(2,171)	15,966
Education and children's services	254,694	(202,641)	52,053	272,762	(222,917)	49,845
Highways and transport services	26,088	(13,942)	12,146	27,696	(16,550)	11,146
Local authority housing (HRA)	57,070	(77,602)	(20,532)	65,776	(73,767)	(7,991)
Other housing services	164,852	(154,490)	10,362	170,952	(151,365)	19,587
Adult social care	72,921	(19,517)	53,404	75,991	(21,256)	54,735
Exceptional costs of revaluation	47,741	0	47,741	63,084	0	63,084
Corporate and democratic core	6,666	(1,079)	5,587	5,910	(412)	5,498
Other non distributed costs	(5,522)	(17)	(5,539)	(936)	(4,039)	(4,975)
Cost Of Services	**703,380**	**(510,943)**	**192,437**	**762,043**	**(532,533)**	**229,510**
Other Operating Expenditure	24,962	(15,349)	9,613	17,468	(17,567)	(99)
Exceptional derecognition of Academy assets	39,317	0	39,317	138,528	0	138,528
Financing and Investment Income and Expenditure	24,641	(2,941)	21,700	30,898	(11,812)	19,086
Taxation and Non-Specific Grant Income	0	(227,607)	(227,607)	0	(251,853)	(251,853)
Surplus or Deficit on Provision of Services			**35,460**			**135,172**
Tax expenses			45			42
Group (Surplus) or Deficit			**35,505**			**135,214**
Surplus or deficit on revaluation of fixed assets			13,768	0	0	10,652
Actuarial gains / losses on pension assets / liabilities			4,543	0	0	116,390
Other Comprehensive Income and Expenditure			**18,311**			**127,042**
Total Comprehensive Income and Expenditure			**53,816**			**262,256**

GROUP MOVEMENT IN RESERVES STATEMENT

This records the increases and decreases in the Group's reserves during the course of the year, including surpluses or deficits of expenditure and income and transfers between reserves.

	2012/13											
	General Fund Balance	**Earmarked GF Reserves**	**Housing Revenue Account**	**Earmarked HRA Reserves**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**	**Authority's share of subsidiaries & associates**	**Total Group Reserves**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Balance at 31 March 2012	**(14,038)**	**(88,383)**	**(17,237)**	**(6,668)**	**(6,052)**	**0**	**(46,320)**	**(178,698)**	**(848,528)**	**(1,027,226)**	**13,980**	**(1,013,246)**
Surplus or deficit on provision of services (accounting basis)	49,674	0	(14,169)	0	0	0	0	35,505	0	35,505	0	35,505
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	21,403	21,403	(3,092)	18,311
Total Comprehensive Expenditure and Income	**49,674**	**0**	**(14,169)**	**0**	**0**	**0**	**0**	**35,505**	**21,403**	**56,908**	**(3,092)**	**53,816**
Adjustments between Group accounts and authority accounts	(1,120)	0	0	0	0	0	0	(1,120)	0	(1,120)	1,120	0
Net Increase / Decrease before Transfers	**48,554**	**0**	**(14,169)**	**0**	**0**	**0**	**0**	**34,385**	**21,403**	**55,788**	**(1,972)**	**53,816**
Adjustments between accounting basis & funding basis under regulations	(53,787)	0	9,270	0	712	1,439	(23,413)	(65,779)	65,779	0	0	0
Net Increase / Decrease before Transfers to Earmarked Reserves	**(5,233)**	**0**	**(4,899)**	**0**	**712**	**1,439**	**(23,413)**	**(31,394)**	**87,182**	**55,788**	**(1,972)**	**53,816**
Transfers to / from Earmarked Reserves	5,628	(5,628)	2,674	(1,235)	0	(1,439)	0	0	0	0	0	0
Increase / Decrease in Year	**395**	**(5,628)**	**(2,225)**	**(1,235)**	**712**	**0**	**(23,413)**	**(31,394)**	**87,182**	**55,788**	**(1,972)**	**53,816**
Other items	(14)	0	0	0	0	0	0	(14)	14	0	0	0
Balance at 31 March 2013	**(13,657)**	**(94,011)**	**(19,462)**	**(7,903)**	**(5,340)**	**0**	**(69,733)**	**(210,106)**	**(761,332)**	**(971,438)**	**12,008**	**(959,430)**

	2011/12											
	General Fund Balance	**Earmarked GF Reserves**	**Housing Revenue Account**	**Earmarked HRA Reserves**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**	**Authority's share of subsidiaries & associates**	**Total Group Reserves**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Balance at 31 March 2011	**(10,441)**	**(72,761)**	**(23,385)**	**(3,683)**	**(2,183)**	**(925)**	**(9,522)**	**(122,900)**	**(1,154,774)**	**(1,277,674)**	**1,995**	**(1,275,679)**
Surplus or deficit on provision of services (accounting basis)	138,832	0	(3,618)	0	0	0	0	135,214	0	135,214	0	135,214
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	112,353	112,353	14,866	127,219
Total Comprehensive Expenditure and Income	**138,832**	**0**	**(3,618)**	**0**	**0**	**0**	**0**	**135,214**	**112,353**	**247,567**	**14,866**	**262,433**
Adjustments between Group accounts and authority accounts	2,881	0	0	0	0	0	0	2,881	0	2,881	(2,881)	0
Net Increase / Decrease before Transfers	**141,713**	**0**	**(3,618)**	**0**	**0**	**0**	**0**	**138,095**	**112,353**	**250,448**	**11,985**	**262,433**
Adjustments between accounting basis & funding basis under regulations	(160,894)	0	6,503	0	(3,869)	1,203	(36,798)	(193,855)	193,855	0	0	0
Net Increase / Decrease before Transfers to Earmarked Reserves	**(19,181)**	**0**	**2,885**	**0**	**(3,869)**	**1,203**	**(36,798)**	**(55,760)**	**306,208**	**250,448**	**11,985**	**262,433**
Transfers to / from Earmarked Reserves	15,622	(15,622)	3,263	(2,985)	0	(278)	0	0	0	0	0	0
Increase / Decrease in Year	**(3,559)**	**(15,622)**	**6,148**	**(2,985)**	**(3,869)**	**925**	**(36,798)**	**(55,760)**	**306,208**	**250,448**	**11,985**	**262,433**
Other items	(38)	0	0	0	0	0	0	(38)	38	0	0	0
Balance at 31 March 2012	**(14,038)**	**(88,383)**	**(17,237)**	**(6,668)**	**(6,052)**	**0**	**(46,320)**	**(178,698)**	**(848,528)**	**(1,027,226)**	**13,980**	**(1,013,246)**

GROUP BALANCE SHEET

	31 Mar 13	31 Mar 12
	£000s	**£000s**
Property, Plant & Equipment	1,369,507	1,463,825
Investment Property	29,234	31,465
Long Term Investments	44,331	4,866
Heritage Assets	3,620	3,572
Long Term Debtors	3,635	3,759
Long Term Deferred Asset Related to PFI	93,284	0
Long Term Assets	**1,543,611**	**1,507,487**
Short Term Deferred Asset Related to PFI	2,768	0
Short Term Investments	106,880	108,083
Assets held for sale	1,679	0
Inventories	747	1,222
Short Term Debtors	28,864	23,843
Cash and Cash Equivalents	57,928	60,204
Current Assets	**198,866**	**193,352**
Short Term Borrowing	(12,547)	(5,640)
Short Term Creditors	(82,909)	(76,342)
Short Term Provisions	(3,320)	(3,051)
Current Liabilities	**(98,776)**	**(85,033)**
Long Term Creditors	(21,568)	(20,329)
Provisions	(3,811)	(3,725)
Long Term Borrowing	(240,935)	(251,174)
Other Long Term Liabilities	(411,575)	(321,434)
Capital Grants Receipts in advance	(6,379)	(5,896)
Long Term Liabilities	**(684,268)**	**(602,558)**
Net Assets	**959,433**	**1,013,248**
Usable reserves	(210,106)	(178,700)
Unusable Reserves	(761,334)	(848,528)
Reserves (group entities)	12,007	13,980
Total Reserves	**(959,433)**	**(1,013,248)**

GROUP CASH FLOW

	2012/13 £000s	2011/12 £000s
Net surplus or (deficit) on the provision of services	(35,505)	(135,212)
Adjust net surplus or deficit on the provision of services for noncash movements	125,555	242,828
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(4,585)	0
Net cash flows from Operating Activities	**85,465**	**107,616**
Investing Activities	(76,918)	(90,532)
Financing Activities	(10,824)	736
Net increase or decrease in cash and cash equivalents	**(2,277)**	**17,820**
Cash and cash equivalents at the beginning of the reporting period	60,205	42,385
Cash and cash equivalents at the end of the reporting period	**57,928**	**60,205**

NOTES TO THE GROUP ACCOUNTS

The notes to the group statements have been re-produced only where there is a material difference from those in the London Borough of Hounslow's Accounts. The main changes are:

Subsidiary Income and Expenditure

- Inclusion of Hounslow Homes income within Housing Services (net deficit £248k)
- Inclusion of David Henry Waring Home in Adult Social Care (net cost £80k)
- Inclusion of Bedfont Lakes in Cultural & Environmental Services (net cost £166k)
- Inclusion of corporation tax, pension interest cost and return on assets for Hounslow Homes.

Pension Costs

The employees of the London Borough of Hounslow, Hounslow Homes and David Henry Waring are all eligible to join the local government pension scheme. Hounslow Homes pension fund is a prescribed body within the LBH pension fund, David Henry Waring forms part of the LB Hounslow scheme.

The assets and liabilities at 31 March 2013 as estimated by the actuary Barnett Waddingham were:

	31-Mar-13			31-Mar-12
	LBH Pension Funds	Hounslow Homes	Total	Total
	£m	£m	£m	£m
Estimated Liabilities	817.8	102.2	920.0	848.1
Estimated Assets	(534.2)	(70.9)	(605.1)	(528.8)
Net Liability	**283.6**	**31.3**	**314.9**	**319.3**

Debtors and Creditors

The intra-group transactions have been removed from the short term debtors and short term creditors as set out in the following table:

	31 Mar 13					31 Mar 12
	LB Hounslow	Hounslow Homes	DHW	Bedfont Lakes	Total	Total
	£000	£000	£000	£000	£000	£000
Short Term Debtors	28,336	167	3	157	28,663	24,035
Long Term Debtors	3,635				3,635	3,759
Short Term Creditors	(78,133)	(5,125)	(63)	0	(83,321)	(76,304)

PART 5: PENSION FUND ACCOUNTS

The Pension Fund provides for the payment of pensions and other benefits to former employees of the Authority and certain admitted and scheduled bodies. A separate annual report is published and is available via the website to all Pension Fund pensioners, people with deferred benefits and employees of the Authority who are members of the pension scheme. The annual report sets out the Fund's Statement of Investment Principles. A separate Annual General Meeting for the fund is also held.

Responsibility for the overall direction of the Fund's investment policy rests with the Authority's Pension Fund Panel and final accounts will be submitted to the Panel on 30 September 2013. These accounts summarise the transactions and net assets of the scheme. In implementing the Fund's investment policy, the Authority has appointed two investment managers (Aberdeen Asset Managers Ltd and Black Rock Investment Management Ltd) to deal at discretion within broad investment objectives laid down by the Authority. The Authority's Corporate Property Division manages the property portfolio.

In their audit memorandum for the 2011/12 final accounts the Audit Commission recommended that officers present a summary of the audit opinions on the internal controls of the custodian and fund managers. These are attached to enable members to gain assurance over the controls operating within the custodian and fund managers.

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013

	2012/13 £000s	2011/12 £000s	Note
Income			
Contributions:			23
Employees	7,432	7,291	
Employers	23,584	23,105	2
Augmentation Payments	10,000	53	3
Transfers from other schemes (individuals)	3,514	2,726	
Transfers from other schemes (group transfers)	0	259	4
Total Income	**44,530**	**33,434**	
Expenditure			
Benefits payable:			23
Pensions	(24,463)	(22,825)	
Lump sums	(6,400)	(4,588)	
Death Benefits	(732)	(574)	
Refunds	(11)	(14)	
Transfers to other schemes (individuals)	(1,575)	(3,719)	
Transfers to other schemes (group transfers)	0	0	
Administrative Expenses	(1,017)	(1,195)	5
Other	0	0	
Total Expenditure	**(34,198)**	**(32,915)**	
Net additions / (withdrawals) from dealing with members	**10,332**	**519**	
Returns on Investments			
Investment income	17,803	18,435	6
Change in market value of realised and unrealised investments	66,412	6,272	
Irrecoverable withholding tax	(190)	(164)	
Investment management expenses	(1,520)	(1,448)	
Property expenses	(186)	(240)	
Net returns on investments	**82,319**	**22,855**	
Net increase (decrease) in the Fund during the year	**92,651**	**23,374**	
Opening net assets of the scheme at 1 April	597,620	574,246	
Closing net assets of the scheme at 31 March	**690,271**	**597,620**	

NET ASSETS STATEMENT AS AT 31 MARCH 2013

	31 Mar 13	31 Mar 12	Note
	£000s	£000s	
Investments			
Equity investments	481,683	356,832	7
Fixed interest securities	0	37,706	8
Pooled investments	162,298	164,241	9
Property	17,220	18,275	10
Private equity	10,623	10,762	11
Short term deposits	7,335	5,625	12
Outstanding settlements	(3,680)	736	
Investment income receivable	3,184	2,743	
Total Investments	**678,663**	**596,920**	
Current Assets and Current Liabilities			
Debtors	9,883	390	15
Cash at bank	2,467	710	
Creditors	(742)	(400)	16
Net Current Assets	**11,608**	**700**	
Net Assets	**690,271**	**597,620**	

NOTES TO THE PENSION FUND ACCOUNTS 2012/13

Note 1: Accounting Policies

Accounting Standards – The Authority's accounting policies have been drawn up in line with recommended accounting principles as specified under International Finance Reporting Standards (IFRS) and the Code of Practice on Local Authority Accounting and in accordance with the provisions of Chapter 2 of the Pensions SORP and on a going concern basis, except as disclosed below. There have been no material differences on the pension fund accounts as a result of the transition to IFRS.

Basis of Preparation – except where otherwise stated, the accounts have been prepared on the accruals basis.

Investments – are shown in the accounts at market value, which has been determined as follows:

- Listed securities and securities on the Unlisted Securities Market (USM) are shown by reference to bid price at the close of business on 31 March 2013.
- Other unlisted securities are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Unit Trust investments are stated at the latest bid prices quoted by their respective managers prior to 31 March 2013.
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2013.
- Freehold properties are included on the basis of their open market value. There are no leasehold properties. The property portfolio was valued as at 31 March 2013 by Deloitte LLP, an established firm of property consultants and chartered surveyors who are regulated by the Royal Institution of Chartered Surveyors.
- Investments were realisable at 31 March 2013, other than property and private equity.

Contributions – represent those amounts receivable from the various employing authorities in respect of their own contributions and those of their pensionable employees. The Actuary on the basis of periodic valuations of the Fund's assets and liabilities determines the employers' contributions. Employees' contributions have been included at rates required by the Local Government Pension Scheme (Amendment) Regulations 2008.

Actuarial Valuations – the accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

The Authority's Actuary carries out valuations of the Fund's assets and liabilities at three yearly intervals. The last valuation was carried out by Barnett Waddingham as at 31 March 2010 and was effective from 1 April 2011.

The common rate of contribution for all scheduled bodies from 1 April 2011 is 12.8% of payroll. The common rate of contributions is the rate that, in addition to contributions paid by members, is sufficient to meet 100% of the liabilities arising in respect of service after the valuation.

Adjustments to contributions by individual employers are required to make good the deficiency resulting from the change in funding requirement, i.e. £120.2 million as at the date of the actuarial valuation. The Authority has agreed to keep the employer's contribution stable to meet the 100% funding requirement over a 17-year period. In previous years it has been policy to fund the pension strain arising from early retirements from employers' contributions in the year in which the person retires. But from 2007/08 policy has changed to not pre-fund these liabilities, but to spread the funding in line with the deficit recovery period. This has been agreed with the Actuary.

The actuarial value of the fund's assets and liabilities are set out in the table below.

	2010	2007
Actuarial value of liabilities	£628.8m	£541.0m
Actuarial value of assets	£508.6m	£455.9m
Deficit	£120.2m	£85.1m
Funding level	81%	84%

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:

• Rate of pay increases	5.0% pa
• Rate of increase of pensions in payment	3.0% pa
• The investment return of the Fund	6.8% pa

Valuation of Liabilities – The Authority's Actuary, Barnett Waddingham has valued the liabilities of the Fund on an IAS26 basis as at 31 March 2013. The value of the liabilities at 31 March 2013 is £1,036.8 m (31 March 2012 £944.2 m) compared with a fair value of scheme assets of £689.3m (31 March 2012 £599.0m). Therefore on this basis the deficit at 31 March 2013 is £347.5m (31 March 2012 £345.2m).

Benefits, Refunds of Contributions and Transfer Values – benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year. Transfer values are those sums paid by, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have not been accrued but have been included in the accounts on the basis of the date when payments were made and receipts received.

Investment Income – rents, dividends and interest on Government stocks, loans and deposits have been accounted for on an accruals basis. Foreign income has been translated into sterling at the date of the transaction.

Investment Management and Administration –The Authority is permitted to charge administration costs of the scheme to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment related business. The fees of the Fund's general investment managers have been accounted for on the basis contained within their respective management agreements.

Note 2: Employers Contributions

Employers Contributions comprise two elements, normal contributions, which are the contributions required to fund future service liabilities and deficit funding, which is the additional contributions required to fund the deficiency as calculated at the last actuarial valuation. Normal contributions are calculated at 12.8% of payroll, and deficit funding will vary for different employers within the Fund. At the last actuarial valuation the Authority agreed to fund the deficiency over a 17-year period.

Note 3: Augmentation

The Council made an additional 'one-off' employer's contribution to the Pension Fund of £10m as at 31 March 2013.

Note 4: Transfers In / Out

There were no group transfers in or out in 2012/13.

Note 5: Administration

	2012/13	2011/12
	£000s	£000s
Scheme Administration	990	1,173
Actuary Fees	24	20
Annual Meeting and Report	3	2
Total costs	**1,017**	**1,195**

Note 6: Investment Income

	2012/13	2011/12
	£000s	**£000s**
Equity investments	11,867	11,502
Fixed interest securities	992	1,420
Pooled investments	3,203	3,860
Property	1,623	1,549
Short term deposits	118	103
Broker commissions recaptured	0	1
	17,803	**18,435**

Note 7: Equity Investments

	31 Mar 13	31 Mar 12
	£000s	**£000s**
UK Investments (listed)	238,022	198,891
Overseas Investments (listed):		
North America	136,445	68,491
Japan	11,383	6,832
Europe	59,553	55,306
Other	36,280	27,312
	481,683	**356,832**

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2013 were:

	Bid value £000s	% of Total Fund %	% of Equities %
Vodafone Group	8,600	1.3	1.8
Imperial Tobacco	8,321	1.2	1.7
Anheuser-Busch	8,084	1.2	1.7
Brirish American Tobacco	7,858	1.2	1.6
DirectTV.com	7,738	1.1	1.6
Standard Chartered	7,150	1.1	1.5
Brirish Sky Broadcasting Group	6,229	0.9	1.3
BG Group	5,989	0.9	1.2
Royal Dutch Shell	5,870	0.9	1.2
Compass Group	5,747	0.8	1.2
	71,586	**10.6**	**14.8**

Note 8: Fixed Interest Securities

	31 Mar 13 £000s	31 Mar 12 £000s
UK Securities		
Government Bonds	0	30,432
Government Indexed Linked	0	159
Other fixed interest stocks	0	4,626
Overseas Securities	0	2,489
	0	**37,706**

During 2012/13 the management of the BlackRock fixed interest portfolio was restructured and all segregated fixed interest stocks were replaced with pooled investments

Note 9: Pooled Investments

	31 Mar 13	31 Mar 12
	£000s	£000s
UK Pooled Investments		
Cash Fund	8,960	16,835
Bond Fund	107,439	39,101
Index Linked	34,544	25,555
Mid Cap Companies	1,491	1,322
Property	352	359
Overseas Pooled Investments		
Fixed Interest	9,512	24,887
Equity	0	56,182
	162,298	**164,241**

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2013 were:

	Market value	% of Total Fund	% of Pooled Investments
	£000s	%	%
Merrill Lynch Fund All Stocks Corporate Bond	58,533	8.6	36.1
Aberdeen Global Bond Fund	21,658	3.2	13.3
Aberdeen Global Sterling Credit Bond	21,248	3.1	13.1
BlackRock - Index Linked A	17,467	2.6	10.8
Aberdeen Global Indexed Linked Bond Fund	17,077	2.5	10.5
Aberdeen Global Services Local Currency Bond	7,820	1.2	4.8
Aberdeen Global Funds II Sterling Long-dated Bond Z2	6,000	0.9	3.7
Fidelity Institutional Liquidity Fund	5,144	0.8	3.2
Blackrock Instl Liquidity Fund	3,816	0.6	2.4
Aberdeen Global Funds II Government Bond USD	1,692	0.2	1.0
	160,455	**23.7**	**98.9**

Note 10: Property

	31 Mar 13	31 Mar 12
	£000s	£000s
UK Property Investments: Freehold	17,220	18,275
	17,220	**18,275**

The London Borough of Hounslow Pension Fund Property Portfolio was comprised of the following properties at 31 March 2013:

	Valuation	% of Total Fund	% of Property Investments
	£000s	%	%
Wickes Retail Warehouse, Speedfields Park, Newgate Lane, Fareham, Hampshire	3,250	0.5	19.0
Mill Farm Business Park, Millfield, Hanworth Road, Hounslow, Middlesex	2,675	0.4	15.5
Tanners Gate, Northall Street, Kettering, Northamptonshire - Units A1, A2 & A3	2,550	0.4	14.8
14/18 Clare Street, London EC3	2,450	0.4	14.2
Units 1-4, Andover Road Retail Park, Winchester, Hampshire	1,760	0.3	10.2
Site J, Speedfields Park, Newgate Lane, Fareham, Hampshire	1,400	0.2	8.1
Cadogan House, 80-84 Calverley Road, Tunbridge Wells, Kent	1,075	0.2	6.2
Unit 2, 14/16 South Street, Bishops Stortford, Hertfordshire	875	0.1	5.1
16/18 Westgate Street, Gloucester, Gloucestershire	635	0.1	3.7
116c High Street, Poole, Dorset	550	0.1	3.2
	17,220	**2.7**	**100.0**

Note 11: Private Equity

	31 Mar 13	31 Mar 12
	£000s	£000s
Private equity	10,623	10,762
	10,623	**10,762**

The top 10 private equity holdings of the London Borough of Hounslow Pension Fund as at 31 March 2013 were:

	Valuation	% of Total Fund	% of Private Equity
	£000s	%	%
Environmental Technologies Fund	4,127	0.6	38.8
Hg Capital 5th Fund	1,173	0.2	11.0
Advent IV	841	0.1	7.9
Schroder Private Equity Fund of Funds III	835	0.1	7.9
Schroder Private Equity Fund of Funds IV	751	0.1	7.1
Schroder Private Equity Fund of Funds III	723	0.1	6.8
The Chandos Fund (YFM)	653	0.1	6.1
Northern Investors	627	0.1	5.9
The Capital Fund (YFM)	343	0.1	3.2
Schroder Private Equity Fund of Funds	318	0.0	3.0
	10,391	**1.5**	**97.8**

Note 12: Short term deposits

	31 Mar 13	31 Mar 12
	£000s	**£000s**
Bank Deposits	7,335	5,625
	7,335	**5,625**

During 2012/13 the short term deposits were increased by £1.710m pending restucturing of the Aberdeen portfolio .

Note 13: Financial instruments

Categories of financial instruments

The following categories of financial instruments are carried in the Balance Sheet:

	31-Mar-13			31-Mar-12		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000s	£000s	£000s	£000s	£000s	£000s
Financial assets						
Fixed interest securities	0			37,706		
Equities	481,683			356,832		
Pooled investments	162,298			164,241		
Private equity	10,623			10,762		
Short term deposits		7,335			5,625	
Outstanding settlements		0			736	
Investment income receivable		3,184			2,743	
Debtors		9,883			390	
Cash at bank		2,467			710	
Total Financial assets	**654,604**	**22,869**	**0**	**569,541**	**10,204**	**0**
Financial liabilities						
Outstanding settlements			(3,680)			0
Creditors			(742)			(400)
Total Financial liabilities	**0**	**0**	**(4,422)**	**0**	**0**	**(400)**
Net Assets	**654,604**	**22,869**	**(4,422)**	**569,541**	**10,204**	**(400)**

Net gains and losses

	2012/13			2011/12		
	Financial liabilities measured at amortised cost	Loans and receivables	Fair value through profit and loss	Financial liabilities measured at amortised cost	Loans and receivables	Fair value through profit and loss
	£000s	£000s	£000s	£000s	£000s	£000s
Change in market value of realised and unrealised investments			66,412			6,272

Fair value of assets and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values:

	2012/13		2011/12	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000s	£000s
Financial assets				
Fair value through profit and loss	654,604	654,604	569,541	569,541
Loans and receivables	22,869	22,869	10,204	10,204
Total Financial assets	**677,473**	**677,473**	**579,745**	**579,745**
Financial liabilities				
Financial liabilities at amortised cost	(4,422)	(4,422)	(400)	(400)
Total Financial liabilities	**(4,422)**	**(4,422)**	**(400)**	**(400)**

Note 14: Nature and Extent of Risks arising from Financial Instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities to pay benefits to members. 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 portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) 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. The Council manages these investment risks as part of its overall Pension Fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel.

a) Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance measurement provider, the WM Company, the Council has determined the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset type	**Value as at 31 March 2013 £000s**	**Percentage Change %**	**Value on increase £000s**	**Value on decrease £000s**
UK Equities	239,513	13.1	270,961	208,065
Overseas Equities	243,661	13.0	275,434	211,887
UK Bonds	107,439	5.2	113,015	101,863
Overseas Bonds	9,512	6.2	10,106	8,919
ILG	34,544	8.0	37,311	31,777
Cash	15,799	0.0	15,802	15,796
Property	17,572	3.5	18,189	16,955
Alternatives	10,623	8.4	11,513	9,733
Total Investment Assets	**678,663**		**752,331**	**604,995**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK).

Following analysis of historical data in consultation with the WM Company, the Council considers the following likely volatility associated with foreign exchange rate movements:

Currency exposure - asset type	Value as at 31 March 2013	Percentage Change	Value on increase	Value on decrease
	£000s	%	£000s	£000s
Overseas Equities	243,661	5.8	257,776	229,546
Alternatives	2,627	7.8	2,832	2,422
Total Investment Assets	**246,288**		**260,608**	**231,968**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

BlackRock Investment Management Ltd use their Money Market Fund to manage invested cash and held £3.816m in this fund at 31 March 2013, and the Council have placed invested cash in the Fidelity Money Market Fund and held £5.144m in this fund at 31 March 2013. Both of these money market funds have AAA ratings from leading ratings agencies. These funds make up the £8.960m Cash Fund figure in Note 9 to the accounts.

The remainder of invested cash is held in short term bank deposits. Aberdeen Asset Managers Ltd held £5.0m in a call account with Standard Chartered at 31 March 2013. The balance of £2.335m invested cash is held with the Fund's custodian Northern Trust. As at 31 March 2013 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds make up the £7.335m Bank Deposits in Note 12 to the accounts.

Note 15: Debtors

Debtors represent those sums of money owed to the Pension Fund for contributions due from admitted bodies for 2012/13 but for which payment had not been received by 31 March 2013 and money owed to the Pension Fund from the Council's General Account. The reason for the high balance was due to the late decision to fund the Pension Fund by £10m from the Council's General Fund balances.

Note 16: Creditors

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2012/13 but for which payment had not been made by 31 March 2013.

Note 17: Investment Commitments

The Council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2013 was £2.7m (£3.5m at 31 March 2012).

Note 18: Taxation

UK Tax – the Fund is an exempt approved fund and is therefore not liable to UK income tax on interest, property income or to capital gains tax. However, from 2 July 1997 the Government withdrew the ability for pension funds to reclaim tax credits on UK dividends. The impact of this change is reflected in the actuarial valuation.

As a local authority is the administering authority for the Fund, VAT input tax is recoverable on all fund activities including expenditure on investment and property expenses.

Overseas Tax – income earned from investments in stocks and securities in the United States is exempt from tax. Similar arrangements exist with Australia and Hong Kong whereby investment income is transmitted to Britain, gross of foreign income tax. Taxation agreements exist between Britain and certain EC and other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the time scale involved vary from country to country.

Note 19: Membership of the Fund

The following summarises the membership of the Pension Fund as at 31 March 2013:

	31 Mar 13	31 Mar 12
	No.	No.
Contributors	6,869	6,081
Pensioners	5,412	5,219
Deferred Pensioners	6,471	6,157
Total	**18,752**	**17,457**

Note 20: Movement in Funds Managed

A comparison of the movement in investments and amount of funds managed by each fund manager at market value is as follows:

	Aberdeen	BlackRock	LBH	Total
	£000s	£000s	£000s	£000s
Closing Balance at 31 March 2012	250,339	312,021	34,560	596,920
Purchases	76,023	424,121	781	500,925
Sales	(62,731)	(418,228)	(1,078)	(482,037)
Corporate Actions	(50)	(1,416)	0	(1,466)
Movement in short term deposits	(5,788)	3,648	49	(2,091)
Change in market value	32,128	35,214	(930)	66,412
Closing Balance at 31 March 2013	**289,921**	**355,360**	**33,382**	**678,663**
Proportion of Fund	**43%**	**52%**	**5%**	

Note 21: Additional Voluntary Contributions

The current provider for Additional Voluntary Contributions is Standard Life. Employees can contribute to the fund and Hounslow acts only as an agent, the contract is between the employee and Standard Life. The amount of contributions received in the year is £19,788. The value of these separately invested additional voluntary contributions at 31 March 2013 was £320,356.

There are also separately invested additional voluntary contributions with the previous provider, Equitable Life. The value of these contributions at 31 March 2013 was £154,701.

These amounts are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Note 22: Direct Transaction Costs

The amounts of direct transaction costs suffered by each Fund Manager were as follows:

	2012/13	2011/12
	£000s	£000s
Aberdeen Asset Managers Ltd	136	137
Blackrock Investment Management Ltd	669	435
	805	**572**

Note 23: Scheduled and Admitted Bodies

The scheduled bodies to the Fund are:

- West Thames College
- Hounslow Homes
- Lampton Academy
- Cranford Academy
- Rivers Academy
- Feltham Academy
- Chiswick Community School
- Gumley Academy
- Isleworth & Syon Academy
- St Marks Academy
- Reach Academy
- Heston School
- Brentford School for Girls

There were also 19 Admitted Bodies making contributions of £1.1m (£1.1m 2011/12). There were also 15 bodies with no active membership.

The total contributions receivable and benefits payable are as follows:

	2011/12		2012/13	
	Contributions Receivable	Benefits Payable	Contributions Receivable	Benefits Payable
	£000s	£000s	£000s	£000s
London Borough of Hounslow	32,821	27,124	23,570	24,572
Scheduled Bodies	7,056	2,772	5,788	2,027
Admitted Bodies	1,139	1,710	1,091	1,403
Total costs	**41,016**	**31,606**	**30,449**	**28,002**

Note 24: Statement of Investment Principles

The Statement of Investment Principles for the Pension Fund is available on our website at **www.hounslow.gov.uk/pensions** and is available on request from the Assistant Director of Corporate Resources – Strategic Finance..

Note 25: Related Party Transactions

The Council was a related party to the Fund. During 2012/13, Pension Fund payments and receipts were made through the Council's General Account as a result of the day-to-day administration of the Fund. The balance of Pension Fund cash held in the Council's account at 31 March 2013 was £9.507m (£266k 31 March 2012). The reason for the high balance was due to the late decision to fund the Pension Fund by £10m from the Council's General Fund balances.

The Pension Fund incurred administrative expenses of £444k in 2012/13 (£475k 2011/12) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2012/13 were identified.

Note 26: External Audit Costs

The Pension Fund has incurred costs of £21k in 2012/13 (£32k in 2011/12) in relation to the audit of the Statement of Accounts provided by KPMG, the Fund's external auditors.

INTERNAL CONTROLS AT PENSION FUND CUSTODIAN AND FUND MANAGERS

1 Background

The Pension Fund relies on its custodian and fund managers to process and report on its investment transactions. The controls and processes within these organisations are reviewed annually by their external auditors and a report setting out the findings of these reviews are available to clients.

In their audit memorandum for the 2011-12 final accounts the Audit Commission recommended that officers present a summary of the findings of these reviews to the Audit Committee to enable members to gain assurance over the controls operating within the custodian and fund managers.

The custodian and fund managers controls and processes have been given a favourable audit opinion by their respective independent auditors. Auditor opinions are reproduced below.

2 Custodian – Northern Trust

2.1 The custodian of the Council's Pension Fund investments is the Northern Trust Corporation. They are responsible for holding the Pension Fund's securities electronically, carrying out trade settlements on instructions from the fund managers, carrying out corporate actions, collecting investment income due and reclaiming tax on behalf of the Fund.

The Net Assets Statement in the Pension Fund accounts is produced substantially from reports from the custodian.

2.2 KPMG reviewed Northern Trust's controls and processes for the period 1 April 2012 to 31 March 2013. Their opinion signed on 8 May 2013 is as follows:

"In our opinion, in all material respects, based on criteria described in Northern Trust Corporation's assertion,

(1) the description fairly presents the Trust and Custody Services system that was designed and implemented throughout the period April 1. 2012 to March 31, 2013,

(2) the controls related to the control objectives stated in the description were suitable and designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period April 1, 2012 to March 31, 2013, and user entities applied the complementary user entity controls contemplated in the design of Northern Trust Corporation's controls throughout the period April 1, 2012 to March 31, 2013, and

(3) the controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, those necessary to provide reasonable assurance that the control objectives stated in the description in Section III and IV were achieved, operated effectively throughout the period April 1, 2012 to March 31,2013."

3 Fund manager – Aberdeen

3.1 Aberdeen Asset Managers Ltd is one of two investment managers appointed to deal at discretion within broad investment objectives laid down by the Authority.

3.2 PricewaterhouseCoopers reviewed Aberdeen's controls and processes for the period 1 July 2011 to 30 June 2012. Their opinion signed on 29 August 2012 is as follows:

"In our opinion, in all material respects, based on the criteria including the control objectives described in Aberdeen's assertion in Section I:

(a) The description in Sections III to VI fairly presents the investment management services for equity, fixed income and multi-asset portfolios; Aberdeen's UK property investment and management services and the multi-manager (indirect) property services of Aberdeen's Amsterdam office; and Aberdeen Global Services' operations relating to its Luxembourg domiciled UCITS funds that were designed and implemented throughout the period from 1 July 2011 to 30 June 2012;

(b) The controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 July 2011 to 30 June 2012 and clients applied the complementary client control referred to in the scope paragraph of this report;

(c) The controls tested, which together with the complementary controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 July 2011 to 30 June 2012."

4 Fund manager – BlackRock

4.1 The other investment manager is BlackRock Investment Management Ltd.

4.2 Deloitte & Touche reviewed BlackRock's controls and processes for the period 1 October 2011 to 30 September 2012. Their opinion signed on 13 December 2012 is as follows:

"In our opinion, in all material respects, based on the criteria described in BlackRock's assertion on pages 7 through 10,

a. The description fairly presents the System that was designed and implemented throughout the period October 1, 2011 to September 30, 2012.

b. The controls related to the control objectives stated in the Description of the System were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 1, 2011 to September 30, 2012, and user entities applied the complementary user entity controls contemplated in the design of BlackRock's controls throughout the period October 1, 2011 to September 30, 2012.

c. The controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the Description of the System were achieved, operated effectively throughout the period October 1, 2011 to September 30, 2012."

5 Conclusion

In conclusion the custodian and fund managers controls and processes have been given a favourable audit opinion by their respective independent auditors.

PART 6: GOVERNANCE

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The authority is required to:

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

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Chief Financial Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

This Statement of Accounts gives a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2013. Chief Financial Officer Dated:	I confirm that these accounts were approved at a meeting of the Audit Committee on 23 September 2013. Councillor John Chatt Chair of the Audit Committee Dated:

ANNUAL GOVERNANCE STATEMENT 2012/13

Scope of Responsibility

The London Borough of Hounslow (‘the Council’) 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. It also has a duty under the Local Government Act 1999 to secure continuous improvement and the way in which functions are exercised having regard to a combination of economy efficiency and effectiveness.

In discharging this overall responsibility the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effect of exercising its functions and which include arrangements for the management of risk.

This statement outlines the key elements of the Council’s corporate governance arrangements, which are consistent with the principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*. It also meets the requirements of regulations of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the Governance Framework

The Council’s governance framework comprises its systems and processes, the culture and values by which it is directed and controlled and those activities through which it accounts to, engages with, and leads the Community. It 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.

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 policy, 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 risk to the achievement of its 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 London Borough of Hounslow’s Governance Framework

Set out below are the key elements of the processes and systems that comprise the Council’s governance arrangements that were in place for the year ended 31 March 2013 and up to the date of approval of the statement of accounts by the Audit Committee on 23 September 2013. These have been grouped using the six core principles of the CIPFA/SOLACE Framework.

1 Focusing on the purpose of the authority and on outcomes for the community; and on creating and implementing a vision for the local area

- The Council has adopted a Corporate Plan which sets out our corporate priorities and what we will deliver this year against each. Delivery of outcomes against the plan are reported to Cabinet each quarter.

- In July 2012 the Council adopted a Medium Term Financial Strategy for the period 2012/13 to 2016/17, which will drive its budget setting policy for the rest of the current administrative lifecycle. Following the setting of the 2013/14 budget, this is now being updated in conjunction with the Government Spending Round announcement.

- The pledges set out by the administration in its vision for Hounslow are described in the current Corporate Plan and remain at the core of the Council’s strategic objectives and involve close collaboration between members and officers to achieve these objectives.

- The Council’s business planning process is underpinned by departmental service plans that are designed to set out clear departmental objectives that contribute directly to the Council’s aims.

- Work continues with multi-agency partners to work together to mitigate the effects of the economic downturn on Hounslow's residents and businesses

2 Members and officers working together to achieve a common purpose with clearly defined functions and roles

- An up to date Constitution is in place, which is supported by fully accessible and open decision making records. The Constitution is published on the Council's web-site and is kept under regular review. In 2012 the Tenders and Contract Regulations and the Members Code of Conduct were revised and the Scheme of Delegation is in the process of review at the date of issue of this statement as part of the Members Constitution Working Group. This group is also responsible for reviewing the Constitution more generally and there are a number of active work streams in progress. The current Constitution allows for decisions to be made by Officers (as set out in the Scheme of Delegation), individual Lead Cabinet Members, the Cabinet, Borough Council and the various other committees.

- Members receive clear guidance and training on the statutory Members' Code of Conduct and the Council's Members' Town Planning Code of Good Practice, and there is a Council Protocol on Relationships between Councillors and Officers in place, all of which can be found in the published Constitution.

- The Constitution provides for the post of Chief Executive who, as Head of the Paid Service, is responsible for operational management. This post has an up to date job descriptions, and terms and conditions of appointment, and has specific and documented delegated authority.

- The Council has a designated officer who is the Council's Section 151 Officer. It also has a designated officer who is the Council's Monitoring Officer. Both Officers have clear job descriptions (including responsibilities) and delegated authorities.

- Arrangements are in place, involving the Leader, Chief Executive and as appropriate other Lead Members and Chief Officers, to discuss key policy issues. Additionally, weekly operational meetings take place between the Leader and Chief Executive to review future Cabinet business.

- Clear remuneration frameworks are in place for members and officers.

In October 2011 new procedures were put in place for both the Monitoring Officer and the Section 151 Officer so they could discharge their respective duties effectively even though the reporting line arrangements in place differ from those recommended in the CIPFA guidance. At the time consultation was undertaken with the Council, Cabinet, Audit Committee our external auditors and the current s151 and monitoring officers. During 2012/13, the Audit Committee reviewed the arrangements. The arrangements currently in place are set out below:

Role on and contribution to the Corporate Leadership Team (CLT)

Neither the Monitoring Officer, nor the Section 151 Officer will be formal members of CLT. However, both the Monitoring Officer and the Section 151 Officer will have an open invitation to CLT's weekly meetings. All agendas and papers will be circulated to both Officers (as will the forward plan for CLT meetings) and they will be welcome at any meeting where they want to make a specific contribution. They will also always be welcome to discuss any item in advance with the Director of Corporate Resources or the Chief Executive as an alternative to attending. The attendance of both the Monitoring Officer and the Section 151 Officer will be required once a month, at the meeting at which draft Cabinet and Council and other key decision reports are reviewed.

Attendance at other meetings

The requirement for the Monitoring Officer and Section 151 Officer to attend formal meetings of Cabinet and Council and other meetings as required by the Leader and Chief Executive remains unchanged and the monthly finance briefings with the Leader and will continue.

Access to Chief Executive, Leader or anyone else

Both the Monitoring Officer and Section 151 Officer will continue to have open access to the Chief Executive and Leader and existing relationships will facilitate this. Such access will extend to anyone else either postholder should need to speak to.

3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Changes to the Ethical Governance dimension of the Council's activities have been brought about by new legislation in this area (The Localism Act 2011). The demise of the existing regime was much discussed prior to the new legislation taking effect and as a result the Council has been able to undertake the process required to set up a new regime under the Act in time for the commencement date of 1st July 2012. The new requirements will include detailed training of Members and this will be proved as part of the implementation process. Members have been made familiar with the proposed new processes by an extensive consultation process involving Member/Officer discussions and drafts circulated to Members.

Every Member and Chief Officer is required to complete a signed statement relating to third party transactions each year and the Council keeps a Register of Members' Interests which is up dated by Members from time to time and is published on the Hounslow web site. All employees are required to complete statements of interests on joining the organisation and to keep these updated.

Members are required to identify personal and prejudicial interests in any agenda item at the start and will continue to be of any committee meeting or immediately before a relevant item is discussed or as soon as it is realised that an interest does exist. The need to declare interests is the first item on every agenda.

A solicitor and committee administrator are present at all formal meetings of the Council to give advice on procedural and substantive matters.

In addition the following codes, protocols and systems have been in use for a number of years. All are regularly reviewed and updated to account for developments in governance arrangements and changes in local government.

- The Council has adopted the recommendations of a London wide advisory body on Members' remuneration.
- There is a declaration of interest process for Members and senior Officers as described above.
- There is an Officer/Member protocol in place addressing Chief Officer and Member relationships.
- Rules and protocols are in place and are being further developed for all partnership working.
- Organisation-wide performance appraisal and employee development schemes are in operation.
- Corporate performance management systems have been put in place and are being further developed.
- The Council has a complaints procedure in line with Ombudsman best practice requirements.
- Whistle-blowing, anti-fraud and anti-corruption policies effective Standing Orders are in place.
- Senior Officers' remuneration is published on the Council Website.

In early 2013, the Council also launched a Customer Charter and Staff Charter which has since been embedded within the PDA process, ensuring that the organisational values are borne out in the work of officers and members.

4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- All Key decisions are recorded in advance on the Council's Forward Plan and republished every month on the Council's web site.

- Reports and minutes of meetings are also published on the Council's web site. This includes delegated decisions made by individual Cabinet Members and urgent decisions. Such delegated decisions are reported to the next formal meeting of the Cabinet

- The comments of the Assistant Director Corporate Governance and Assistant Director Strategic Finance (where appropriate incorporating the Assistant Director Supply Chain's comments) are required on all reports, including delegated decisions. No decision requiring a report may be taken without the appropriate comments from these two Chief Officers. In addition each report must contain equalities comments to comply with the Council's obligations to have regard to equalities under the Equalities Act 2010. Finally the Council's report format was extensively revised in 2012 to ensure that Members making decisions are referred to all relevant information.

- There is an overview and scrutiny function. Scrutiny's role in 'governance' is to ensure that the Council's (and local NHS bodies) decision-making is open, transparent and accountable. The Overview & Scrutiny Committee has four standing panels that support the work of the Cabinet and the Council as a whole, through oversight and scrutinising decisions made by the Cabinet. The Overview and Scrutiny Committee considers the Council's Forward Plan at each meeting and has call-in as a standing item on the agenda.

- The Council has an active audit committee with clear terms of reference and annual work programme for audit, risk management and corporate governance.

- Effective corporate complaints management and resolution systems are in place, which include the leisure partners. A Stage 3 protocol is in operation, including a Member Panel, ensuring accountability at a political level. The complaints procedure now incorporates complaints received from the Council's ALMO, Hounslow Homes

- A Risk Management Strategy is in place, with each Department maintaining a departmental risk register. Training in risks to services provided to Senior Managers in sessions facilitated by Zurich. Processes and systems are now being embedded into all areas of the Authorities' work. All major projects undertaken, such as the Highways PFI, are required to have risk registers. In 2012 new risk management software was purchased to enable risk management to cascade below departmental level which is now being rolled out.

- Robust financial systems and regulations are in place that provide active support to risk management activity. Financial Regulations and Contract Standing Orders were updated in January 2012 as set out in 2a above.

- There is a corporate performance management system and operational framework in place, with links from the Hounslow Business Plan through service business plans down to individual delivery targets, which are reported to Cabinet.

- During 2013, the Council also established a Health and Safety Committee. This followed management identifying a need to review the Council's approach to Health and Safety matters and commissioning a review to establish where the Council were effectively mitigating risk and where improvements could be made.

5 Developing the capacity and capability of members and officers to be effective

- A Leadership framework has been developed for the Hounslow Leadership Group members, which defines the Leadership qualities and values that are expected from Hounslow Managers. These officers are being actively consulted on ongoing restructure proposals across the Council. This Leadership Group is critical to the successful development and implementation of strategy for the Council moving forward and will be used to lead the Council's transformation agenda alongside creating a strong cohesive core of Hounslow's managers.

- The Council is working on a corporate Workforce Development plan to assess the capability of our staff and future needs of the Council with a view to succession planning and developing the technical and professional skills that are required to deliver the council's priorities over the next few years.

- Individual training and development plans are an integral part of the staff performance appraisal system. A 100% target for appraisal completion has been set.

- Full job descriptions and person specifications in place for all posts including all members of the top management teams.

- A process of Member training is in place, to ensure Members are operating within the Code of Conduct and are aware of their roles and responsibilities.

- New joiners' induction courses provided for all employees.

6 Engaging with local people and other stakeholders to ensure robust public accountability

- The Council produces a business plan to set out its vision and strategy clearly communicated to all stakeholders and local communities through multiple channels. The Corporate Plan for 2012-13 has been distributed to all staff and widely circulated elsewhere.

- A -broad range of communication channels are in place and undergoing continuous improvement to ensure effective reach across all borough communities – news media, web and digital, residents magazine, reports and briefings, leaflets and brochures.

- An annual Overview and Scrutiny report is published and widely circulated locally, regionally and nationally.

- Corporately led programmes of community and stakeholder consultation are in place, supported by service led operational consultations delivered to corporate standards and employing effective and tailored feedback mechanisms.

- The Council's business planning process is supported by a communications strategy and delivery plans.

- Clear systems and processes are in place for employee and employee representatives to be consulted and involved in decision making are in place and subject to regular review and continuous development.

Review of Effectiveness

The Council has responsibility for conducting at least annually a review of the effectiveness of its governance framework including its system of internal control. This review of effectiveness is informed by the work of the Chief Officers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also comments made by the external auditors and other review agencies and inspectorates; all of whom report positive overall opinions.

For the first time, in 2012/13 a process of directorate control risk self assessment and accompanying assurance statements have been completed and reviewed by the Chief Executive. Declarations made within these assessments underpin much of the text within this document.

The Council also uses quarterly reviews of risk registers to assess risk facing the organisation. Risks are escalated as appropriate to CLT and Audit Committee.

Processes for reviewing the Effectiveness of the Governance Framework

The Council is again reviewing its governance arrangements to change the emphasis of responsibility for good governance.

The Assistant Director Corporate Governance regularly reviews and refreshes the Constitution which is available on the Council's web site and which includes the terms of references of all committees and the latest governance arrangements.

The governance framework has been summarised in this governance statement, which has been considered by the Audit Committee. The Audit Committee have considered their own effectiveness. This highlighted that CIPFA guidance is not fully complied with as Cabinet Members are present on the Committee. Both this Committee and Full Council have considered associated risks and have resolved to monitor the situation although the robustness of the Committee is not considered to be undermined by the majority of Members.

The Audit Committee has also considered the outcomes of the review of the effectiveness of the Council's governance framework including its system of internal control. This review has reflected the governance issues highlighted by Chief Officers, the Head of Internal Audit's Annual Report, the Annual Audit and Inspection Report and the outcomes of other external reviews undertaken during the year. The Council's Internal and External Auditors have both presented a positive overall opinion to the Council for the work they have completed during the year.

The directorate control risk self assessments have been completed and scrutinised. These have been shared with the Internal Auditor to assist audit planning.

The Council's governance arrangements substantially reflect the good practice highlighted by CIPFA in its publication *Delivering Good Governance in Local Government: Framework*. These arrangements are documented in a range of documents and the Assistant Director Corporate Governance has summarised these in an Assurance Map.

Actions taken during 2012-13

As part of the 2011-12 Annual Governance Statement, the following risk areas were identified as outlined in the table below along with progress made during the year to mitigate associated risk:

Risk Area	**Outcomes**
The Council is undertaking a major restructure and plans will be developed to ensure: o Service delivery is maintained during the change o Knowledge and skills are effectively transferred o Statutory obligations are identified and complied with	Whilst areas of restructuring continues within specific areas of the Council, the significant challenges of restructuring and recruiting to key positions within the Council has been largely completed. Effective handover arrangements were achieved and new employees have been have undertaken induction programmes.
Spend on Adults Services exceeded budget in 2011/12. This was identified at an early stage by management and considerable work has been undertaken to understand future demand pressures to improve the effectiveness of relationships with partner organisations. The outcome of this work should be a rebased and adequate budget for 2012/13 which mitigates financial risk to the Council.	The adults' services 12/13 outturn position showed no significant variance to budget supporting the additional work done in year to rebase the budget adequately to support adults services in 2012/13. The position will continue to be closely monitored in 2013/14.
The Council's internal auditors noted improvements in the robustness of the Council's ICT framework however some weaknesses remain. Action plans are in place to address these and progress again implementing audit recommendations will be reported to the Audit Committee.	In July 2013, the Council approved an ICT Strategy which set out a roadmap and investment profile to modernise the Councils approach to IT. The bulk of the roadmap was to be completed in 2013/14 and 2014/15 at the end of which, the Council residents and staff would have modernised ICT, applications and web services which were predominantly 'cloud based', resilient and flexible to the changing needs of the Services. The work is currently in the implementation phase with some things due for delivery in 2013.
The Council's financial ledger will be undergoing a major upgrade during 2012/13 and therefore preservation of data integrity will be key.	The Council's financial ledger hierarchy has been significantly changed in light of Council restructures. A new Agresso Planner hierarchy is also being implemented for budget monitoring purposes. Work is being carried out alongside these changes to ensure preservation of data integrity and is on schedule to achieve project objectives.
The Council's savings programme is increasingly challenging and robust systems will continue to be applied to ensure savings are achievable.	A Cabinet recommended 2013/14 budget, including any savings decisions, was approved by Council in February when the council tax was set. The savings that formed part of this decision had been rigorously assessed and consulted on where necessary. Delivery of some of these savings is dependent on actions that will take place during 2013/14. Progress towards achieving these savings will be monitored during the year. Any potential savings shortfalls will be highlighted in revenue monitoring reports to Cabinet, including mitigating action to ensure that the Council can constrain its expenditure within the approved budget.

Significant Governance Issues

This year's review of the Council's arrangements has not highlighted any significant governance issues. However, set out below are areas that require attention.

The External Auditor and the Head of Internal Audit drew attention to the following issues that were either addressed during the year or an action plan has been developed for management to implement during 2013/14:

- Land and property gazetteer
- Civica application – password controls
- IT asset management

Progress in dealing with these issues will be reported to the Council's Audit Committee.

Actions for 2013/14

The following areas will be reviewed during the coming year to strengthen the Council's governance arrangements.

- Although covered in 2012/13, the Council's savings programme continues to be increasingly challenging and robust systems will continue to be applied to ensure savings are achievable.

- Spend on Temporary Accommodation exceeded budget in 2012/13. This was identified at an early stage by management and considerable work has been undertaken to understand future demand pressures. However, the impact of welfare reform cannot be underestimated and increased budget pressures are estimated to be arising during 2013-14

- Population growth with the borough (44% over 10 years) has led to significant pressures being placed on the availability of primary school place provision over coming years. A funding gap of c£60m is envisaged and work is underway within LBH, Schools and partners to find solutions.

- The Council's internal auditors noted improvements in the robustness of the Council's ICT framework however some weaknesses remain. Action plans are in place to address these and progress again implementing audit recommendations will be reported to the Audit Committee.

- The Council remains concerned about the impact on its finances and resources of Welfare Reform. As Government initiatives reform activity it is envisaged that an increase of demand and an increase in doubtful debt and associated administration will occur during 2013/14. Preventative and proactive work is being undertaken to mitigate such risk.

Signed:

____________________________ ____________________________

Councillor Jagdish Sharma, Leader of the Council   Mary Harpley Chief Executive

Dated:

On behalf of the London Borough of Hounslow

Independent auditor’s report to the members of the London Borough of Hounslow

We have audited the financial statements of the London Borough of Hounslow for the year ended 31 March 2013 on pages 9 to 152. 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 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor’s 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 members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial 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 and the Group’s and the Pension Fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial 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 the Authority and the Group as at 31 March 2013 and of the Authority’s and the Group’s expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2013 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 154 to 162 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters

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

Authority's responsibilities

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

Auditor's responsibilities

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

We report if significant matters have come to our attention which prevent 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 November 2012, 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 2013.

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 November 2012, we are satisfied that, in all significant respects, the London Borough of Hounslow put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the London Borough of Hounslow in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Tony Crawley
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
30 September 2013

PART 7: GLOSSARY

A statement of accounts needs to be prepared in accordance with applicable accounting standards that incorporate a wide range of technical phrases. This glossary has been provided to aid readers of the accounts by explaining some of these.

Accounting Policies

The rules and practices adopted by the Authority that dictate how transactions and events are treated in its financial records.

Actuarial Gains/Losses

The profits and losses on the pension scheme as calculated by the Actuary because the assumptions made were not the same as the actual performance (e.g. if interest rates were less than anticipated).

Capital Charge

A charge to the cost of services to reflect the use of fixed assets used in the provision of services made up of interest and depreciation.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure that adds to and not merely maintains the value of an existing fixed asset.

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

Consolidation

The process of adjusting and combining financial information from the individual financial statements of a reporting authority and its subsidiaries to prepare consolidated financial statements that present financial information for the group as a single economic entity.

Contingent Liability

A contingent liability is either:

- 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 (e.g. the outcome of a court case); or

- A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Corporate and Democratic Core

These are activities that local authorities engage in specifically because they are elected, multi-purpose authorities. These costs would not be incurred by a single-purpose organisation and therefore should not be apportioned to services.

Current Service Cost (Pensions)

The increase in value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

Defined Benefit Scheme

A pension or retirement benefit scheme into which an employee pays regular contributions fixed as an amount or as a percentage of pay and will have no legal obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation

The reduction in the value of an asset due to wear and tear.

EIR (Effective Interest Rate)

The Effective Interest Rate is the interest rate on a loan or financial product restated from the nominal interest rate as an interest rate with annual compound interest.

Emoluments

All sums paid to or receivable by an employee including salary, expenses, and allowances and the monetary value of any other benefits received other than cash. Pension contributions payable by either employer or employee are excluded.

Fair Value

Fair Value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price.

Finance Lease

A lease that transfers the risks and rewards of ownership to the lessee, but ownership of the asset is retained by the lessor.

Fixed Assets (or non-current assets)

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Government Grants

Assistance by the government and their agencies in the form of cash or transfer of assets to an authority, which may be in return for past or future compliance with certain conditions relating to the activities of the authority.

Impairment

A reduction in the value of a fixed asset, below the amount it is included at on the balance sheet.

Infrastructure Assets

Fixed assets that are recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Investment Properties

Interest in land and/or buildings that are held for their investment potential or rental income.

Liquid Resources

Investments that can be readily converted to cash without disrupting the business of the organisation.

LOBO

A LOBO is a loan where the lender has the option to change the terms of the loan on specified dates. If the lender exercises its option, then the borrower has the option to repay the loan without penalty.

Merger Accounting

A method of accounting for acquisitions of subsidiaries in which the carrying values of the assets and liabilities of the subsidiary are not required to be adjusted to fair value.

Minority Interest

The interest in an entity included in the consolidation that is attributable to the shares held by persons other than the reporting authority and its subsidiary entities.

Net Book Value

The amount of which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for by depreciation.

Net Current Replacement Cost

The cost of replacing an asset in its existing condition and for its existing use i.e. the cost of buying the item or the nearest equivalent asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non distributable Costs

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

Non-Operational Assets

Fixed assets held by an authority that are not directly occupied, used or consumed in providing services. Examples of non-operational assets are investment properties and assets pending sale or redevelopment.

Operating Leases

A lease that stipulates the asset can never become the property of the lessee.

Operational Assets

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of services.

Past Service Cost

For a defined benefit scheme, the increase or decrease in the value of benefits payable that were earned in prior years arising because of a change to retirement benefits.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Members are required to declare if they have entered into any such transactions and any relationships of influence with any organisations associated with the Authority.

Revenue Expenditure Funded From Capital Under Statute (REFCUS)

Expenditure on grants, property not owned by the authority or statutory redundancy costs when an authority has been granted a directive under the Local Government Act 2003, that is classified as capital for funding purposes, but that does not result in the expenditure being carried in the Balance Sheet as a fixed asset.

Stocks

The amount of unused or unconsumed goods held in expectation of future use within one year. Stocks are valued at the end of each financial year and carried forward to be matched to the use or consumption when it arises. Stock comprises the following categories:

- Goods or other assets purchased for resale.
- Raw materials and other components purchased for the incorporation into products for resale
- Products and services partially or fully completed

Subsidiary

An entity is a subsidiary of the reporting authority if:

- The authority is able to exercise control over the operating and financial policies of the entity, and
- The authority is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.