Statement of Accounts 2017-18

London Borough of Hounslow

LONDON BOROUGH OF HOUNSLOW
STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018
Contents

PART 1: NARRATIVE STATEMENT

Accounting Statements

The pages that follow are the Authority's accounts for 2017/18 and comprise:

- **Expenditure Funding Analysis –** This compares how the expenditure is allocated for decision making purposes between the Council's directorates with the position based on International Financial Reporting Standards (IFRS), showing the impact on the Council's general fund and Housing Revenue Account balances.
- **Comprehensive Income and Expenditure (CI&E) Statement** – This reports the cost of performing the Authority's functions on the basis of 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 and other income.
- **Collection Fund** – This shows the transactions of the Authority as a billing authority in relation to non-domestic rates and 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 it's subsidiaries. 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 2017/18 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.

Introduction

This document presents the statutory financial statements for London Borough of Hounslow for the period 1 April 2017 to 31 March 2018 and gives a comprehensive summary of the overall financial position of the Council giving a true and fair view.

This narrative statement provides a summary of the most significant matters reported within the accounts and of the Council's financial position.

The Council's Strategic / Corporate Priorities

The Council's financial strategy is based on the Council's Medium Term Financial Strategy (MTFS) and forecasted for the years 2017/18 until 2020/21. The underpinning principles of the strategy are to:

- Deliver residents' priorities
- Restrict increases to council tax where possible
- Improve service quality and maximise resources
- Provide sound governance and financial management
- Continue capital and infrastructure investment where required
- Provide a robust basis for the next Administration's lifecycle

This was developed to underpin improved service and financial management in the context of reduced central government support and identifies strategies to be implemented to future-proof the organisation's finances.

Financial Outlook

During 2010, an unprecedented course of cuts in public expenditure began, designed to reduce the national budget deficit. Substantial further grant cuts are expected as part of the Government's long term economic plan to clear the national deficit.

For Hounslow, some £140m in revenue budget savings were delivered in the years 2010 to and further savings are still required over the next three years to meet financial constraints. This brings risk and uncertainty to the Council. 2017/18 was the second year of Central governments provisional four-year Revenue Support Grant (RSG) settlement that the council agreed to, the Council's medium term financial strategy is an estimation of the extent of savings required in line with this proposed 4-year settlement.

The Medium Term Financial Strategy (MTFS) is updated annually, taking into consideration known factors at the time. The MTFS indicates that in addition to reductions in government funding the Council also expects to see increasing demand for services over coming years. To balance the budget there will be a continuing need for transformation, efficiencies and other financial initiatives for the foreseeable future.

Despite the challenging financial environment, the Council remains committed to improving service quality particularly in those areas that are most valued by local residents.

FINANCIAL OUTTURN & FUTURE

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) is set up in accordance with the Local Government and Housing Act 1989. The HRA is a ring-fenced account containing solely the costs relating to the provision, management and maintenance of the Council's housing stock and the income from rents and service charges from tenants and leaseholders. The councils housing stock is managed in house.

A revised 30 year HRA Business plan was approved by Cabinet in February 2017. During 2017/18 a programme of estate improvements which includes fire safety works, improvements to street lighting, footpaths and estate roads was approved.

The Council achieved its target to deliver 400 new council homes by 31 March 2018. During 2017/18, grant applications, totalling £9m, were approved by GLA. These grants will enable the delivery of 174 new homes.

The Statement of Accounts provides further detail on the HRA account for 2017/18. The outturn for 2017/18 is a surplus of £12.4m, £0.4m lower than the budgeted surplus of £12.8m. The net over spending position was mainly due to over spends in responsive repairs and fleet costs offset by more income than forecasted. The £12.4m surplus will be held in HRA reserves and used to fund the HRA capital and new build programmes in future years.

The HRA will face the following future challenges:

- Rent collection is expected to fall due to recent changes in welfare benefits and the implementation of Universal Credit.
- The Welfare Reform and Work Bill extends the "Right to Buy" to housing association tenants, eventually allowing them the same discount as council tenants. Central government proposes to fund the increased discount by requiring local authorities to sell of high value void properties, commencing in 2018/19. It is anticipated that this will have a significant impact in Hounslow, and will result in the further loss of housing stock.

CAPITAL

The Council has an ambitious five year capital programme, which was approved by the Borough Council during 2017/18.

To support the ongoing services provided by the Council, investment is being made in new assets such as affordable homes, schools and leisure centres. The capital programme over the life of MTFS strategy includes the approved LBH housing programmes and new builds, the development of the new Civic Centre and estate renewal, expansion works at various schools, as well as improvements to parks and transport links.

The approved capital budget for the four-year period of 2017/18 to 2020/21 is £421.1m, of which £157.4m is allocated to 2017/18. As at 31 March, the total capital programme spend against this budget was £136.3m, giving a net under spend of £21.1m against the 2017/18 budget and an 87.8% delivery against plan.

Directorate	**(a)**	**(b)**	**(c)** (b) - (a)
	Budget £m	**Projected outturn** £m	**Projected Variance** £m
Childrens, Housing and Adults	5.1	0.5	(4.6)
Chief Executive	71.8	69.5	(2.3)
Regeneration, Economic Development and Environment	46.6	32.0	(14.6)
Total General Fund	**123.5**	**102.0**	**(21.5)**
Housing Revenue Account	33.9	34.3	0.4
Total Capital Programme	**157.4**	**136.3**	**(21.1)**

The Council has had a successful year in progressing a number of big capital projects. It has delivered a number of new affordable homes, expanded a number of schools, including our special schools and are on track for the development and delivery of the new Civic Centre.

The Council will continue to deliver these, along with other capital programmes over the Medium Term Financial Strategy (MTFS) period.

COLLECTION FUND

Business Rates

The current Business Rates Retention Scheme was introduced in 2013/14. Under the current scheme local authorities in London retain 30% of the business rates they collect, with 37% to the GLA and the remaining 33% to Central Government.

Central Government recently took the decision to revalue all properties across the nation, which resulted in new rateable values for properties from the 1st of April 2017. Because of the revaluation, the rateable value of properties in Hounslow increased overall by 26% and is significantly higher than the average increase across England (10%).

This will most likely result in an increase in the number of appeals received and will subsequently result in a loss of business rates income if these appeals are successful. The Council have an appeals provision set aside to mitigate the impact of successful appeals, this is currently c£16.0m and will need to be reviewed as the outcome of the new appeals process filters through to local authorities from the VOA.

In October 2015, the Government announced that, by the end of this Parliament, local authorities will be able to keep 100 per cent of the business rates they raise locally. It is anticipated that individual authorities will not retain the business rates generated locally, as each authority will still be required to pay some of the business rates into a national pool which will be used to implement a system of redistribution similar to the current top-up/tariff system. However, local authorities would be able to keep a larger share of business rates than they are currently and as part of this process would cease to receive any RSG along with new responsibilities for the delivery of some services that are currently funded by Central Government.

In order to facilitate a move towards 100% retention of business rates, 2018/19 will see the implementation of a London wide pilot of 100% retention of business rates. Under the pilot, participating authorities will no longer receive any Revenue Support Grant (RSG) but will retain a higher share of business rates equivalent to the reduction in RSG. In reality, participating authorities will not actually retain 100% of locally retained business rates as there will still be a top-up/tariff system in place to fund the safety net system as well as grants that are not rolled into the business rates system. However, participating authorities will be able to retain 100% of locally generated growth as they will no longer have to pay a levy on growth, which will be pooled and distributed amongst the participants.

Council Tax

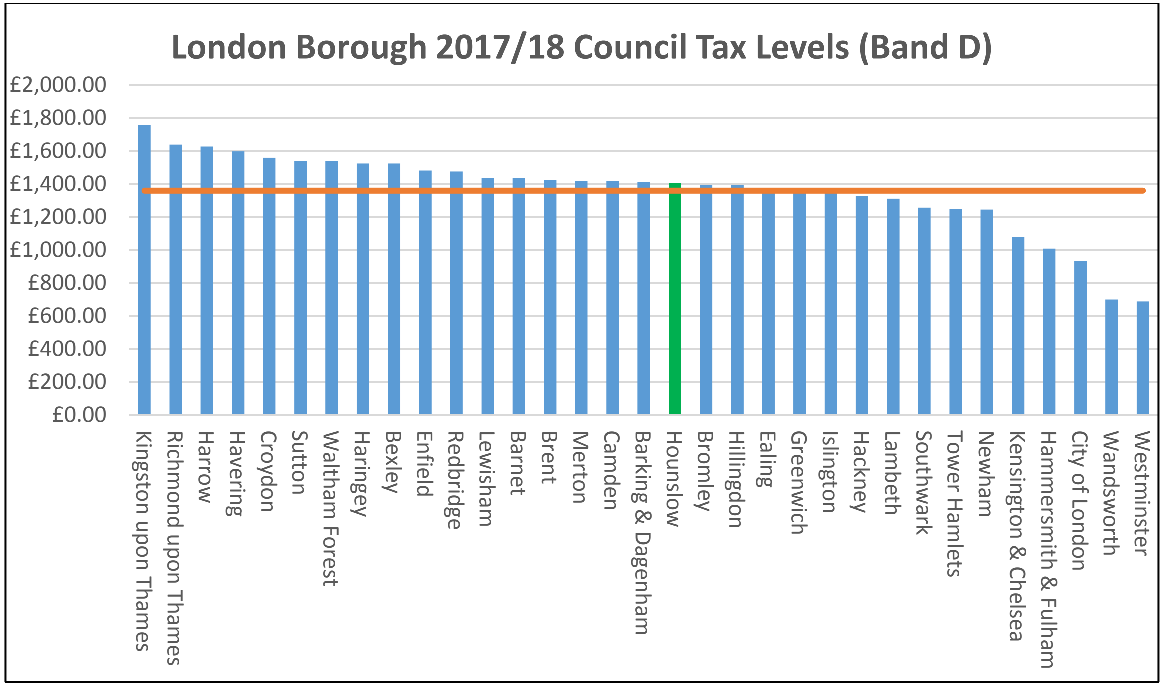
The amount of Council Tax charged to residents is made up of three separate components. Two of these are controllable by the Council, an Adult Social Care (ASC) precept and a more general inflationary element limited by the government's referendum principles, and the third component is a precept controlled by the GLA.

The ASC Precept was originally set at a 2% maximum annual increase for the period 2016/17 to 2019/20. This was subsequently changed, as part of the Local Authority Finance Settlement, for the period 2017/18 to 2019/20. Local authorities are now able to increase the ASC precept by up to 3% per annum in 2017/18 and 2018/19. Local authorities will only be able to utilise the new threshold if the total increase over the three-year period does not exceed 6%.

Council Tax rises not associated with the ASC precept are governed by referendum principles that limit increases. As part of the finance settlement it was announced that local authorities will be given flexibility of an additional 1% increase on the general Council tax on top of the current 2% ceiling for 2018/19 and 2019/20

For Hounslow, as an ASC (Adult Social Care) authority this means council tax could be increased by 5.99% in 2018/19 without having to hold a local referendum. This would consist of a 2.99% general council tax rise, plus application of 3% of the ASC precept.

The Council is committed to limiting the burden of Council Tax on the borough's residents. For 2017/18, Hounslow's element of the band D Council Tax was £1,122.85, making Hounslow the 16th lowest in London. The comparative figures are shown in the chart below.



LAMPTON 360

Lampton 360 Ltd was established by the London Borough of Hounslow in 2012 with the objective of trading local authority functions in order to generate financial surpluses and return those to the council. There are three business functions within Lampton 360; Lampton Recycle 360, Lampton Property 360 and Lampton Greenspace 360.

Lampton Recycle 360 was established with the aim of providing a cost-effective and efficient, high-quality recycling and waste collection services for its customers and commenced operations on October 2016. Recycle 360 aims to deliver these services in a way that helps reduce the carbon impact, through investment in a modern, fuel-efficient fleet.

Lampton Property 360 is made up of the development and investment arms. The company was established with the aim of re-developing LBH Hounslow land through residential and mixed use projects. The overall aim being the delivery of 1500 new build homes.   The investment arms aim is to acquire up to 175 properties for use in a property purchase scheme, all with rents set at 90% of market rents. This will enable the LBH housing team to discharge some of their housing obligations through permanent, good quality housing

Lampton GreenSpace 360 officially commenced business on 1 March 2018. Its main objectives will be to provide LB Hounslow with a cost-effective and efficient parks and open space maintenance service.

The expectation is that in future years the Lampton group will generate distributable profits and these will paid as dividends to LB of Hounslow. The profits will come from the provision of services to external organisations or individuals.

GENERAL FUND

The Councils' general fund revenue outturn for 2017/18 is an overspend of £2.0m, against its approved budget. This is comprised of a £12.6m overspend on departmental budgets, partially offset by a £10.6m underspend on corporate budgets.

Directorate	**(a)**	**(b)**	**(c)** (b) - (a)
	Budget **£m**	**Projected outturn** **£m**	**Projected Variance** **£m**
Childrens, Housing and Adults	95.6	98.9	3.3
Chief Executive	27.5	29.4	1.9
Regeneration, Economic Development and Environment	49.1	56.5	7.4
Net Service Spend	**172.2**	**184.8**	**12.6**
Corporate Items	(172.2)	(182.8)	(10.6)
General Fund total	**0.0**	**2.0**	**2.0**

Regeneration, Economic Development and Environment - This area contains a number of key risks across community safety, corporate property, libraries, parking, parks, PFI Highways and waste. Many of these pressure areas are due to delays or failure to achieve previously approved savings, resulting in ongoing budget pressures. Some linked to contracts which are in the process of being reviewed and in some cases were brought back in house i.e. libraries.

Chief Executive - The risks in this area are linked to customer services, HR, ICT and the cross-organisation vacancy factor. The over spend in this area resulted from unallocated savings, maintenance of legacy systems and the increased cost of mobile devices and temporary cover costs.

Children's', Housing & Adult Social Care – There remains to be a number of key budget pressures in this area as the demand for such services increases year on year.

- Adult Social Care - Partially delivered savings target to reduce the need for residential placements from 2016-18. Whilst residential and nursing volumes were reduced during this time, the reduction was predominantly in older people clients and not in learning disabilities clients that have increased in number and complexity of care needs. The situation has been compounded by increased unit costs of existing client placements. This area continues to be a key budget pressure in future year.
- Housing Temporary Accommodation – Continued budget pressure in this area due to the cost of temporary accommodation and demand for such accommodation. This overspend has been reduced in year through a temporary accommodation mitigation plan but could increase in future years due to the impact of the Homelessness Reduction Act.
- Children's' – for Looked after children, there continues to be an underlying pressure due to continued demand for placements some of which are complex and relatively high cost. There has also been an additional cost pressure due to the increase in the adoption placement costs & foster and carers allowance costs.

PART 2: Main Local Authority Financial Statements and Notes to the Accounts

Expenditure and Funding Analysis

The Expenditure and Funding Analysis tables below illustrate how the funding available to the Council for the year 2017/18 and 2016/17 has been used to provide services in comparison with those resources consumed or earned under generally accepted accounting practices. The Expenditure and Funding Analysis also shows how the this expenditure is allocated for decision making purposes between the Council’s directorates. Income and expenditure accounted for under general accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18

	As Reported to Management	Adjustments to arrive at net charge to General Fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balance	Adjustments	Net Expenditure in the Compre-hensive Income and Expenditure Statement
	£m	£m	£m	£m	£m
Chief Executive's Directorate	29.4	0.8	30.2	0.0	30.2
Children's, Adults' and Housing Services	98.9	(4.0)	94.9	0.0	94.9
Regeneration, Economic Development and Environment	56.5	(11.7)	44.8	(3.1)	41.7
Housing Revenue Account	(12.4)	8.7	(3.7)	(18.0)	(21.7)
Corporate Items	(182.8)	173.2	(9.6)	(20.1)	(29.7)
Overheads allocation and accounting adjustments	0.0	(0.1)	(0.1)	(18.9)	(19.0)
Net Cost of Services	**(10.4)**	**166.9**	**156.5**	**(60.1)**	**96.4**
Other Income and Expenditure	0.0	(163.2)	(163.2)	6.5	(156.7)
Surplus or Deficit on Provision of Services	**(10.4)**	**3.7**	**(6.7)**	**(53.6)**	**(60.3)**
Opening Combined General Fund and HRA Balance			(158.4)		
Plus / less Surplus or Deficit on the General Fund and HRA Balance for the Year (Statutory basis)			(6.7)		
Closing Combined General Fund and HRA Balance			**(165.1)**		

2016/17

	As Reported to Management	Adjustments to arrive at net charge to General Fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balance	Adjustments	Net Expenditure in the Compre-hensive Income and Expenditure Statement
	£m	**£m**	**£m**	**£m**	**£m**
Chief Executive's Directorate	33.0	(24.2)	8.8	(0.5)	8.3
Children's, Adults' and Housing Services	99.8	15.4	115.2	(13.3)	101.9
Regeneration, Economic Development and Environment	57.8	(9.8)	48.0	(3.8)	44.2
Housing Revenue Account	(17.1)	(7.3)	(24.4)	(0.3)	(24.7)
Corporate Items	(191.7)	153.8	(37.9)	30.0	(7.9)
Overheads allocation and accounting adjustments	0.0	14.4	14.4	23.1	37.5
Net Cost of Services	**(18.2)**	**142.3**	**124.1**	**35.2**	**159.3**
Other Income and Expenditure	0.0	(129.1)	(129.1)	(49.0)	(178.1)
Surplus or Deficit on Provision of Services	**(18.2)**	**13.2**	**(5.0)**	**(13.8)**	**(18.8)**
Opening Combined General Fund and HRA Balance			(153.4)		
Plus / less Surplus or Deficit on the General Fund and HRA Balance for the Year (Statutory basis)			(5.0)		
Closing Combined General Fund and HRA Balance			**(158.4)**		

Comprehensive Income and Expenditure Statement

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

2016/17				2017/18			
Expenditure	Income	Net		Expenditure	Income	Net	
£m	£m	£m		£m	£m	£m	Notes
147.1	(138.8)	8.3	Chief Executive's Directorate	152.0	(121.8)	30.2	
310.7	(208.8)	101.9	Children's, Adults' and Housing Services	320.1	(225.2)	94.9	
89.9	(45.7)	44.2	Regeneration, Economic Development and Environment	90.0	(48.3)	41.7	
59.0	(83.7)	(24.7)	Housing Revenue Account	65.5	(87.2)	(21.7)	
24.8	(32.7)	(7.9)	Corporate Items	(1.1)	(28.6)	(29.7)	
27.7	9.8	37.5	Overheads allocation and accounting adjustments	(19.0)	0.0	(19.0)	
659.2	**(499.9)**	**159.3**	**Cost of Services**	**607.5**	**(511.1)**	**96.4**	
11.5	(11.0)	0.5	Other Operating Expenditure	38.4	0.0	38.4	07
50.3	(22.8)	27.5	Financing and Investment Income and Expenditure	53.8	(27.3)	26.5	08
0.0	(206.1)	(206.1)	Taxation and Non Specific Grant Income	0.0	(221.6)	(221.6)	09
721.0	**(739.8)**	**(18.8)**	**Surplus or Deficit on Provision of Services**	**699.7**	**(760.0)**	**(60.3)**	
		(84.8)	Surplus or deficit on revaluation of Property, Plant and Equipment			(163.1)	23
		72.0	Remeasurement of the net defined benefit liability / asset			(70.1)	14
		(12.8)	**Other Comprehensive Income and Expenditure**			**(233.2)**	
		(31.6)	**Total Comprehensive Income and Expenditure**			**(293.5)**	

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

This statement shows the movement from the start of the year to the end 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 'unusable reserves'. The statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account (HRA) £m	Earmarked HRA Reserves £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Un-applied Account £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance at 31 March 2017	(10.7)	(105.6)	(35.3)	(6.8)	(51.3)	(0.6)	(31.1)	**(241.4)**	(882.3)	**(1,123.7)**
Movement in reserves during 2017/18										
Surplus or deficit on the provision of services	(40.3)		(20.0)					**(60.3)**		**(60.3)**
Other Comprehensive Income / Expenditure									(233.2)	**(233.2)**
Total Comprehensive Income and Expenditure	**(40.3)**	**0.0**	**(20.0)**	**0.0**				**(60.3)**	**(233.2)**	**(293.5)**
Adjustments between accounting basis and funding basis under regulations - Note 20	28.5		25.1		(11.9)	(13.0)	19.9	**48.6**	(48.6)	**0.0**
Net Increase or Decrease before Transfers to Earmarked Reserves	**(11.8)**	**0.0**	**5.1**	**0.0**	**(11.9)**	**(13.0)**	**19.9**	**(11.7)**	**(281.8)**	**(293.5)**
Transfers to / from Earmarked Reserves - Note 21	12.3	(12.3)	0.7	(0.7)				**0.0**	0.0	**0.0**
Increase or Decrease in 2017/18	**0.5**	**(12.3)**	**5.8**	**(0.7)**	**(11.9)**	**(13.0)**	**19.9**	**(11.7)**	**(281.8)**	**(293.5)**
Balance at 31 March 2018	**(10.2)**	**(117.9)**	**(29.5)**	**(7.5)**	**(63.2)**	**(13.6)**	**(11.2)**	**(253.1)**	**(1,164.1)**	**(1,417.2)**

	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account (HRA) £m	Earmarked HRA Reserves £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Un-applied Account £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance at 31 March 2016	(12.3)	(113.6)	(17.4)	(10.1)	(47.9)	(10.8)	(31.4)	**(243.5)**	(848.6)	**(1,092.1)**
Movement in reserves during 2016/17										
Surplus or deficit on the provision of services	2.6		(21.4)					**(18.8)**		**(18.8)**
Other Comprehensive Income / Expenditure									(12.8)	**(12.8)**
Total Comprehensive Income and Expenditure	**2.6**	**0.0**	**(21.4)**	**0.0**				**(18.8)**	**(12.8)**	**(31.6)**
Adjustments between accounting basis and funding basis under regulations - Note 20	7.0		6.8		(3.4)	10.2	0.3	**20.9**	(20.9)	**0.0**
Net Increase or Decrease before Transfers to Earmarked Reserves	**9.6**	**0.0**	**(14.6)**	**0.0**	**(3.4)**	**10.2**	**0.3**	**2.1**	**(33.7)**	**(31.6)**
Transfers to / from Earmarked Reserves - Note 21	(8.0)	8.0	(3.3)	3.3				**0.0**	0.0	**0.0**
Increase or Decrease in 2016/17	**1.6**	**8.0**	**(17.9)**	**3.3**	**(3.4)**	**10.2**	**0.3**	**2.1**	**(33.7)**	**(31.6)**
Balance at 31 March 2017	**(10.7)**	**(105.6)**	**(35.3)**	**(6.8)**	**(51.3)**	**(0.6)**	**(31.1)**	**(241.4)**	**(882.3)**	**(1,123.7)**

Balance Sheet

31 March 2017 £m		31 March 2018 £m	Notes
1,818.8	Property, Plant and Equipment	2,088.0	25
3.8	Heritage Assets	4.2	
38.3	Investment Property	41.0	26
1.6	Intangible Assets	0.5	
45.8	Long Term Investments	5.0	33
5.2	Long Term Debtors	7.1	33
1,913.5	**Long Term Assets**	**2,145.8**	
22.3	Short Term Deferred Asset Related to PFI	2.3	
135.1	Short-term Investments	124.6	33
0.2	Inventories	0.2	
44.2	Short Term Debtors	51.6	29
5.0	Cash and Cash Equivalents	25.9	36
206.8	**Current Assets**	**204.6**	
(3.3)	Bank Overdraft	(6.3)	36
(1.9)	Short-Term Borrowing	(6.9)	33
(101.1)	Short-Term Creditors	(101.3)	30
(8.4)	Provisions	(6.6)	31
(114.7)	**Current Liabilities**	**(121.1)**	
(6.0)	Provisions	(3.6)	31
(192.9)	Long Term Borrowing	(187.6)	33
(632.5)	Other Long-Term Liabilities	(571.7)	24/28/14
(50.5)	Grants Receipts in Advance - Capital	(49.2)	18
(881.9)	**Long Term Liabilities**	**(812.1)**	
1,123.7	**Net Assets**	**1,417.2**	
(241.4)	Usable Reserves	(253.1)	22
(882.3)	Unusable Reserves	(1,164.1)	23
(1,123.7)	**Total Reserves**	**(1,417.2)**	

Cash Flow Statement

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

2016/17 £m		**2017/18 £m**
18.8	Net surplus or (deficit) on the provision of services	60.3
85.6	Adjustment to surplus or deficit on the provision of services for noncash movements	(67.7)
(14.9)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	26.7
89.5	**Net cash flows from operating activities**	**19.3**
(115.3)	Purchase of property, plant and equipment, investment property and intangible assets	(116.5)
21.9	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	24.1
(6.3)	Net change in long and short term investments	51.3
(99.7)	**Net cash flows from investing activities**	**(41.1)**
87.5	Cash receipts of short term and long term borrowing	230.1
6.9	Other receipts for financing activities	40.0
(87.9)	Repayments of short term and long term borrowing	(230.4)
0.0	Other payments for financing activities	0.0
6.5	**Net cash flows from financing activities**	**39.7**
(3.7)	**Net increase or decrease in cash and cash equivalents**	**17.9**
5.4	Cash and cash equivalents at the beginning of the reporting period	1.7
1.7	**Cash and cash equivalents at the end of the reporting period**	**19.6**

Explaining how the Statement of Accounts has been prepared

Note 1 - Accounting Policies

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts 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 2017/18 (CIPFA Code) supported by International Financial Reporting Standards (IFRS).

The CIPFA Code, section 2.1.2.11, 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 73.

Note 2 - Accounting Standards Issued, Not Adopted

The Code of Practice requires that the Authority discloses information relating to the impact of accounting standards issued, but not yet adopted. The list of accounting standards considered includes IFRS 16 Leases, IFRS 9 Financial Instrument, IFRS 15 Revenue from Contracts with Customers and IAS 12 Income Taxes.

IFRS 16 Lease introduces a stricter criteria for lessees for the recognition of an item as an operating lease. Items which are not an operating lease are to be classified as a finance lease which recognises the item as an asset with a corresponding liability for the duration of the contract. London Borough of Hounslow have treated all leases as operating leases. When the standard is fully adopted it will have an effect on the Statement of Accounts.

IFRS 9 Financial Instrument specifies how an entity should classify financial assets and how the entity will impair its assets. Financial assets are to be classified depending on the entity’s business model and the asset’s cash flow characteristics:

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

The impact of when this is adopted, is to reclassify its financial assets in accordance with the standard.   London Borough of Hounslow are not expecting any changes in the measurement of its financial assets.

Impairment of financial assets allows the expected credit loss model to reflect the pattern of deterioration or improvement in credit quality of the financial instrument. London Borough of Hounslow have considered the implication for this standard and has determined that no material impairment had occurred to any of the financial instruments.

IFRS 15 Revenue from Contracts with Customers introduces a new approach on how to recognise revenue based on a five-step process. Entities are to recognise revenue to show the transfer of goods or services which the entity expects to be entitled in exchange for the goods or services at any stage of its contract. London Borough of Hounslow do not have any material revenue streams within the scope of the new standards.

IAS 12 Income Taxes (Recognition of Deferred Tax assets for unrealised losses) relates to unrealised losses which produces deductible tax differences when the debt instrument is expected to recover a carrying amount by selling the instrument or holding the instrument until it reaches maturity. This does not apply to London Borough of Hounslow as no such instrument exists.

Note 3 - Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out from page 73, 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 uses an external valuer to review a proportion 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.

- Accounting for the pension scheme

The Authority is required to recognise information about the pension schemes' assets and liabilities, and to appropriately recognise pension related expenditure in accordance with IAS 19. The Authority uses an independent firm of actuaries to make the necessary calculations to advise on the appropriate figures to use.

- Judgements made in Establishment of Provisions

A review is undertaken each year to identify and estimate any significant provisions that are needed at the year end. The three most significant areas where it is believed a provision is required relate to redundancy costs, insurance and the impact of appeals relating to retained business rates. The provision for redundancy is based on an estimate of future redundancy costs associated with decisions made during the year, calculated using a best estimate of the likely number of people to receive redundancy payment as a result of known reorganisations and savings. The Authority has also 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. The provision for business rates appeals has been estimated by analysing historic trends in appeals and information about outstanding appeals.

- Accruals of income and expenditure

The Authority is required to estimate expenditure incurred and income earned but not invoiced at 31 March each year. This will include an estimate of untaken annual leave and other pay related costs due to its officers at 31 March. General income and expenditure accruals are estimated based on known orders and services delivered. The cost of teachers untaken leave is calculated by a formula developed for use on a national basis. 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. Details about the judgements made can be found in Note 28.

Note 4 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 2018 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 useful economic lives of assets are re-assessed whenever the 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. 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.
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 14).	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 from the actuarial assumptions, it will not affect the council tax. 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.
Bad Debt Provision	The estimated provision for bad debts 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 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.

Item	*Uncertainties*	*Effect if actual results differ from assumptions*
Highways PFI	The accounting treatment applied to the highways PFI assumes a level of future delivery of capital investment, recognised as a long term deferred asset at the point the PFI contract was signed, together with a creditor to reflect amounts outstanding via a finance lease.	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. More information can be found in Note 28

About the Expenditure and Funding Analysis

Note 5 - Expenditure and Income Analysed by Nature

The Council focuses on the net position of the general fund and Housing Revenue Account, after taking into account transfers to or from earmarked reserves, when looking at financial monitoring and decision making. A summary of this information is set out in the first column of the Exepnditure and Funding Analysis (EFA) set out on page 12. The EFA statement then presents the overall impact on the general fund and HRA by adjusting for these earmarked reserve movements, as well as matching income and expenditure to the appropriate line in the Comprehensive Income and Expenditure Statement.

Finally the EFA sets out the adjustments between the statutory funding rules that apply to the Authority and the accounting basis required by accounting standards. The accounting adjustment that applies to the three main service directorates relates to capital expenditure that has been funded by the general fund. Other accounting adjustments that reflect depreciation or timing differences for the recognition of income are set out in Note 20 and have been applied either to the HRA or a corporate directorate.

The following table analyses the EFA by the nature of the income or expenditure.

2016/17 £m	Nature of Expenditure or Income	2017/18 £m
(159.0)	Fees, charges and other service income	(190.3)
(11.5)	Support Service recharge income	(3.1)
(0.2)	Interest and investment income	2.5
(139.0)	Income from local taxation	(153.7)
(430.1)	Government grants and contributions	(415.4)
0.0	Other income	0.0
224.2	Employee benefits expenses	195.4
35.1	Support service recharge expenditure	8.3
390.7	Other service expenses	452.9
42.8	Depreciation, amortisation and impairment	(21.0)
27.7	Interest payments	25.7
9.5	Precepts and levies	9.7
2.0	Payments to Housing Capital Receipts Pool	2.0
(11.0)	Gain or loss on disposal of non-current assets	26.7
0.0	Other expenditure	0.0
(18.8)	**Surplus or Deficit for Year**	**(60.3)**

About the Comprehensive Income and Expenditure Statement

Note 6 - Material Items of Income and Expense

The 2017/18 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.

- A change of Status to Academy of Berkeley Primary School has resulted in an exception derecognition of the associated non-current assets in Note 7.
- Transactions relating to the pension fund are set out in Note 14.
- Other material transactions relate to movements in the value of the authority’s other non-current assets with details set out from Note 25 and Note 26.
- Details about the PFI contract are set out in Note 28.

Note 7 - Other Operating Expenditure

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

2016/17 £m		2017/18 £m
9.5	Levies	9.7
2.0	Payments to the Government Housing Capital Receipts Pool	2.0
(11.0)	Gains/losses on the Disposal of Non-Current Assets	26.7
0.5	**Total Other Operating Expenditure**	**38.4**

Note 8 - 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.

2016/17 £m		2017/18 £m
11.3	Interest payable and similar charges	11.6
16.4	Net interest on the net defined benefit liability (asset)	14.1
(1.4)	Interest receivable and similar income	(1.2)
(0.3)	Income and expenditure in relation to investment properties and changes in their fair value	(0.6)
1.5	Other investment income and expenditure	2.6
27.5	**Total**	**26.5**

Note 9 - 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.

2016/17 £m		2017/18 £m
(92.1)	Council tax income	(96.9)
(46.9)	Non-domestic rates income and expenditure	(56.8)
(40.8)	Non-ringfenced government grants	(39.3)
(26.3)	Capital grants and contributions	(28.6)
(206.1)	**Total**	**(221.6)**

About Councillors, Employees and Related Parties

Note 10 - Members' Allowances

During 2017/18 £796k of allowances and less than £1k of expenses were paid to Councillors (£806k of allowances and less than £1k of expenses were paid during 2016/17).

Note 11 - Termination Benefits

The Authority has been 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.

The Authority terminated the contracts of a number of employees in 2017/18, incurring liabilities of £1.2m (£1.8m in 2016/17). The amounts quoted include all amounts 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 due in exit packages per band. Termination payments made or due to senior officers of the council during the year are included here, as well as being set out in the appropriate table of the officers' remuneration disclosures in Note 12.

Exit package band			2016/17				2017/18			
£		£	Voluntary redundancy	Compulsory redundancy	Total number of people	Total cost of packages £m	Voluntary redundancy	Compulsory redundancy	Total number of people	Total cost of packages £m
0	-	20,000	25	40	65	0.6	12	62	74	0.4
20,001	-	40,000	26	14	40	1.1	11	11	22	0.6
40,001	-	60,000	2	0	2	0.1	0	1	1	0.1
60,001	-	80,000	0	0	0	0.0	0	1	1	0.1
80,001	-	100,000	0	0	0	0.0	0	0	0	0.0
100,001	-	150,000	0	0	0	0.0	0	0	0	0.0
Total			**53**	**54**	**107**	**1.8**	**23**	**75**	**98**	**1.2**

Note 12 - Officers' Remuneration

The remuneration paid to officers who were senior employees of the Authority during 2017/18 or 2016/17 is as set out in the following tables. The remuneration figures for the senior officers who left during the year reflect amounts paid or receivable for that year. For individuals whose role changed during the year, the amounts quoted represent the total remuneration for the financial year from all roles combined.

The Chief Executive Officer also acts as the returning officer for the Borough. The other emoluments of £5,924 for 2017/18 shown in the table represents the remuneration paid in respect of this returning officer role.

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 2017/18							
Corporate Leadership Team							
Chief Executive - Mary Harpley	179,092	0	0	5,924	185,015	39,852	224,868
Executive Director Children's and Adults / Deputy Chief Executive- Alan Adams	160,055	0	0	0	160,055	0	160,055
Other senior officers							
Director Finance and Corporate Services (s151)	102,650	0	0	0	102,650	22,111	124,761
Director ICT	108,167	0	0	0	108,167	23,299	131,466
Director Children's Safeguarding and Specialist Services	110,696	0	0	0	110,696	23,844	134,540
Director Education and Early Intervention	105,936	0	0	0	105,936	22,819	128,755
Director Adult Safeguarding, Social Care and Health	105,936	0	0	0	105,936	0	105,936
Director Joint Commissioning	105,936	0	0	0	105,936	22,819	128,755
Director Housing	126,555	0	0	0	126,555	0	126,555
Director Customer Relations, Communications and Engagement	85,595	0	0	0	85,595	18,437	104,032
Head of Governance / Monitoring Officer	68,259	0	0	0	68,259	14,703	82,962
Senior officers who left during 2017/18							
Executive Director Regeneration, Economic Development & Environment (left August 2017)	66,690	0	67,534	0	134,224	13,288	147,512
Director Public Health and Leisure (left January 2018)	71,525	0	0	0	71,525	14,910	86,435

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 2016/17							
Corporate Leadership Team							
Chief Executive - Mary Harpley	177,076	0	0	18,793	195,869	40,976	236,845
Executive Director Regeneration, Economic Development & Environment - Brendon Walsh	158,470	0	0	0	158,470	34,134	192,604
Executive Director Children's and Adults / Deputy Chief Executive- Alan Adams	158,470	0	0	0	158,470	0	158,470
Other senior officers							
Director Finance and Corporate Services (s151)	101,634	0	0	0	101,634	21,892	123,526
Director Public Health and Leisure	87,305	0	0	0	87,305	18,775	106,080
Director ICT	107,183	0	0	0	107,183	23,068	130,252
Director Children's Safeguarding and Specialist Services	95,177	0	0	0	95,177	20,501	115,678
Director Education and Early Intervention	99,937	0	0	0	99,937	21,526	121,463
Director Adult Safeguarding, Social Care and Health	99,937	0	0	0	99,937	0	99,937
Director Joint Commissioning	99,937	0	0	0	99,937	21,526	121,463
Director Housing	120,351	0	0	0	120,351	0	120,351
Director Customer Relations, Communications and Engagement	80,036	0	0	0	80,036	17,240	97,276
Head of Governance / Monitoring Officer	66,198	0	0	0	66,198	14,259	80,457

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 or receivable, including any termination payments. The senior officers set out in the previous table have been included.

Remuneration band			2016/17		2017/18	
£		£	Officers	Teachers	Officers	Teachers
50,000	-	54,999	68	51	55	58
55,000	-	59,999	31	38	21	31
60,000	-	64,999	16	16	15	22
65,000	-	69,999	13	14	15	12
70,000	-	74,999	13	12	11	12
75,000	-	79,999	3	11	5	7
80,000	-	84,999	2	5	2	8
85,000	-	89,999	3	3	1	4
90,000	-	94,999	1	5	0	2
95,000	-	99,999	6	2	1	6
100,000	-	104,999	1	1	1	0
105,000	-	109,999	1	0	5	0
110,000	-	114,999	0	1	1	0
120,000	-	124,999	1	1	0	0
125,000	-	129,999	0	0	1	0
130,000	-	134,999	0	0	1	0
155,000	-	159,999	2	0	0	0
160,000	-	164,999	0	0	1	0
185,000	-	189,999	0	0	1	0
195,000	-	199,999	1	0	0	0

Note 13 - Pension Schemes Accounted for as Defined Contribution 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 2017/18, the Authority paid £8.6m to Teachers' Pensions in respect of teachers' retirement benefits. Employer’s contribution remains at 16.48% of pensionable pay from 1 September 2017. The figures for 2016/17 were £8.7m and 16.48% respectively. 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 £1.3m in 2017/18 (£0.7m in 2016/17).

Note 14 - Defined Benefit Pension Scheme

Participation in pension schemes

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 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 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 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	
	2016/17	**2017/18**	**2017/18**	**2016/17**	**2016/17**	**2017/18**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Comprehensive Income and Expenditure Statement						
Cost of services:						
Current service cost	26.7	19.3	0.0	0.0	26.7	19.3
Administration expenses	0.5	0.7	0.0	0.0	0.5	0.7
Financing and investment income and expenditure:						
Net interest on the defined liability	16.3	14.1	0.0	0.0	16.3	14.1
Total post employment benefit charged to the surplus or deficit on the provision of services	**43.5**	**34.1**	**0.0**	**0.0**	**43.5**	**34.1**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement						
Actuarial gains and losses	72.2	(69.9)	(0.2)	(0.2)	72.0	(70.1)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**115.7**	**(35.8)**	**(0.2)**	**(0.2)**	**115.5**	**(36.0)**
Movement in Reserves Statement						
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits	(43.5)	(34.1)	0.0	0.0	(43.5)	(34.1)
Actual amount charged against the general fund balance in the year for pensions						
Employers' contributions payable to the scheme	22.1	21.5	0.0	0.0	22.1	21.5

Assets and liabilities in relation to postemployment 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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April	**(1,066.6)**	**(1,327.3)**	**(4.6)**	**(4.7)**	**(1,071.2)**	**(1,332.0)**
Current service cost	(27.4)	(33.8)	0.0	0.0	(27.4)	(33.8)
Interest cost	(38.9)	(34.7)	(0.1)	(0.1)	(39.0)	(34.8)
Change in financial assumptions	(265.0)	60.9	(0.5)	0.1	(265.5)	61.0
Change in demographic assumptions	82.3	0.0	0.2	0.0	82.5	0.0
Experience (loss)/ gain on defined benefit obligation	(43.3)	0.0	(0.2)	0.0	(43.5)	0.0
Liabilities assumed/ (extinguished) on settlements	6.1	30.7	0.0	0.0	6.1	30.7
Estimated benefits paid net of transfers in	32.0	34.5	0.5	0.5	32.5	35.0
Past services costs including curtailments	(1.2)	(1.4)	0.0	0.0	(1.2)	(1.4)
Contributions by Scheme participants	(6.6)	(6.3)	0.0	0.0	(6.6)	(6.3)
Unfunded pension payments	1.3	1.3	0.0		1.3	1.3
Closing balance as at 31 March	**(1,327.3)**	**(1,276.1)**	**(4.7)**	**(4.2)**	**(1,332.0)**	**(1,280.3)**

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April	**613.6**	**780.9**	**3.1**	**3.2**	**616.7**	**784.1**
Interest on Assets	22.5	20.6	0.1	0.1	22.6	20.7
Return on assets less interest	92.2	9.0	0.5	0.1	92.7	9.1
Other actuarial gains	61.7	0.0	0.0	0.0	61.7	0.0
Administration expenses	(0.5)	(0.7)	0.0	0.0	(0.5)	(0.7)
Contributions by employer including unfunded	22.2	21.5	0.0	0.0	22.2	21.5
Contributions by scheme participants	6.6	6.3	0.0	0.0	6.6	6.3
Estimated benefits paid (inc. unfunded) net of transfers in	(33.3)	(35.8)	(0.5)	(0.5)	(33.8)	(36.3)
Settlement prices received/ (paid)	(4.1)	(14.8)	0.0	0.0	(4.1)	(14.8)
Closing balance as at 31 March	**780.9**	**787.0**	**3.2**	**2.9**	**784.1**	**789.9**

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.

Scheme history

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £1,280.3m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £789.9m. 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.

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m	£m
LBH Pension Fund						
Present value of liabilities	(811.2)	(868.2)	(1,104.8)	(1,066.6)	(1,327.3)	(1,276.1)
Fair value of assets in the scheme	530.5	539.3	625.4	613.6	780.9	787.0
Surplus / (deficit) in the scheme	**(280.7)**	**(328.9)**	**(479.4)**	**(453.0)**	**(546.4)**	**(489.1)**
LPFA Pension Fund						
Present value of liabilities	(6.6)	(5.3)	(5.3)	(4.6)	(4.7)	(4.2)
Fair value of assets in the scheme	3.7	3.9	3.6	3.0	3.2	2.9
Surplus / (deficit) in the scheme	**(2.9)**	**(1.4)**	**(1.7)**	**(1.6)**	**(1.5)**	**(1.3)**

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 undertaken as at 31 March 2016.

The principal assumptions used by the actuary are set out in the following table.

	LBH Pension Fund		**LPFA Pension Fund**	
	2016/17	**2017/18**	**2016/17**	**2017/18**
Longevity at 65 for pensioners retiring now				
Men	21.4	21.5	21.0	21.2
Women	25.0	25.2	24.2	24.3
Longevity at 65 for future pensioners retiring in 20 years				
Men	23.5	23.7	23.4	23.5
Women	27.4	27.5	26.4	26.5
Rate of inflation - RPI	3.6%	3.3%	3.0%	3.4%
Rate of inflation - CPI	2.7%	2.3%	2.1%	2.4%
Rate of salary increases	4.2%	3.8%	3.6%	3.9%
Rate of pension increases	2.7%	2.3%	2.1%	2.4%
Discount rate	2.7%	2.6%	1.7%	2.3%

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	
	2016/17	2017/18	2016/17	2017/18
	%	%	%	%
Equities	78	79	59	61
Gilts	4	5	n/a	n/a
Other Bonds	12	9	n/a	n/a
Infrastructure	n/a	n/a	5	4
Commodities	n/a	n/a	n/a	n/a
Property	5	5	5	7
Cash	1	2	10	5
Target return portfolio	n/a	n/a	21	22
Cash flow matching	n/a	n/a	n/a	n/a
Total	**100**	**100**	**100**	**99**

Note 15 - 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 2017/18 and 2016/17 are shown in Note 10.

Officers

The Chief Executive is a Member of West Thames College's Corporation Board.

The Director of Finance and Corporate Services and the Director of Education & Early Intervention each held one of the five Director posts for Chartwells Hounslow (Feeding Futures) Limited.

Voluntary Organisations and Charities

Grants paid to voluntary organisations amounted to £1.6m in 2017/18 (£1.6m in 2016/17). Commissioned services are subject to the council's procurement procedures and the payments made as part of individual contracts for specific services.

Chiswick House and Gardens Trust received grants of £269k in 2017/18 (£261k in 2016/17). Councillor Lynch was Council representatives on this Committee.

Hounslow Multicultural Centre received grants of £15.5k in 2017/18 (£18.5k in 2016/17). Councillor Sharma was Trustee of Hounslow Multicultural Centre.

Disability Network Hounslow received grants of £6.5k in 2017/18 (£0 in 2016/17). Councillor Malhotra was a Trustee/Director of Disability Network Hounslow.

In all instances, the grants 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 the London Borough of Hounslow. The Authority charged £481k in 2017/18 for administrative services provided to the Pension Fund (£486k in 2016/17). As at 31 March 2018 the Authority was owed £0.2m by the Pension Fund (at 31 March 2017 the Authority was owed £1.9m by the Pension Fund).

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 Mann has been the Authority's representative on the WLWA since June 2014. The Authority made payments of £9.4m in 2017/18 (£9m in 2016/17). The Authority also received income of £31k from WLWA during 2017/18.

Entities Controlled or Significantly Influenced by the Authority

The Council controls Lampton 78 (previously Hounslow Homes) and paid the company £0 in 2017/18 (£1.13m in 2016/17) for managing and maintaining part of its stock. The majority of Lampton 78's activities has been transferred back to the Council. As at

31 March 2018 the Council has no collection from Lampton 78. Lampton 78 is consolidated with the Authority's own accounts to create the group accounts.

The Council also owns Lampton 360 and have a joint ownership of Lampton Development LLP. Lampton 360 is the holding company of Recycle 360, FM360 and Greenspace. The consolidated accounts have incorporated the financial results of other entities controlled by the Authority on the grounds of materiality.

The London Borough of Hounslow is the sole shareholder in Lampton 360 Limited, which has four Directors. Holders of these posts include:

- Anthony Middleton (since 02/12/16)
- Dave Ward (since 01/09/17)
- Howard Woollaston, Non-Executive Director (since 16/04/15)
- Ellard Associates Ltd (since 02/12/16)
- Director of Regeneration, Economic Development and Environment (ceased being a director 31/08/17)

The Council owns 25% of Feeding Futures with Chartwells, a leading school meals operator. The Director of Finance & Corporate Services and Director of Education & Early Intervention hold two of the five Director posts. Feeding Futures started trading from 1 August 2014 following the transfer of the Council's catering service, DS Catering. A loan has been provided to Feeding Futures from the Council of £250k. In 2017/18, £2.24m (£2.2m in 2016/17) was paid to Feeding Futures for the provision of catering services.

Note 16 - Pooled Budgets

The Council has entered into a Pooled Budget arrangement with Hounslow Clinical Commissioning Group (CCG). Joint arrangements of this type are permitted under section 75 of the National Health Service Act 2006. The aims and benefits of the agreement with the CCG are to:

- Improve the quality and efficiency of the services
- Meet the National Conditions and Local Objectives
- Make more effective use of resources through the establishment and maintenance of an aligned fund for revenue expenditure of the services
- Ensure that people in Hounslow will be independent, resilient and self-caring so fewer people reach crisis point
- To develop an integrated health and care system that enables people to proactively manage their own care with the support of their family, community and the right professionals at the right time in a properly joined up approach

The Better Care Fund provides various services to Hounslow's residents. The services being provided by the Council or the CCG are dependent on the mix required by clients. The areas covered include:

- Community rehabilitation service
- Re-ablement services
- Hospital social work team
- Community Equipment

The Council and the CCG have an agreement in place for funding these services that runs annually. There was the requirement to increase the adult social care minimum BCF allocation for the protection of Adult Social Care services and constitutes an up lift to social care of 1.8% over the life of the plan. This is to ensure that any change in funding did not destabilise the local social care system.

The pooled budget is made up of CCG funding as well as local government grants, of which one is the Improved Better Care Fund (iBCF). The iBCF was first announced in the 2015 Spending Review, and was increased in the 2017 Spring Budget. The funding has been used to support:

- Meeting adult social care needs
- Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready
- Ensuring that the local social care provider market is supported

The following table summarises the income and expenditure for the 2017/18 financial year.

2016/17 £m	**Better Care Fund**	**2017/18 £m**
(11.2)	Authority Funding	(15.8)
(6.8)	Partner Funding	(7.0)
(18.0)	**Total Pooled Funding**	**(22.8)**
11.2	Authority Expenditure	15.8
6.8	Partner Expenditure	7.0
18.0	**Expenditure**	**22.8**
0.0	**Net Surplus/Deficit on the Pooled Budget**	**0.0**

Note 17 - External Audit Costs

The Authority has incurred the following expenditure for services provided by KPMG LLP, the Authority's external auditors:

- £146k in relation to the audit of the Statement of Accounts for 2017/18 (£146k for 2016/17);
- £18k in relation to certification of grant claims and returns for 2017/18 (£19k for 2016/17);
- £9k in relation to non-audit services provided in 2017/18 (£18k for 2016/17).

About the Authority’s Grant Income

Note 18 - Grant Income

In 2016/17 the authority credited grants, contributions and donations to the comprehensive income and expenditure account as follows.

Grant Income Credited to Taxation and non-specific Grant Income and Expenditure

31 March 2017 £m		31 March 2018 £m
(31.1)	Revenue Support Grant	(22.0)
(8.0)	New Homes Bonus	(6.0)
(1.7)	Other revenue grants	(11.3)
(3.4)	s106 developer contributions - capital	(9.7)
(22.9)	Other capital grants	(18.9)
(67.1)	**Total**	**(67.9)**

Credited to Services

31 March 2017 £m		31 March 2018 £m
(155.5)	Dedicated Schools Grant (DSG)	(161.1)
(8.0)	Pupil Premium Grant	(7.7)
(133.2)	Housing Benefits subsidy	(110.5)
(13.2)	Private Finance Initiative (PFI) Grant	(13.2)
(16.7)	Publich Health Grant	(16.2)
(15.9)	Better Care Fund	(16.2)
(20.5)	Other grants	(22.1)
(363.0)	**Total**	**(347.0)**

Note 19 - Dedicated Schools Grant

The Authority's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, 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 and Early Years (England) Regulations 2014. 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 the year are as follows.

DSG Receivable for 2017/18	Central Expenditure	Individual Schools Budget	New School Improvement Model	Total
	£m	£m	£m	£m
Final DSG for year before Academies recoupment	19.5	218.2	0.0	237.7
Academy figure recouped for year		(76.6)	0.0	(76.6)
Total DSG after academy recoupment	**19.5**	**141.6**	**0.0**	**161.1**
Plus: Brought forward from previous year	4.2	0.4	0.6	5.2
Less: Carry forward to following year (agreed in advance)				
Agreed initial budgeted distribution in year	**23.7**	**142.0**	**0.6**	**166.3**
In year adjustments	0.0	0.0	0.0	0.0
Final budget distribution for year	**23.7**	**142.0**	**0.6**	**166.3**
Less: Actual central expenditure	(19.2)			(19.2)
Less: Actual ISB deployed to schools		(141.6)		(141.6)
Carry forward to 2018/19	**4.5**	**0.4**	**0.6**	**5.5**

About the Movement in Reserves Statement

Note 20 - Adjustments between Accounting Basis and Funding Basis under Regulations

2017/2018	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m	£m
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension cost (transferred to (or from) the Pensions Reserve)	(12.6)	0.0				12.6
Council tax and NDR (transfers to or from the Collection Fund)	7.1					(7.1)
Holiday pay (transferred to the Accumulated Absences reserve)	0.0	0.0				0.0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	0.7	(20.3)			(2.8)	22.4
Total Adjustments to Revenue Resources	(4.8)	(20.3)	0.0	0.0	(2.8)	27.9
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	12.1	12.0	(24.1)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(2.0)		2.0			

Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		15.4		(15.4)		
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	10.1					(10.1)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	13.1	18.0				(31.1)
Total Adjustments between Revenue and Capital Resources	33.3	45.4	(22.1)	(15.4)	0.0	(41.2)
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			10.2			(10.2)
Use of the Major Repairs Reserve to finance new capital expenditure				2.4		(2.4)
Application of capital grants to finance capital expenditure					22.7	(22.7)
Total Adjustments to Capital Resources	0.0	0.0	10.2	2.4	22.7	(35.3)
Total Adjustments	**28.5**	**25.1**	**(11.9)**	**(13.0)**	**19.9**	**(48.6)**

2016/2017	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£m	£m	£m	£m	£m	£m
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension cost (transferred to (or from) the Pensions Reserve)	(20.4)	(0.9)				21.3
Council tax and NDR (transfers to or from the Collection Fund)	4.7					(4.7)
Holiday pay (transferred to the Accumulated Absences reserve)	(1.0)	0.0				1.0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(4.8)	(27.2)			(18.1)	50.1
Total Adjustments to Revenue Resources	(21.5)	(28.1)	0.0	0.0	(18.1)	67.7
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	4.5	17.3	(21.8)			
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(2.0)		2.0			
Posting of Housing Revenue Account resource from revenue to the Major Repairs Reserve		15.2		(15.2)		

Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	8.4					(8.4)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	17.6	3.1				(20.7)
Total Adjustments between Revenue and Capital Resources	28.5	35.6	(19.8)	(15.2)	0.0	(29.1)
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			16.4			(16.4)
Use of the Major Repairs Reserve to finance new capital expenditure				24.7		(24.7)
Application of capital grants to finance capital expenditure					18.4	(18.4)
Total Adjustments to Capital Resources	0.0	0.0	16.4	24.7	18.4	(59.5)
Other adjustments	0.0	(0.7)	0.0	0.7	0.0	0.0
Total Adjustments	**7.0**	**6.8**	**(3.4)**	**10.2**	**0.3**	**(20.9)**

Note 21 - Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17 and 2017/18.

The main earmarked reserves created by the Authority are:

- The specific contingency reserve represents the amounts set aside for specific expenditure pressure in 2017/18 and future years.
- The government grants received but not yet spent reserves are unspent grant monies that are not strictly ring fenced but are intended to support specific service expenditure or objectives, and hence has been carried forward as part of an earmarked reserve
- The New Homes grant reserve holds unspent amounts awarded to the Authority for the introduction of new homes and the funds have been set aside to allocate to Member priorities.
- The PFI reserve represents the monies set aside to fund future cash flows for the PFI investment programme. The programme is being funded through borrowing that is repaid over the 25 year life of the contract, which is financed partly from government grant and partly from Hounslow's general revenue budget.
- Savings and improvement reserves have been set up to cover costs associated with developing and improving services, together with a reserve created at the end of 2015/16 to meet costs expected to arise as part of the delivery of savings.
- The special parking reserve account represents surpluses set aside from on-street parking income to fund traffic management and transport initiatives as defined by statute.
- Other reserves are the aggregate amount of a number of funds set aside for specific purposes.

	Balance at 1 April 2016	Transfers In 2016/17	Transfers Out 2016/17	Balance at 31 March 2017	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31 March 2018
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
General Fund Reserves:							
Specific contingency	(6.0)	0.0	0.0	**(6.0)**	(3.0)	0.0	**(9.0)**
Capital funding	(15.4)	(0.5)	15.9	**0.0**	0.0	0.0	**0.0**
Government grants received but not yet spent	(13.1)	(0.9)	4.2	**(9.8)**	(4.4)	4.0	**(10.2)**
Insurance reserve	(4.7)	(0.8)	0.0	**(5.5)**	(0.5)	0.0	**(6.0)**
IT developemtn and irmprovement reserves	(1.0)	(1.2)	2.2	**0.0**	0.0	0.0	**0.0**
New homes bonus grant	(9.9)	(8.0)	1.7	**(16.2)**	(6.0)	0.4	**(21.8)**
PFI reserves	(10.8)	(2.4)	0.0	**(13.2)**	(0.8)	0.1	**(13.9)**
Savings and improvement reserves	(11.6)	(12.0)	4.7	**(18.9)**	(1.1)	2.8	**(17.2)**
Special parking fund	(1.5)	0.0	0.4	**(1.1)**	(0.3)	0.2	**(1.2)**
Schools reserves	(15.6)	(11.8)	14.4	**(13.0)**	(11.6)	12.0	**(12.6)**
Public health and adult social care reserves	(10.1)	(2.0)	3.2	**(8.9)**	(3.6)	0.3	**(12.2)**
Other reserves	(13.9)	(4.3)	5.2	**(13.0)**	(15.3)	14.5	**(13.8)**
Total General Fund	**(113.6)**	**(43.9)**	**51.9**	**(105.6)**	**(46.6)**	**34.3**	**(117.9)**

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.

31 March 2017 £m		31 March 2018 £m
(331.9)	Revaluation Reserve	(490.5)
(1,096.4)	Capital Adjustment Account	(1,155.0)
547.9	Pension Reserve	490.4
(3.0)	Deferred Capital Receipts Reserve	(3.0)
(4.2)	Collection Fund Adjustment Account	(11.3)
5.3	Accumulated Absences Account	5.3
(882.3)	**Total**	**(1,164.1)**

Revaluation Reserve

31 March 2017 £m		31 March 2018 £m
(251.3)	**Balance 1 April**	(331.9)
(90.8)	Upward revaluation of assets	(163.1)
6.0	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	0.0
(84.8)	**Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services**	**(163.1)**
4.2	Difference between fair value depreciation and historical cost depreciation	4.5

0.0	Accumulated gains on assets sold or scrapped	0.0
4.2	**Amount written off to the Capital Adjustment Account**	**4.5**
0.0	Other movements	0.0
0.0	Other movements to Other Comprehensive Income and Expenditure	0.0
(331.9)	**Balance 31 March**	**(490.5)**

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

Capital Adjustment Account

31 March 2017 £m		31 March 2018 £m
(1,053.7)	**Balance 1 April**	(1,096.4)
31.4	Charges for depreciation and impairment of non-current assets	31.8
7.5	Revaluation losses on non-current assets	(52.2)
3.9	Amortisation of intangible assets	1.1
5.0	Revenue expenditure funded from capital under statute	17.3
12.5	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	50.8
60.3	Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	48.8

(4.2)	Adjusting Amounts written out of the Revaluation Reserve	(4.5)
56.1	**Net written out amount of the cost of non-current assets consumed in the year**	44.3
(16.4)	Use of Capital Receipts Reserve to finance new capital expenditure	(10.2)
(24.7)	Use of Major Repairs Reserve to finance new capital expenditure	(2.4)
(26.6)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(48.5)
(8.4)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(10.1)
(20.7)	Capital expenditure charged against the General Fund and HRA balances	(31.1)
(96.8)	**Capital financing applied in year:**	(102.3)
(2.0)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(0.6)
0.0	Other movements	0.0
(1,096.4)	**Balance 31 March**	**(1,155)**

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.

Pension Reserve

31 March 2017 £m		31 March 2018 £m
454.6	Balance 1 April	547.9
72.0	Remeasurements of the net defined benefit (liability)/asset	(70.1)
43.5	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	34.1
(22.2)	Employer's pensions contributions and direct payments to pensioners payable in the year	(21.5)
547.9	**Balance 31 March**	**490.4**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer’s contributions to pension funds or eventually pays any 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.

Deferred Capital Receipts Reserve

31 March 2017 £m		31 March 2018 £m
(3.0)	Balance 1 April	(3.0)
0.0	Transfer to the Capital Receipts Reserve upon receipt of cash	0.0
(3.0)	**Balance 31 March**	**(3.0)**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Collection Fund Adjustment Account

31 March 2017 £m		31 March 2018 £m
0.5	Balance 1 April	(4.2)
(4.7)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(7.1)
(4.2)	**Balance 31 March**	**(11.3)**

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

Accumulated Absences Account

31 March 2017 £m		31 March 2018 £m
4.3	**Balance 1 April**	5.3
(4.3)	Settlement or cancellation of accrual made at the end of the preceding year	0.0
5.3	Amounts accrued at the end of the current year	0.0
1.0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	0.0
5.3	**Balance 31 March**	**5.3**

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.

About the Authority's Non-Current Assets

Note 24 - Leases

Authority as lessee:

Finance leases

The PFI contract is accounted for as if it includes a finance lease, details of which are set out in Note 28.

Authority as lessor

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 future minimum lease payments receivable under non-cancellable leases in future years are as follows (based on current rents at 31 March 2018 and do not include any assumptions for future rent changes):

31 March 2017 £m		**31 March 2018 £m**
1.3	Not later than one year	2.8
1.6	Later than one year and not later than five years	7.4
4.9	Later than five years	7.1
7.8		**17.3**

Note 25 - Property, Plant and Equipment

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

Movements to 31 March 2018

	Council Dwellings	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cost or Valuation								
at 1 April 2017	964.2	619.8	53.8	213.7	11.9	10.6	63.3	**1,937.3**
Adjustments to cost/value & depreciation/impairment	(14.4)	(17.5)	0.0	0.0	0.0	0.0	0.0	**(31.9)**
Additions	16.3	47.1	1.5	29.2	1.0	0.0	41.4	**136.5**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(5.6)	168.1	0.0	0.0	0.0	0.6	0.0	**163.1**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0.0	52.2	0.0	0.0	0.0	0.0	0.0	**52.2**
Derecognition – disposals	(8.9)	(36.3)	0.0	0.0	0.0	(7.3)	(1.0)	**(53.5)**
Reclassifications and transfer	15.8	30.0	0.0	0.0	0.0	0.4	(46.2)	**0.0**
Other movements in cost or valuation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
at 31 March 2018	**967.4**	**863.4**	**55.3**	**242.9**	**12.9**	**4.3**	**57.5**	**2,203.7**
Accumulated Depreciation and Impairment								
at 1 April 2017	(14.4)	(41.5)	(31.1)	(31.3)	(0.1)	(0.1)	0.0	**(118.5)**
Adjustments to cost/value & depreciation/impairment	14.4	17.5	0.0	0.0	0.0	0.0	0.0	**31.9**
Depreciation charge	(14.6)	(11.7)	(1.6)	(3.8)	0.0	(0.1)	0.0	**(31.8)**
Derecognition – disposals	0.0	2.7	0.0	0.0	0.0	0.0	0.0	**2.7**
Reclassifications and transfers	0.0	0.2	0.0	0.0	0.0	(0.2)	0.0	**0.0**
at 31 March 2018	**(14.6)**	**(32.8)**	**(32.7)**	**(35.1)**	**(0.1)**	**(0.4)**	**0.0**	**(115.7)**
Net Book Value								
at 31 March 2018	**952.8**	**830.6**	**22.6**	**207.8**	**12.8**	**3.9**	**57.5**	**2,088.0**
at 31 March 2017	**949.8**	**578.3**	**22.7**	**182.4**	**11.8**	**10.5**	**63.3**	**1,818.8**

Movements to 31 March 2017

	Council Dwellings	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation								
at 1 April 2016	847.0	593.2	43.9	190.0	10.9	7.5	65.5	**1,758.0**
Adjustments to cost/value & depreciation/impairment	(14.5)	(4.3)	0.0	0.0	0.0	(0.2)	0.0	**(19.0)**
Additions	13.6	18.9	9.9	23.7	0.6	0.5	64.6	**131.8**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	62.4	17.4	0.0	0.0	0.4	4.6	0.0	**84.8**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0.0	(4.3)	0.0	0.0	0.0	(2.9)	(0.3)	**(7.5)**
Derecognition – disposals	(10.8)	0.0	0.0	0.0	0.0	0.0	0.0	**(10.8)**
Reclassifications and transfer	66.5	(1.1)	0.0	0.0	0.0	1.1	(66.5)	**0.0**
Other movements in cost or valuation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
at 31 March 2017	**964.2**	**619.8**	**53.8**	**213.7**	**11.9**	**10.6**	**63.3**	**1,937.3**
Accumulated Depreciation and Impairment								
at 1 April 2016	(14.5)	(34.5)	(29.3)	(27.5)	(0.1)	(0.2)	0.0	**(106.1)**
Adjustments to cost/value & depreciation/impairment	14.5	4.3	0.0	0.0	0.0	0.2	0.0	**19.0**
Depreciation charge	(14.4)	(11.3)	(1.8)	(3.8)	0.0	(0.1)	0.0	**(31.4)**
Other movements in depreciation and impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
at 31 March 2017	**(14.4)**	**(41.5)**	**(31.1)**	**(31.3)**	**(0.1)**	**(0.1)**	**0.0**	**(118.5)**
Net Book Value								
at 31 March 2017	**949.8**	**578.3**	**22.7**	**182.4**	**11.8**	**10.5**	**63.3**	**1,818.8**
at 31 March 2016	**832.5**	**558.7**	**14.6**	**162.5**	**10.8**	**7.3**	**65.5**	**1,651.9**

Property, Plant and Equipment Revaluations

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Community Assets	Surplus Assets	Total
	£m	£m	£m	£m	£m	£m
Carried at historical cost	0.00	0.00	55.3	0.00	2.70	58.00
Valued at current value as at:						
31/03/2018	967.40	525.60	0.00	12.90	1.60	1,507.50
31/03/2017	0.00	32.10	0.00	0.00	0.00	32.10
31/03/2016	0.00	120.50	0.00	0.00	0.00	120.50
31/03/2015	0.00	22.90	0.00	0.00	0.00	22.90
31/03/2014	0.00	162.30	0.00	0.00	0.00	162.30
Total Cost or Valuation	**967.40**	**863.40**	**55.30**	**12.90**	**4.30**	**1,903.30**

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, Wilks Head and Eve.

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

Capital commitments total £32.6m, the biggest relating to schools (£14.1m) and Housing £12.4m).

Note 26 - Investment Properties

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

31 March 2017 Non-Current £m	Investment Property Movements in Year	31 March 2018 Non-Current £m
37.8	Balance at start of year	38.3
	Additions:	
0.2	Subsequent expenditure	2.1
(1.7)	Disposals	0.0
2.0	Net gains/losses from fair value adjustments	0.6
38.3	**Balance at the end of the year**	**41.0**

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, Wilks Head and Eve.

Note 27 - Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), 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.

Capital Expenditure and Capital Financing

31 March 2017 £m		31 March 2018 £m
437.3	Opening Capital Financing Requirement	478.5
	Capital Investment:	
131.8	Property Plant and Equipment	136.5
0.2	Investment Property	2.1
0.8	Intangible Assets	0.0
0.2	Heritage Assets	0.4
5.0	Revenue Expenditure Funded from Capital Under Statute	17.3
0.0	Other Capital Expenditure	0.0
138.0	**Total Capital Spending**	156.3
	Sources of Finance:	
(16.4)	Capital receipts	(10.2)
(26.6)	Government Grants and other contributions	(48.5)
(24.7)	Major repairs reserve	(2.4)
	Sums set aside from revenue:	
(20.7)	- Direct revenue contributions	(31.1)
0.0	- Borrowing or liabilities met from the HRA	0.0
(8.4)	- Minimum revenue provision	(10.1)
(96.8)	**Total Sources of Finance**	(102.3)
478.5	**Closing Capital Financing Requirement**	**532.5**

Explanation of movements in year

31 March 2017 £		31 March 2018 £
24.7	Increase in underlying need to borrow (unsupported by government financial assistance)	34.0
16.5	Other movements	20.0
41.2	**Increase/(decrease) in Capital Financing Requirement**	**54.0**

Note 28 - Service Concession Arrangements

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 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 2018 (excluding any estimation of availability/performance deductions) are as follows:

	Payment for Services	Interest	Reimbursement of Capital Expenditure	Total
	£m	£m	£m	£m
Payable in 2017/18	15.2	2.3	3.1	20.6
Payable within 1 year	15.7	2.2	3.2	21.1
Payable within 2 to 5 years	65.9	7.9	13.7	87.5
Payable within 6 to 10 years	89.7	7.6	19.4	116.7
Payable within 11 to 15 years	98.8	4.8	22.2	125.8
Payable within 16 to 20 years	105.4	1.6	24.1	131.2
Total	**390.7**	**26.4**	**85.7**	**502.9**

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:

2016/17 £m		2017/18 £m
(88.7)	**Balance outstanding at start of year**	**(85.7)**
3.0	Payments during the year	3.2
(85.7)	**Balance outstanding at year-end**	**(82.5)**

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

2016/17 £m		2017/18 £m
38.8	**Balance outstanding at start of year**	**22.3**
(16.5)	Payments during the year	(20.0)
22.3	**Balance outstanding at year-end**	**2.3**

About the Authority's Current Assets

Note 29 - Debtors

31 March 2017 £m		31 March 2018 £m
7.9	Central Government Bodies	9.2
2.8	Other Local Authorities	2.8
0.0	NHS Bodies	10.2
0.0	Public Corporations and Trading Funds	0.0
33.5	Other Entities and Individuals	29.4
44.2	**Total Debtors**	**51.6**

Note 30 - Creditors

31 March 2017 £m		31 March 2018 £m
(28.4)	Central Government Bodies	(17.9)
(9.1)	Other Local Authorities	(23.6)
0.0	NHS Bodies	(1.1)
(63.6)	Other Entities and Individuals	(58.7)
(101.1)	**Total Creditors**	**(101.3)**

Note 31 - 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 £6.6m at 31 March 2018 (£8.4m at 31 March 2017). The long-term provisions are those estimated to be payable in more than one year from the balance sheet date and total £3.6m at 31 March 2018 (£6.0m at 31 March 2017). The decrease provisions is largely due to the impact of business rates appeals.

2016/17 £m	Total Provisions	2017/18 £m
(12.6)	Opening Balance	(14.4)
(1.8)	Increase in provision during year	0.0
0.0	Utilised during year	4.2
(14.4)	**Closing Balance**	**(10.2)**

Note 32 - Contingent Liabilities

At 31 March 2018 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 Financial Instruments

Note 33 - Financial Instruments

Financial Instruments

	Long-term	Long-term	Current	Current
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£m	£m	£m	£m
Investments				
Loans and receivables	45.8	5.0	135.1	124.6
Total investments	**45.8**	**5.0**	**135.1**	**124.6**
Debtors				
Loans and receivables	5.2	7.1	0.0	0.0
Financial assets carried at contract amounts			18.9	49.0
Total included in Debtors	**5.2**	**7.1**	**18.9**	**49.0**
Borrowings				
Financial liabilities at amortised cost	(192.9)	(187.6)	(1.9)	(6.9)
Total included in Borrowings	**(192.9)**	**(187.6)**	**(1.9)**	**(6.9)**

Other Long Term Liabilities				
PFI and finance lease liabilities	(84.6)	(81.3)		
Total other long term liabilities	**(277.5)**	**(268.9)**		
Creditors				
Financial liabilities carried at contract amount			7.0	4.1
Total Creditors	**0.0**	**0.0**	**7.0**	**4.1**

Income, Expense, Gains and Losses

	2018				
	Financial Liabilities: Liabilities measured at amortised cost	**Financial Assets: Loans and receivables**	**Financial Assets: Available-for-sale assets**	**Assets and Liabilities at Fair Value through Profit and Loss**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Interest expense	11.6	0.0	0.0	0.0	11.6
Total expense in Surplus or Deficit on the Provision of Services	**11.6**	**0.0**	**0.0**	**0.0**	**11.6**
Interest income	-	(1.2)	0.0	0.0	(1.2)
Total income in Surplus or Deficit on the Provision of Services	**0.0**	**(1.2)**	**0.0**	**0.0**	**(1.2)**

	2017				
	Financial Liabilities: Liabilities measured at amortised cost	**Financial Assets: Loans and receivables**	**Financial Assets: Available-for-sale assets**	**Assets and Liabilities at Fair Value through Profit and Loss**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Interest expense	11.3	0.0	0.0	0.0	11.3
Total expense in Surplus or Deficit on the Provision of Services	**11.3**	**0.0**	**0.0**	**0.0**	**11.3**
Interest income	-	(1.4)	0.0	0.0	(1.4)
Total income in Surplus or Deficit on the Provision of Services	**0.0**	**(1.4)**	**0.0**	**0.0**	**(1.4)**

In 2017/18 the Authority did not have to reclassify any of its investments.

Fair Value 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 2018 of 0.55% to 1.54% for loans from the PWLB and 1.37% to 1.41% for other loans receivable and payable, based on premature repayment rates for equivalent loans at that date. For 2016/17, 0.19% to 2.19% for loans from the PWLB and 3.16% to 3.29% 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:

2016/17 Carrying amount £m	2016/17 Fair value £m		2017/18 Carrying amount £m	2017/18 Fair value £m
193.9	309.8	Financial liabilities	193.5	303.0

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 2018) arising from a commitment to pay interest to lenders above current market rates.

2016/17 Carrying amount £m	2016/17 Fair value £m		2017/18 Carrying amount £m	2017/18 Fair value £m
174.9	175.6	Loans and receivables	151.1	151.4

The fair value of the assets is more 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 profit (based on economic conditions at 31 March 2018) attributable to the commitment to receive interest above current market rates.

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

Note 34 - Nature and Extent of Risks Arising from Financial Instruments

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.

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

Credit Risk

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 £30m for banks, building societies and 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 £30m 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 2018 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 2017/18 the counterparty limit for partially nationalised banks was maintained at £50m, and the counterparty limit for other banks and building societies was maintained at £30m.

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 18	31 Mar 17
	£m	**£m**
Between one and two years	34.9	17.9
Between two and five years	68.7	85.3
Between five and ten years	46.7	60.3
More than ten years	32.8	25.0
Total Long Term Borrowing	**183.1**	**188.5**
Less than one year	10.5	5.5
Total	**193.6**	**194.0**

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.

<u>Market Risk</u>

Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments.

The Authority has a number of strategies for managing interest rate risk. The policy was to aim to keep a maximum of £80m 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 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 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 Mar 18	31 Mar 17
	£m	**£m**
Increase in interest payable on variable rate borrowings	0.2	0.0
Increase in interest receivable on variable rate investments	(1.7)	(3.6)
Impact on Surplus or Deficit on the Provision of Services	**(1.5)**	**(3.6)**
Share of overall impact credited to the HRA	0.4	0.4
Decrease in fair value of fixed rate investment assets	0.0	1.1
Impact on Other Comprehensive Income and Expenditure	**(1.1)**	**(2.1)**

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 £48.4m (£49.8m in 2016/17).

The impact of a 1% fall interest is estimated to be less than the figures above (with the movements in reverse) due to the low level of interest rates earned on the Authority's short term investments.

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 35 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

31 March 2017 £m		31 March 2018 £m
(1.4)	Interest received	(1.2)
11.3	Interest paid	11.6
9.9	**Total**	**10.4**

Note 36 - Cash and Cash Equivalents

31 March 2017 £m		31 March 2018 £m
3.7	Cash and Bank balances	4.4
1.3	Short Term Deposits	21.5
5.0	**Total of bank accounts and short term deposits**	**25.9**
(3.3)	Bank Overdraft	(6.3)
1.7	**Total cash and cash equivalents**	**19.6**

Other Disclosures

Note 37 - Acquired and Discontinued Operations

During 2017/18, Regeneration, Economic Development was dissolved and placed under Chief Executives.

In 2018, Carillion PLC collapsed due to financial difficulties. The Authority was in the process of bringing many of the services contracted out to Carillion in house. This meant certain services such as libraries, parks and open spaces were transferred in house to London Borough of Hounslow. The library was transferred in August 2017 and parks and open space was transferred on 1 March, earlier than planned.

Note 38 - Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes.

ACCOUNTING POLICIES

1. Introduction

The Authority is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2015, preparation of which is primarily governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (CIPFA Code), supported by International Financial Reporting Standards (IFRS).The Council has where appropriate provided only information which is material and either aids the reader of the accounts or can be provided on a value for money basis, as permitted by section 2.1.2.11 of the CIPFA code**.**

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.

Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument.

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 and 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. Similarly, a contingent asset arises where an uncertain event could lead to the creation of service potential for the authority. Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts where it is probable that there will be a material impact.

6. Employee Benefits

(i) Benefits Payable during Employment

Short-term employee benefits 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 charged on an accruals basis to 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. Adjustments are applied through the Movement in Reserves Statement, with appropriations to and from the Pensions Reserve, to adjust for the differences between amounts paid and the amounts charged to the Comprehensive Income and Expenditure Statement.

(iii) Post Employment Benefits

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. 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

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.

Teachers' pensions scheme

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 Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

(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.

7. 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.

8. Exceptional Items

When items of income and expense are material, their nature and amount are disclosed separately, either in the Comprehensive Income and Expenditure 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.

9. Financial Instruments

Assets

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 Comprehensive Income and Expenditure 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 Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. 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 Comprehensive Income and Expenditure Statement.

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 Comprehensive Income and Expenditure 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 Comprehensive Income and Expenditure 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 Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Interest rate risk

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.

10. Government Grants and other contributions

Government grants and third party contributions and donations, 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 Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied.

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, once received the s106 balances will remain as a creditor until expenditure to satisfy the condition of the agreement is incurred.

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 either to the Net Cost of Services or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and contributions) in the Comprehensive Income and Expenditure Statement.

Where a capital grant becomes repayable because its conditions have not been met, this will be applied against the Capital Grants Receipts in Advance account. Where a grant that has been recognised in the Comprehensive Income and Expenditure Statement becomes repayable, the repayment will be recognised as an expense in the Comprehensive Income and Expenditure 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 Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital 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)002E

11. 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.

12. Intangible Assets

Expenditure on intangible assets 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.

Intangible assets are measured initially at cost and are not revalued. The depreciable amount of an intangible asset is amortised over its useful life, charged to the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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.

13. 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.

14. 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 Comprehensive Income and Expenditure 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.

15. Leases

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). Initial direct costs of the Authority are added to the carrying amount of the asset.

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. Property, Plant and Equipment recognised under finance leases are 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.

Operating Leases

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.

The gain credited to the Comprehensive Income and Expenditure 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.

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 Comprehensive Income and Expenditure Statement 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.

16. Overheads and Support Services

The costs of overheads and support services are recognised in the Net Cost of Services, charged to the Directorate responsible for managing those costs. Adjustments are made to reflect the proportion of overheads and support costs that are associated with trading accounts, recognised in Other Operating Income and Expenditure.

17. 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.

18. Property, Plant and Equipment

Recognition

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.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- 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.

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, 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.

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 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.

<u>Impairment</u>

Assets are assessed at each year-end to determine whether there is evidence that an asset may be impaired (i.e. 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 an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

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. 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 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. 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.

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.

Depreciation in these accounts is included according to the following policy:

- 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

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.

In practice, parts of assets are only componentised where the part is more than 20% of the value of the asset and the value of the asset itself is greater than £1m.

19. Provisions

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 Comprehensive Income and Expenditure Statement.

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 if it is virtually certain that reimbursement will be received if the authority settles the obligation.

20. 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 Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure 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.

21. 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. 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 property not owned by the Authority, and statutory redundancy costs when an authority has been granted a directive under the Local Government Act 2003.

22. 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.

23. Group Accounts.

The Council has reviewed the relationships it has with its partner organisations. The Council has more than half of the voting rights or has effective overall control of the following bodies:

- Lampton 78 Ltd
- Lampton 360 Ltd (which itself has a number of subsidiaries)
- David Henry Waring Home Trust
- Bedfont Lakes Trust

The accounts of Lampton 78 Ltd (formerly Hounslow Homes Ltd) and Lampton 360 Ltd have been consolidated with the financial statements of the London Borough of Hounslow. 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.

The other bodies listed above have not been incorporated into the group accounts on the grounds that they are not material.

There are no minority interests in these organisations or acquisitions.

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.

24. Heritage Assets

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge and culture. 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:

Listed Buildings

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.

Letter of Historical Interest

The Authority owns the Hogarth-Kirby Letter which is on display at Hogarth House and which is of national significance. 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.

25. 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 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 revenue 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 had transferred responsibility for the management of its Housing stock to Hounslow Homes, an arm's length management company, wholly owned by the Authority. During 2015/16 the Authority took back responsibility for the management of its Housing stock from Hounslow Homes. 2017/18 is the first full year that the management of housing stock has been within the council. The Authority has retained ownership of the housing stock throughout and has statutory responsibility for the Housing Revenue Account.

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

Housing Revenue Account Income and Expenditure Statement

31 March 2017 £m		31 March 2018 £m
	Expenditure	
14.2	Repairs & Maintenance	16.9
26.7	Supervision & Management	27.6
1.0	Rents, Rates, Taxes and other charges	1.0
16.4	Depreciation, impairments and revaluation losses of non-current assets	15.4
0.0	Debt Management Costs	0.0
0.7	Movement in the allowance for bad debts	1.0
59.0	**Total Expenditure**	**61.9**
	Income	
(69.4)	Dwelling rents	(69.1)
(1.8)	Non-dwelling rents	(2.1)
(12.5)	Charges for services and facilities	(13.6)
(83.7)	**Total Income**	**(84.8)**
(24.7)	**Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**	**(22.9)**
0.8	HRA Services Share of Corporate & Democratic Core	0.9
(23.9)	**Net Expenditure of HRA Services**	**(22.0)**

(6.5)	(Gains)/loss on sale of HRA Fixed Assets	(7.1)
9.4	Interest Payable and Similar Charges	9.3
(0.2)	HRA Interest and Investment Income	(0.2)
0.0	Net interest on the defined benefit liability/asset	0.0
0.0	Capital Grants and Contributions	0.0
(21.2)	**(Surplus) or Deficit for Year on HRA Services**	**(20.0)**

Movement on the HRA Statement

31 March 2017 £m	Movement on the HRA Statement	31 March 2018 £m
(17.4)	Balance on the HRA at the end of the previous year	(35.3)
(21.2)	(Surplus) or Deficit on the HRA Income and Expenditure Statement	(20.0)
6.6	Adjustments between accounting basis and funding basis under statute	25.1
(14.6)	Net (increase) or decrease before transfers to or from reserves	5.1
(3.3)	Transfer to/(from) reserves	0.7
(17.9)	(Increase) or decrease on the HRA for the year	5.8
(35.3)	**Balance on the HRA at the end of the current year**	**(29.5)**

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 2017/18 1.58% (1.65% in 2016/17) of lettable properties were vacant.

Note 2 - Housing stock

The stock numbers at the year end were made up as follows:

	2017/18 Number	2016/17 Number
Houses/Bungalows	3,853	3,848
Flats/Maisonettes	9,127	9,088
Stock as at 31 March	**12,980**	**12,936**

The change in stock can be summarised as follows:

	2017/18 Number	2016/17 Number
Stock at 1 April	12,936	12,992
Less: Sales	(71)	(113)
Less: Demolitions, Conversions etc.	0	(23)
Lampton 78 transfers	79	0
Add: New Build Completed	36	80
Stock as at 31 March	**12,980**	**12,936**

The balance sheet value of the land, houses and othe 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:

	2017/18 £m	2016/17 £m
Operational Assets		
Dwellings	952.8	949.8
Other land and buildings	28.9	12.6
Non-operational Assets		
Other land and buildings	13.3	13.5
Total	**995.0**	**976.0**

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 oin the open market. The valuation of dwellings on a vacant possession basis as at 31 March 2018 was £3,822m (£3,795m as at 31 March 2017).

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.

	2017/18 £m	2016/17 £m
Balance as at 1 April	**(0.6)**	**(10.9)**
Amount transferred in	(15.4)	(14.4)
Amount in respect of capital expenditure:		
Housing	2.4	24.7
Balance as at 31 March	**(13.6)**	**(0.6)**

Note 4 - Capital expendidture and financing

Capital expenditure

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

	2017/18			2016/17		
	Houses	Other Property	Total	Houses	Other Property	Total
	£m	£m	£m	£m	£m	£m
Borrowing	0.0	0.0	**0.0**	0.0	0.0	**0.0**
Capital Receipts	10.2	0.0	**10.2**	2.3	0.0	**2.3**
Direct revenue contributions	0.0	0.0	**0.0**	0.0	0.0	**0.0**
Sums set aside from revenue	20.3	0.0	**20.3**	24.7	0.0	**24.7**
Major Repairs Reserve	2.4	0.0	**2.4**	3.1	0.0	**3.1**
Section 106	1.4	0.0	**1.4**	0.0	0.0	**0.0**
Government Grants and other contributions	0.0	0.0	**0.0**	3.1	0.0	**3.1**
Capital payments on a cash basis	**34.3**	**0.0**	**34.3**	**33.2**	**0.0**	**33.2**

Capital receipts

The following statement summarises the total capoital receipts from disposals of land, hosues and other property within the HRA.

	2017/18	2016/17
	£m	£m
Sale of Houses and flats	9.7	17.3
Land Sales	0.0	0.2
Other receipts	0.0	0.0
Total	**9.7**	**17.5**

Note 5 - Depreciation

Depreciation on dwellings and other assets is charged to operational expenditure as set out in the note on Accounting Policies.

	2017/18 £m	2016/17 £m
Houses	14.6	14.4
Other land and buildings	0.1	0.1
Infrastructure assets	0.2	0.2
Vehicles, plant and equipment	0.5	0.5
Impairment - Dwellings	0.0	0.0
Impairment - Non-Dwellings	0.0	0.0
Expenditure in Year	**15.4**	**15.2**

The HRA Income and Expenditure Statement includes the effect of an upwards 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 2017/18 (25% for 2016/17). There has been no significant change in the number of properties or the underlying vacant possession market value.

Information about the net book value of land and buildings is set out in Note 2 above.

Note 6 - Rent arrears

The gross rent arrears at 31 March 2018 was £4.8m (£3.9m at 31 March 2017). 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 £4.0m at 31 March 2018 (£3.3m at 31 March 2017).

Note 7 - District Heating

Special Services includes the costs of providing District Heating, which in 2017/18 was £1.8m (2016/17 £3.2m). District Heating is self-financing and in 2017/18 was funded from customer receipts of £3.3m (2016/17 £2.6m), a contribition to the District Heating reserve of £1.5m for surplus receipts which will be applied to fund future years District Heating (2016/17 contribution to reserves £0.1m).

Note 8 - 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 have not yet been required to fund the capital programme. In 2017/18, adjustments to the reserve for the difference between estimated cost and actual cost of works reduced the reserve by a total of £0.7m and £0.0m was utilised for capital works.

The balance within this reserve at 31 March 2018 was £5.7m which will be used to fund the capital programme in future years.

Collection Fund

Income and Expenditure for the Year Ended 31 March 2018

	2017/18				2016/17			
	Council Tax	NNDR	BRS	Total	Council Tax	NNDR	BRS	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Amounts required by statute to be credited to the Collection Fund:								
Income receivable from Council Tax or ratepayers	(121.0)	(178.4)	(7.6)	(307.0)	(115.1)	(162.8)	(6.1)	(284.0)
Receipt from LBH/GLA/CLG for previous year's estimated collection fund deficit	0.0	(1.0)	0.0	(1.0)	0.0	(10.5)	0.0	(10.5)
Total Income	**(121.0)**	**(179.4)**	**(7.6)**	**(308.0)**	**(115.1)**	**(173.3)**	**(6.1)**	**(294.5)**
Amounts required by statute to be debited to the Collection Fund:								
Precepts and demands from LBH	92.7	55.1	0.0	147.8	86.5	48.4	0.0	134.9
Precepts and demands from GLA	23.1	68.0	6.4	97.5	22.1	32.3	5.1	59.5
Precepts and demands from Central Government	0.0	60.7	0.0	60.7	0.0	80.6	0.0	80.6
Provision for uncollectable amounts	(0.1)	(0.9)	0.0	(1.0)	(0.4)	1.8	0.0	1.4
Provision for appeals	0.0	(12.9)	0.0	(12.9)	0.0	4.9	0.0	4.9
Payment of transitional relief	0.0	(14.7)	0.0	(14.7)	0.0	1.0	0.0	1.0
Costs of collection (NDR and Crossrail BRS)	0.0	(0.4)	0.0	(0.4)	0.0	0.4	0.0	0.4
Payment to LBH/GLA for previous year's estimated Collection Fund surplus/(deficit)	5.6	0.0	0.0	5.6	2.5	0.0	0.0	2.5
Total Expenditure	**121.3**	**154.9**	**6.4**	**282.6**	**110.7**	**169.4**	**5.1**	**285.2**
Movement on fund balance Increase/(Decrease)	**0.3**	**(24.5)**	**(1.2)**	**(25.4)**	**(4.4)**	**(3.9)**	**(1.0)**	**(9.3)**
Fund Balance brought forward	(9.7)	11.7	(0.7)	1.3	(5.3)	15.6	0.3	10.6
Fund Balance carried forward	**(9.4)**	**(12.8)**	**(1.9)**	**(24.1)**	**(9.7)**	**11.7**	**(0.7)**	**1.3**

Note 1 - Movement in Collection Fund

The level of the Collection Fund balance by organisation is as follows:

	Council Tax			NNDR			
	LBH	GLA	Total	LBH	GLA	CLG	Total
	£m	£m	£m	£m	£m	£m	£m
Fund Balance brought forward at 31 March 2016	**4.2**	**1.1**	**5.3**	**(4.7)**	**(3.1)**	**(7.8)**	**(15.6)**
Movement on fund balance Increase/(Decrease) during 2016/17	3.5	0.9	**4.4**	1.2	0.8	1.9	**3.9**
Fund Balance as at 30 March 2017	**7.7**	**2.0**	**9.7**	**(3.5)**	**(2.3)**	**(5.9)**	**(11.7)**
Movement on fund balance Increase/(Decrease) during 2017/18	(0.2)	(0.1)	**(0.3)**	7.3	8.9	8.3	**24.5**
Fund Balance as at 31 March 2018	**7.5**	**1.9**	**9.4**	**3.8**	**6.6**	**2.4**	**12.8**

Note 2 - Council Tax

The Council Tax Base set by the Authority for 2017/18 was 82,599 approved by Cabinet on 17 January 2017. The number of properties and tax set for each property band is shown below.

	2017/18			2016/17		
	No. of Properties	Band D Equivalents	Tax Set £ p	No. of Properties	Band D Equivalents	Tax Set £ p
Band A	1,462	975	935.25	1,363	909	919.80
Band B	5,201	4,046	1,091.12	4,952	3,852	1,072.38
Band C	19,718	17,527	1,247.00	18,858	16,763	1,225.58
Band D	30,756	30,756	1,402.87	29,998	29,998	1,378.77
Band E	12,970	15,853	1,714.62	12,612	15,415	1,685.16
Band F	5,020	7,252	2,026.36	4,940	7,136	1,991.56
Band G	3,614	6,023	2,338.12	3,579	5,965	2,297.95
Band H	873	1,745	2,805.74	842	1,684	2,757.54
Relevant Amount		84,177			81,720	
Adjusted for Collection Rate		82,493			80,086	
Defence Property		106	1,402.87		84	1,378.77
Total	**79,616**	**82,599**		**77,144**	**80,170**	

Actual collectable income from Council Tax was:

	2017/18			2016/17		
	LBH	**GLA**	**Total**	**LBH**	**GLA**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Billed to Tax Payers	(96.8)	(24.2)	(121.0)	(91.7)	(23.4)	(115.1)
Total Income	**(96.8)**	**(24.2)**	**(121.0)**	**(91.7)**	**(23.4)**	**(115.1)**

The cumulative arreas of Council Tax including costs at 31 March 2018 were £15.2m and £1.9m was written off during the year.

Note 3 - Non-Domestic Rates (NDR)

Non-domestic rates are organised on a national basis. The Government specifies the rate 47.9p (49.7p in 2016/17) 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 2018 was £375.4m. The Authority is responsible for collecting rates due from the ratepayers in its area.

Under the Business Rates Retention Scheme, London Authorities now retain 30% of their collected rates and pay 37% to the Greater London Authority (GLA). The remaining 33% is paid to Central Government, and these amounts are then redistributed back to local authorities as part of the formula grant calculation. The amounts collected and paid to Central government, the GLA and LBH are shown in the income and expenditure statement above.

PART 4: 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 two 100% owned subsidiaries that need to be consolidated into the following group accounts. One of these companies also has 100% owned subsidiaries that have also been consolidated into the accounts. The entities involved are:

- Lampton 78 Ltd (Formerly Hounslow Homes Ltd)
- Lampton 360 Ltd:
  - Lampton Recycle 360 Ltd (A 100% owned subsidiary of Lampton 360 Ltd)
  - Lampton Facilities Management 360 Ltd (A 100% owned subsidiary of Lampton 360 Ltd)
  - Lampton Investment 360 Ltd (A 100% owned subsidiary of Lampton 360 Ltd)
  - Lampton Development 360 LLP (A 100% owned subsidiary of Lampton 360 Ltd)

There are two other organisations where the Authority has more than half of the voting rights of the bodies concerned, but where the results of the organisations have not been incorporated into the group accounts on the grounds of materiality. The two organisations concerned are:

- David Henry Waring Home Trust
- Bedfont Lakes Trust

The accounts of Lampton 78 Ltd have been consolidated as a subsidiary 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 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.

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. A Group Cash Flow statement hasn't been prepared as it isn't materially different from the Authority's Cash Flow.

The following Statements have been prepared:

- Group Comprehensive Income and Expenditure Account;
- Group Movement in Reserves statement;
- Group Balance Sheet.

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 73. Where there are differences the impact of applying a consistent policy would not lead to a material change in the group accounts.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2016/17 Gross Expenditure £m	2016/17 Gross Income £m	2016/17 Net Expenditure £m		2017/18 Gross Expenditure £m	2017/18 Gross Income £m	2017/18 Net Expenditure £m
147.1	(138.8)	8.3	Chief Executive's Directorate	152.0	(121.8)	30.2
310.7	(208.8)	101.9	Children's, Adults' & Housing Services	320.1	(225.2)	94.9
89.9	(45.7)	44.2	Regeneration, Economic Development & Environments	80.2	(45.0)	35.2
59.0	(83.7)	(24.7)	Housing Revenue Account	52.9	(87.0)	(34.1)
24.8	(32.7)	(7.9)	Corporate Items	(1.1)	(28.0)	(29.1)
27.7	9.8	37.5	Central Support, Recharges & Accounting Adjustments	(19.0)	0.0	(19.0)
5.2	(3.7)	1.5	Lampton 360 Group	18.7	(0.3)	18.4
664.4	**(503.6)**	**160.8**	**Cost Of Services**	**603.8**	**(507.3)**	**96.5**
25.6	(23.6)	2.0	Other Operating Expenditure	38.6	0.0	38.6
27.7	(1.7)	26.0	Financing and Investment Income and Expenditure	53.9	(27.3)	26.6
0.0	(206.1)	(206.1)	Taxation and Non-Specific Grant Income	0.0	(221.6)	(221.6)
		(17.3)	**Surplus or Deficit on Provision of Services**			**(59.9)**
		(84.8)	Surplus or deficit on revaluation of fixed assets			(152.1)
		72.0	Actuarial gains / losses on pension assets / liabilities			(70.1)
		(12.8)	**Other Comprehensive Income and Expenditure**			**(222.2)**
		(30.1)	**Total Comprehensive Income and Expenditure**			**(282.1)**

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.

2017/18	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves	Authority's share of subsidiaries & associates	Total Group Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2017	**(10.7)**	**(105.6)**	**(35.3)**	**(6.8)**	**(51.3)**	**(0.6)**	**(31.1)**	**(241.4)**	**(882.3)**	**(1,123.7)**	**(11.1)**	**(1,134.8)**
Surplus or deficit on provision of services (accounting basis)	(39.9)	0.0	(20.0)	0.0	0.0	0.0	0.0	(59.9)	0.0	(59.9)	0.0	(59.9)
Other Comprehensive Expenditure and Income	11.0	0.0	0.0	0.0	0.0	0.0	0.0	11.0	(233.2)	(222.2)	0.0	(222.2)
Total Comprehensive Expenditure and Income	**(28.9)**	**0.0**	**(20.0)**	**0.0**	**0.0**	**0.0**	**0.0**	**(48.9)**	**(233.2)**	**(282.1)**	**0.0**	**(282.1)**
Adjustments between Group accounts and authority accounts	(11.4)	0.0	0.0	0.0	0.0	0.0	0.0	(11.4)	0.0	(11.4)	11.4	0.0
Net Increase / Decrease before Transfers	**(40.3)**	**0.0**	**(20.0)**	**0.0**	**0.0**	**0.0**	**0.0**	**(60.3)**	**(233.2)**	**(293.5)**	**11.4**	**(282.1)**
Adjustments between accounting basis & funding basis under regulations	28.5	0.0	25.1	0.0	(11.9)	(13.0)	19.9	48.6	(48.6)	0.0	0.0	0.0
Net Increase / Decrease before Transfers to Earmarked Reserves	**(11.8)**	**0.0**	**5.1**	**0.0**	**(11.9)**	**(13.0)**	**19.9**	**(11.7)**	**(281.8)**	**(293.5)**	**11.4**	**(282.1)**
Transfers to / from Earmarked Reserves	12.3	(12.3)	0.7	(0.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase / Decrease in Year	**0.5**	**(12.3)**	**5.8**	**(0.7)**	**(11.9)**	**(13.0)**	**19.9**	**(11.7)**	**(281.8)**	**(293.5)**	**11.4**	**(282.1)**
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance at 31 March 2018	**(10.2)**	**(117.9)**	**(29.5)**	**(7.5)**	**(63.2)**	**(13.6)**	**(11.2)**	**(253.1)**	**(1,164.1)**	**(1,417.2)**	**0.3**	**(1,416.9)**

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Reserves	Authority's share of subsidiaries & associates	Total Group Reserves
2016/17												
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Balance at 31 March 2016	**(12.3)**	**(113.6)**	**(17.4)**	**(10.1)**	**(47.9)**	**(10.8)**	**(31.4)**	**(243.5)**	**(848.6)**	**(1,092.1)**	**(12.6)**	**(1,104.7)**
Surplus or deficit on provision of services (accounting basis)	(2.4)	0.0	(14.9)	0.0	0.0	0.0	0.0	(17.3)	0.0	(17.3)	0.0	(17.3)
Other Comprehensive Expenditure and Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(12.8)	(12.8)	0.0	(12.8)
Total Comprehensive Expenditure and Income	**(2.4)**	**0.0**	**(14.9)**	**0.0**	**0.0**	**0.0**	**0.0**	**(17.3)**	**(12.8)**	**(30.1)**	**0.0**	**(30.1)**
Adjustments between Group accounts and authority accounts	(1.5)	0.0	0.0	0.0	0.0	0.0	0.0	(1.5)	0.0	(1.5)	1.5	0.0
Net Increase / Decrease before Transfers	**(3.9)**	**0.0**	**(14.9)**	**0.0**	**0.0**	**0.0**	**0.0**	**(18.8)**	**(12.8)**	**(31.6)**	**1.5**	**(30.1)**
Adjustments between accounting basis & funding basis under regulations	13.5	0.0	0.3	0.0	(3.4)	10.2	0.3	20.9	(20.9)	0.0	0.0	0.0
Net Increase / Decrease before Transfers to Earmarked Reserves	**9.6**	**0.0**	**(14.6)**	**0.0**	**(3.4)**	**10.2**	**0.3**	**2.1**	**(33.7)**	**(31.6)**	**1.5**	**(30.1)**
Transfers to / from Earmarked Reserves	(8.0)	8.0	(3.3)	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase / Decrease in Year	**1.6**	**8.0**	**(17.9)**	**3.3**	**(3.4)**	**10.2**	**0.3**	**2.1**	**(33.7)**	**(31.6)**	**1.5**	**(30.1)**
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance at 31 March 2017	**(10.7)**	**(105.6)**	**(35.3)**	**(6.8)**	**(51.3)**	**(0.6)**	**(31.1)**	**(241.4)**	**(882.3)**	**(1,123.7)**	**(11.1)**	**(1,134.8)**

GROUP BALANCE SHEET

31 Mar 2017 £m		31 Mar 2018 £m
1,830.0	Property, Plant & Equipment	2,090.3
38.3	Investment Property	41.0
1.6	Intangible Assets	0.5
45.8	Long Term Investments	5.0
3.8	Heritage Assets	4.2
5.2	Long Term Debtors	3.5
0.0	Long Term Deferred Asset Related to PFI	0.0
1,924.7	**Long Term Assets**	**2,144.5**
22.3	Short Term Deferred Asset Related to PFI	2.3
135.1	Short Term Investments	124.6
0.2	Inventories	0.9
45.8	Short Term Debtors	46.7
7.2	Cash and Cash Equivalents	31.2
210.6	**Current Assets**	**205.7**
(3.3)	Bank overdrafts	(6.3)
(1.9)	Short Term Borrowing	(6.9)
(103.6)	Short Term Creditors	(101.1)
(8.3)	Short Term Provisions	(6.9)
(117.1)	**Current Liabilities**	**(121.2)**
(42.5)	Long Term Creditors	0.0
(6.0)	Provisions	(3.6)
(194.4)	Long Term Borrowing	(187.6)
(632.5)	Other Long Term Liabilities	(571.7)
(8.0)	Capital Grants Receipts in advance	(49.2)
(883.4)	**Long Term Liabilities**	**(812.1)**
1,134.8	**Net Assets**	**1,416.9**
(241.4)	Usable reserves	(253.1)
(882.3)	Unusable Reserves	(1,164.1)
(11.1)	Reserves (group entities)	0.3
(1,134.8)	**Total Reserves**	**(1,416.9)**

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 17 October 2018. These accounts summarise the transactions and net assets of the scheme. In implementing the Fund's investment policy, the Authority has appointed six investment managers (Aberdeen Asset Managers Plc, Black Rock Investment Management Ltd, Fidelity International Ltd, Columbia Threadneedle Investments Ltd, CBRE Global Investments Ltd and Longview Partners which is held within the London LGPS CIV) to deal at discretion within broad investment objectives laid down by the Authority.

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

2016/17 £m		2017/18 £m	Notes
	Dealings with members, employers and others directly involved in the fund		
	Contributions		6
25.9	From Employers	27.8	
8.2	From Employees	8.4	
1.9	Individual Transfers in from Other Pension Funds	1.4	
36.0		**37.6**	
	Benefits		7
(28.7)	Pensions	(29.8)	
(7.2)	Commutation, Lump Sum Retirement and Death Benefits	(6.3)	
	Payments to and on Account of Leavers		
(1.6)	Individual Transfers out to Other Pension Funds	(4.8)	
(0.2)	Refunds to Members Leaving Service	(0.1)	
(37.7)		**(41.0)**	
(1.7)	**Net Additions/(Withdrawals) from Dealings with Members**	**(3.4)**	
(2.9)	**Management Expenses**	**(2.8)**	8
	Returns on Investments		9
23.1	Investment Income	22.5	
(0.1)	Taxes on Income (Irrecoverable Withholding Tax)	(0.3)	
23.0		**22.2**	
147.4	**Profit and Loss on Disposal of Investments and Change in the Market Value of Investments**	(3.2)	14
170.4	**Net Returns on Investments**	**19.0**	
165.8	**Net Increase/(Decrease) in the Net Assets available for Benefits During the Year**	**12.8**	
779.2	**Opening Net Assets of the Scheme**	945.0	
945.0	**Closing Net Assets of the scheme**	957.8	

NET ASSETS STATEMENT AS AT 31 MARCH 2018

31 Mar 17 £m		31 Mar 18 £m	Note
	Investment Assets		16
440.4	Equities	372.0	
485.1	Pooled investment Vehicles	567.1	
0.0	Property	0.0	
5.4	Private Equity	5.0	
	Derivative Contracts:		
0.0	Forward Currency Contracts	0.0	
4.9	Cash (Money Market Fund)	3.1	
	Other Investment Balances:		
3.2	Income Due	2.6	
5.3	Amounts Receivable for Sale of Investments	5.6	
8.4	Cash Deposits	4.8	
952.7		**960.2**	
	Investment Liabilities		
	Derivative Contracts:		
0.0	Forward Currency Contracts	0.0	16
(10.6)	Amounts Payable for Purchase of Investments	(5.9)	14
942.1	**Net Value of Investments Assets**	**954.3**	
4.7	Current Assets	4.1	20
(1.8)	Current Liabilities	(0.6)	21
945.0	**Net Assets of the Fund Available to Fund Benefits at the Period End**	**957.8**	

NOTES TO THE PENSION FUND ACCOUNTS 2017/18

Note 1: DESCRIPTION OF THE LONDON BOROUGH OF HOUNSLOW PENSION FUND

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hounslow. The following description of the Fund is a summary only. The Fund is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Hounslow and the admitted and scheduled bodies in the Fund. The Fund is overseen by the Pension Fund Panel, with the responsibility for deciding on the most appropriate investment policy for the Fund.

For more detail, reference should be made to the London Borough of Hounslow Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme, namely, the Public Service Pensions Act 2013 and The Local Government Pensions Scheme (LGPS) Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. There are 52 employers within the London Borough of Hounslow Pension Fund. Organisations participating in the London Borough of Hounslow Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership of the Fund as at 31 March 2018:

31 Mar 17 No.		31 Mar 18 No.
7,132	Contributors	7,115
6,025	Pensioners	6,426
8,018	Deferred Pensioners	8,234
21,175	**Total**	**21,775**

c) Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensions pay and length of pensionable service. From 1 April 2015, benefits payable in respect of service are now based on career average revalued earnings and the number of years of eligible service. Pensions are increased annually in line with the Consumer Price Index.

d) Funding

Benefits are funded by contributions from employees, the Council, the admitted and scheduled bodies, and the Fund's investment income. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2016. Currently, employer contribution rates range from 12.0% to 28.5% of pensionable pay.

e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2009 requires administering authorities to prepare and review from time to time, a written statement recording the investment policy of the Pension Fund. The Pension Fund Panel approved a Statement of Investment Principles in 2016 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

https://www.hounslow.gov.uk

The Pension Fund Panel has delegated the management of the Fund's investments to external investment managers (see Note 10), appointed in accordance with regulations, whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

NOTE 2 – BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for the financial year 2017/18 and its position at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension fund benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The authority has opted to disclose this information in Note 19.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer’s augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Investment income is reported gross of withholding tax.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. This is as a result of being a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses.

f) Management Expenses

In the interest of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. The profit and loss on disposal of investments and changes in the market value of investments reflect the fees which had been deducted at source.

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

The Pension Fund Committee has appointed external investment managers to manage the investments of the Fund. Fees of the investment managers and custodian are agreed in the respective mandates governing their appointments. Their fees are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Additionally, the fund has negotiated with BlackRock Fund managers that an element of their fee be performance related.

Where an investment manager’s fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account. In 2017/18, £0.3m of fees is based on such estimates (2016/17: £0.3m).

The costs of the Council's in-house management team are charged direct to the fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the fund.

Net Assets Statement

g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted securities and pooled investment vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by the Fund's custodian and pooled investment vehicles at the published bid prices or those quoted by their managers. Investments in private equity funds are valued based on the fund's share of the net assets in the private equity fund using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

h) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the sport market rates at the date of transaction. Spot market exchange rates at the end of the financial year are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. Derivatives are valued at fair value on the following bases: assets at bid price and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account.

The Value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.The value of forward foreign exchange contracts is based on market forward exchange rates at year-end and determined as the gain or loss that would arise if the contract were matched at year-end with an equal and opposite contract.

j) Cash and Cash Equivalent

Cash comprises cash in hand and deposits with financial institutions which are repayable on demand without penalty and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 (post-retirement benefits) and relevant actuarial standards. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Additional Voluntary Contributions

The London Borough of Hounslow provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Standard Life as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a note only (Note 20).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19 below.These estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements	The effects on the net pension liability of changes in individual

	relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability
Private equity	Private equity investments ae valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £5.4m. There is a risk that this investment may be understated or overstated in the accounts.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Employee contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund. The following table shows a breakdown of the total amount of employers' and employees' contributions.

31 Mar 17	By Authority	31 Mar 18
27.8	Administering Authority	27.6
4.6	Scheduled Bodies	5.3
1.7	Admitted Bodies	3.3
34.1	**Total**	**36.2**

31 Mar 17	By Type	31 Mar 18
8.2	Employees' Normal Contributions	8.4
	Employer's Contributions:	
17.3	Normal Contributions	17.3
8.4	Deficit Recovery Contributions	9.4

0.2	Augmentation Contributions	1.1
34.1	**Total**	**36.2**

NOTE 7 – BENEFITS PAYABLE

The table below shows a breakdown of the total amount of benefits payable by category.

31 Mar 17	By Authority	31 Mar 18
32.6	Administering Authority	33.1
1.2	Scheduled Bodies	1.1
2.1	Admitted Bodies	1.9
35.9	**Total**	**36.1**

31 Mar 17	By Type	31 Mar 18
28.7	Pensions	29.8
6.7	Commutation and lump sum retirement benefits	5.6
0.5	Lump sum death benefits	0.7
35.9	**Total**	**36.1**

NOTE 8 – MANAGEMENT EXPENSES

The following table shows a breakdown of the management expenses incurred during the year.

		31 Mar 18
0.7	Administration Expenses	0.7
0.2	Oversight and Governance	0.2
2.0	Investment Management Expenses	1.9
2.9	**Total**	**2.8**

Investment management expenses include £0.1m relating to custodian fees of custodian fees (£0.1m for 2016/17) and £0.7m in respect of transaction costs (£0.8m in 2016/17) whilst the remainder relates to management fees. Since the performance related fee arrangement started, no performance related fees have been paid to the Fund’s investment managers.

Included in the administration expenses above are audit fees for the pension fund of £21k (£21k for 2016/17).

NOTE 9 – INVESTMENT INCOME

The table below shows a breakdown of the investment income for the year:

2016/17 £m		2017/18 £m
12.6	Equity Dividends	13.6
10.5	Pooled Investments - unit trusts and other managed funds	8.9
0.0	Interest on cash deposits	0.0
23.1		**22.5**

NOTE 10 – INVESTMENT MANAGEMENT ARRANGEMENTS

As at 31 March 2018, the investment portfolio was mainly managed by six external managers:

- Aberdeen Asset Management Plc
- BlackRock Investment Ltd
- Fidelity International Ltd
- Columbia Threadneedle Investments Ltd
- CBRE Global Investors Ltd
- Longview Partners Ltd (London LGPS CIV)

All managers have discretion to buy and sell investments within the constraints set by the Pension Fund Panel and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The Pension Fund Panel appointed Northern Trust as its global custodian, with effect from February 2007. They are responsible for the safe custody and settlement of all investment transactions and collection of income. The bank account for the Fund is held with Natwest Bank.

The market value and proportion of investments managed by each fund manager at 31 March 2018 was as follows:

31-Mar-17				31-Mar-18	
Market Value		Fund Manager	Mandate	Market Value	
£m	%			£m	%
370.5	39.3	Aberdeen	Global Balanced	300.0	31.4
415.7	44.1	BlackRock	Global Balanced	399.9	41.9
104.2	11.1	Fidelity	Income Fund	148.9	15.6
0.0	0.0	Longview	Global Equities	50.2	5.3
28.3	3.0	Threadneedle	Property	31.3	3.3
17.3	1.8	CBRE	Property	18.3	1.9
0.5	0.1	LAMIT	Property	0.5	0.1
5.4	0.6	Private Equity	Various	5.0	0.5
0.2	0.0	Other	Internal	0.2	0.0
942.1	**100.0**			**954.3**	**100.0**

NOTE 11 – EQUITIES

31 Mar 17 £m		31 Mar 18 £m
285.4	**UK Investments (listed)**	270.1
	Overseas Investments (listed):	
64.0	North America	37.0
16.7	Japan	11.0
34.0	Europe	27.6
40.3	Other	26.3
440.4		**372.0**

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2018 were:

	Bid value £m	% of Total Fund %	% of Equities %
British American Tobacco Plc	19.5	2.0	5.2
Relx Plc	16.6	1.7	4.5
Rentokil Initial Plc	11.2	1.2	3.0
Compass Group Plc	11.0	1.2	3.0
Rio Tinto Ltd	11.0	1.2	3.0
Royal Dutch Shell 'B' Shares	10.8	1.1	2.9
CRH Plc	9.8	1.0	2.6
Ferguson Plc	9.3	1.0	2.5
Rightmove Plc	9.0	0.9	2.4
3i Group Plc	8.4	0.9	2.3
	116.6	**12.2**	**31.3**

NOTE 12 – POOLED INVESTMENTS

31 Mar 17 £m		31 Mar 18 £m
	Pooled Investments	
109.3	Bond Fund	86.9
146.3	Overseas Equity Fund	186.2
103.8	Income Fund	149.0
33.2	Index Linked	47.0
11.9	Mid Cap & Smaller Companies	11.8
46.1	Property	50.1
34.5	Absolute Return	35.9
0.0	Other	0.2
485.1		**567.1**

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2018 were:

	Market value £m	% of Total Fund %	% of Pooled Investments %
Fidelity Investments Multi Asset Income Fund	149.0	15.6	26.3
Blackrock Pensions Aquila Life World (ex UK) Fund	120.8	12.7	21.3
Longview Partners (London CIV)	50.2	5.3	8.9
Blackrock All Stocks Corporate Bond	50.0	5.2	8.8
Columbia Threadneedle Property Fund	31.3	3.3	5.5
Aberdeen Fund Managers Corporate Bond	28.8	3.0	5.1
BlackRock Aquila Life Market Advantage Fund	25.2	2.6	4.4
Aberdeen Fund Managers Sterling Index Linked Bond	24.5	2.6	4.3
BlackRock Index Linked A Bond Fund	22.5	2.4	4.0
CBRE UK Property Fund	18.3	1.9	3.2
	520.6	**54.6**	**91.8**

NOTE 13 – PRIVATE EQUITY

31 Mar 17 £m		31 Mar 18 £m
5.4	Private equity	5.0
5.4		**5.0**

The top 10 private equity holdings of the London Borough of Hounslow Pension Fund as at 31 March 2018 were:

	Valuation £m	% of Total Fund %	% of Private Equity %
Environmental Technologies Fund	1.5	0.2	30.0
Advent IV	1.2	0.1	24.0
Schroder Private Equity Fund of Funds IV	0.7	0.1	14.0
The Chandos Fund (YFM)	0.7	0.1	14.0
Schroder Private Equity Fund of Funds III	0.3	0.0	6.0
The Capital Fund (YFM)	0.2	0.0	4.0
Hg Capital 5th Fund	0.2	0.0	4.0
Schroder Private Equity Fund of Funds II	0.1	0.0	2.0
Schroder Private Equity Fund of Funds	0.1	0.0	2.0
Schroder Private Equity Fund of Funds	0.0	0.0	0.0
	5.0	**0.5**	**100.0**

NOTE 14 – RECONCILIATION OF MOVEMENT IN INVESTMENTS

Market Value as at 31 March 2017		Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value as at 31 March 2018
£m		**£m**	**£m**	**£m**	**£m**
0.0	Fixed Interest Securities				
440.4	Equities	200.4	(263.7)	(5.1)	372.0
439.0	Pooled Investments	316.4	(237.9)	(2.3)	515.2
46.1	Pooled Property Investments			4.0	50.1
5.4	Private Equity		(0.6)	0.2	5.0
4.9	Cash Funds				4.9
935.8		**516.9**	**(501.9)**	**(3.2)**	**947.2**
	Derivative Contracts:				
(0.1)	Forward currency contracts				
935.7	**Total**				**947.2**
	Other Investment Balances:				
8.4	Cash deposits				4.8
5.3	Amount receivable for sales of investments				5.6
3.3	Investment income due				2.6
	Spot FX contracts				
(10.6)					(5.9)
942.1	**Net Investment Assets**				**954.3**

NOTE 15 – ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

The Pension Fund Panel has authorised the use of derivatives for efficient portfolio management purposes and to reduce certain investment risks, in particular, foreign exchange risk. All uses of derivatives are outsourced to the Fund's external asset managers which must adhere to the detailed requirements set out in their investment management agreements.

Forward foreign currency

The Fund uses forward foreign exchange contracts to reduce the foreign currency exposure from overseas bond holdings that are within the portfolio.

NOTE 16a – CLASSIFICATION OF FINANCIAL INSTRUMENTS

The table below shows the classification of the Fund's financial instruments.

The following table shows the classification of the Fund's financial instruments:

31-Mar-17				31-Mar-18		
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**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
			Financial assets			
440.4			Equities	372.0		
485.1			Pooled investments	567.1		
5.4			Private equity	5.0		
4.9			Cash (Money Market Fund)	3.1	4.8	
			Derivative contracts			
	8.4		Short term deposits			
8.5			Other investment balances	2.6		
	0.3		Debtors	6.3		
	4.4		Cash at bank	3.4		
944.3	**13.1**	**0.0**	**Total Financial assets**	**959.5**	**4.8**	**0.0**
			Financial liabilities			
			Derivative contracts			
			Other investment balances			
			Outstanding settlements			
(10.6)		(1.8)	Creditors			(6.5)
(10.6)	**0.0**	**(1.8)**	**Total Financial liabilities**	**0.0**	**0.0**	**(6.5)**
933.7	**13.1**	**(1.8)**	**Net Assets**	**959.5**	**4.8**	**(6.5)**

NOTE 16b – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The following table summarises the net gains and losses on financial instruments classified by type of instrument.

31 March 2017 £m		31 March 2018 £m
	Financial assets	
148.9	Fair value through profit and loss	(3.2)
0.0	Loans and receivables	
148.9	**Total Financial assets**	**(3.2)**
	Financial liabilities	
0.0	Fair value through profit and loss	
(2.4)	Financial liabilities measured at amortised cost	
(2.4)	**Total Financial liabilities**	**0.0**
146.5	**Total**	**(3.2)**

NOTE 16c –VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 – these are financial instruments where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices.

Level 2 – these are financial instruments where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are significantly based on observable market data.

Level 3 – these are financial instruments where at least one input that could have a significant impact on the instrument’s valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

31-Mar-17 **31-Mar-18**

Quoted Market price	Using observable inputs	With significant unobservable inputs	Total		Quoted Market price	Using observable inputs	With significant unobservable inputs	Total
Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
£m	£m	£m	£m		£m	£m	£m	£m
				Financial assets				
450.9	467.8	16.8	935.5	At fair value though profit and loss	556.9	377.5	9.7	944.1
4.3	17.5	0.1	21.9	Loans and receivables	9.0	11.2		20.2
455.2	**485.3**	**16.9**	**957.4**	**Total Financial assets**	**565.9**	**388.7**	**9.7**	**964.3**
				Financial liabilities				
	(10.6)		(10.6)	At fair value though profit and loss		(5.9)		(5.9)
(1.8)			(1.8)	At amortised cost	(0.6)			(0.6)
(1.8)	**(10.6)**	**0.0**	**(12.4)**	**Total Financial liabilities**	**(0.6)**	**(5.9)**	**0.0**	**(6.5)**
453.4	**474.7**	**16.9**	**945.0**	**Total**	**565.3**	**382.8**	**9.7**	**957.8**

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members. The aim, therefore, of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. 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. Risk management policies are established to identify and analyse the risks faced by the Fund and these are regularly reviewed to reflect changes in Fund activities and market conditions. The objective of the

Fund's risk management strategy is to identify, manage and control its risk exposure within acceptable parameters, whilst optimising the return on risk.

b) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. 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 asset mix.

Generally, excess volatility in market risk is managed through diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. Regular monitoring of market conditions and benchmark analysis is undertaken by the Pension Fund Panel to mitigate market risk.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Fund's investment managers mitigate price risk through diversification and the selection of securities and other financial instruments. This is regularly monitored by the Council to ensure it is within the limits specified in the Fund investment strategy.

Following analysis of historical data and expected movement of return on investment during the financial year, the Council, in consultation with the Fund's performance measurement provider, the PIRC Limited, has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset type	**Value as at 31 March 2018 £m**	**Percentage Change %**	**Value on increase £m**	**Value on decrease £m**
UK Equities	270.1	10.3	297.9	242.3
Overseas Equities	288.1	10.4	318.1	258.1
Total Bonds	133.9	6.9	143.1	124.7
Income Fund	149.0	4.1	155.1	142.9

Cash	10.2	0.5	10.3	10.1
Property Units	50.1	8.7	54.5	45.7
Alternatives	52.9	4.1	55.1	50.7
Total Investment Assets	**954.3**		**1,034.1**	**874.5**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in market interest rates. The Council and its investment advisors routinely monitor the Fund's interest rate risk in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against relevant benchmarks. Fixed interest securities, cash and cash equivalents are exposed to interest rate risk.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling (the functional currency). The Fund aims to mitigate this risk through the use of derivatives (See Note 15). A strengthening/weakening of the pound sterling against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

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

Currency exposure - asset type	Value as at 31 March 2018	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
Overseas Equities	288.1	9.2	314.6	264.5
Alternatives	1.2	9.0	1.3	1.1
Total Investment Assets	**289.3**		**315.9**	**265.6**

a) 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 £3.1m in this fund at 31 March 2018. Money market funds have AAA ratings from leading ratings agencies. This fund is the £3.1m Cash Fund figure in the Net Assets Statement.

The remainder of invested cash is held in short term bank deposits. Aberdeen Asset Management Ltd held £2.1m in a call account with Standard Chartered at 31 March 2018. A further 2.7m invested cash is held with the Fund's Custodian, Northern Trust. As at 31 March 2018 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds account for the £4.8m cash deposits the Net Assets Statement.

NOTE 18 – FUNDING ARRANGEMENTS

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the London Borough of Hounslow is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last triennial valuation was carried out by Barnett Waddingham, the Fund's Actuary as at 31 March 2016 in accordance with the Funding Strategy statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. This was effective from 1 April 2017. The report and Funding Strategy Statement are both available on the Council's website at

https://www.hounslow.gov.uk

The common rate of contribution for the London Borough of Hounslow, for the 3 year period from 1 April 2017 to 31 March 2020, is 11.7% 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. £145.5 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 period of 17 years.

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

Future Assumed Returns at 2016	**% per annum**	**Real (relative to CPI) % per annum**
Equities	7.4	5.0
Gilts	2.4	0.0
Cash	1.8	(0.6)
Property	5.9	3.5
Corporate Bonds	3.3	0.9
Absolute Return Fund	5.3	2.9
Expense Allowance	(0.2)	0.0
Estimated discount rate based on long-term investment strategy	**6.1**	**3.7**
Prudence allowance	(0.7)	(0.7)
Final discount rate assumption	**5.4**	**3.0**

Financial Assumptions	2016	2013
Discount rate	5.4% per annum	6.0% per annum
Retail Price Inflation (RPI)	3.3% per annum	3.5% per annum
Consumer Price Inflation (CPI)	2.4% per annum	2.7% per annum
Pension and Deferred Pension Increases	2.4% per annum	2.7% per annum
Short - Term Pay Increases	In line with the CPI assumption for the 4 years to 31 March 2020	3% for period 1 April 2013 to 31 March 2015
Long - Term Pay Increases	3.9% per annum	4.5% per annum

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

	2016	2013
Actuarial value of liabilities	£916m	£805.5m
Actuarial value of assets	£772m	£684.2m
Deficit	£144m	£124.3m
Funding Level	84%	85%

The next actuarial revaluation of the Fund will be as at 31 March 2019 and will be published in 2020.

NOTE 19 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2018. The figures have been prepared by Barnett Waddingham, the Fund's Actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

In calculating the required numbers, the Actuary adopted methods and assumptions that are consistent with IAS19.

2016/17 £m		2017/18 £m
(1,561.3)	Present Value of Promised Retirement Benefits	(1,572.9)
922.5	Fair Value of Scheme Assets (bid value)	960.9
(638.8)	**Net Liability**	**(612.0)**

Assumptions

To assess the value of the Fund's liabilities at 31 March 2018, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2017 have been rolled forward, using financial assumptions that comply with IAS 19.

Demographic Assumptions

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the SIPA tables with a multiplier of 115%, for males and 95% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

31-Mar-17	Life Expectancy from Age 65		31-Mar-18
21.4	Retiring today	Males	21.5
25.0		Females	25.2
23.5	Retiring in 20 years	Males	23.7
27.4		Females	27.5

Financial Assumptions

The main financial assumptions are:

31-Mar-17		31-Mar-18
3.6	RPI increases	3.3
2.7	CPI increases	2.3
4.2	Salary increases	3.8
2.7	Pension increases	2.3
2.8	Discount rate	2.5

NOTE 20 – CURRENT ASSETS

2016/17		2017/18
£m		£m
	Debtors:	
0.0	Amount due from the London Borough of Hounslow	0.2
0.2	Contributions due - employers	0.3
0.1	Contributions due - employees	0.2
4.4	Cash balances	3.4
4.7	**Total**	**4.1**

Debtors

Debtors represent those sums of money owed to the Pension Fund for contributions due from scheduled and admitted bodies for 2017/18, for which payment had not been received as at 31 March 2018 as well as the Council's General Account as at 31 March 2018.

NOTE 21 – CURRENT LIABILITIES

2016/17		2017/18
£m		£m
	Creditors:	
1.2	London Borough of Hounslow	0.0
0.3	Investment Management Fees	0.3
0.3	PAYE tax due to HMRC	0.3
1.8	**Total**	**0.6**

Creditors

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2017/18, for which payment had not been made as at 31 March 2018 and the amounts due to HMRC, in respect of tax and NI contributions for March 2018.

Investment Commitments

The Council is committed to making further investments in private equity funds. The total value of commitments outstanding at 31 March 2018 was £0.2m (£0.2m at 31 March 2017).

NOTE 22 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Pension Fund's Additional Voluntary Contributions (AVC) provider is currently Standard Life.

Additional voluntary contributions of £43k were paid directly to Standard Life during the year (2016/17: £76k). Employees can contribute to the fund and Hounslow acts only as an agent, the contract being between the employee and Standard Life. The value of these separately invested additional voluntary contributions at 31 March 2018 was £504k (2016/17: £468k). A further £111k is held within Equitable Life, the former provider of AVCs to fund members. The value of these in 16/17 was £123k.

In accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009, the contributions paid and the assets of these investments are not included in the Fund's accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

NOTE 23 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Hounslow and the Council is a related party to the Fund. During 2017/18, some 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. At 31 March 2018 £0.2m was owed to the Pension Fund by the General Account (At 31 March 2017 £1.2m was owed to the General Account by the Pension Fund).

The Pension Fund incurred administrative expenses of £0.5m in 2017/18 (£0.5m 2016/17) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2017/18 were identified.

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 2018.	I confirm that these accounts were approved at a meeting of the Audit Committee on 19 July 2018.
Chief Financial Officer	Vice Chair of the Audit Committee
Dated: 19/07/2018	Dated: 19/07/2018

ANNUAL GOVERNANCE STATEMENT 2017/18

1. Scope of Responsibility

1.1 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

1.3 The council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government.

1.4 This statement explains how the council has complied with the code and also meets the requirements of regulation 6(2) Accounts and Audit Regulations 2015, in relation to the approval of the Annual Governance Statement. It also highlights how the council's financial management arrangements conform to the governance requirements of CIPFA's *Statement on the Role of the Chief Finance officer in Local Government (2010) as set out in the December 2012 Addendum / delivering good governance in Local Government: Framework.*

2. The Purpose of the Governance Framework

2.1 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.

2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify, and prioritise the risk to the achievement of 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.

2.3 The governance framework has been in place at the London Borough of Hounslow for the year ended 31st March 2018 and up to the date of approval of the annual report and the statement of accounts.

3. The Governance Framework

3.1 Set out below are the key elements of the processes and systems that comprise the Council's governance arrangements. These have been aligned to the six core principles of the CIPFA / SOLACE Framework.

3.1.1 Creating and Implementing a Vision for the Local Area

Good governance means developing and clearly communicating the Council's purpose and vision and the outcomes it is seeking to deliver to the local area. The following describes how the Council achieves this:

- 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 is reported to Cabinet each quarter.

- 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.

3.1.2 Roles and Responsibilities of Members and Officers

Good governance means elected members and officers working together to achieve a common purpose with clearly defined functions and roles. The following describes how the Council achieves this:

- The Council is composed of 60 members, elected every four years. All members meet together as the Borough Council. The Council operates a Cabinet and elected Leader model of decision making, supported by open and accountable working relationships between members and officers.

- The Council has an agreed, up to date and regularly reviewed Constitution which sets out how it operates, how decisions are made and the procedures which are to be followed to ensure that these are efficient, transparent and accountable to local people. This includes the defined responsibility for functions including the scheme of delegation, rules of procedure including financial regulations and contract procedure rules and Member and Officer Codes of Conduct. The full Council appoints a Leader of the Council for a four year term who then appoints a Cabinet as the Council's Executive. Overview and Scrutiny committees hold the Cabinet to account.

- Members receive clear guidance and training on the statutory Members' Code of Conduct and the Council's Members' Town Planning Code of Good Practice. In addition there is a formal Council Protocol on Relationships between Councillors and Officers in place.

- There is in place a Corporate Leadership Team (CLT), however, the Monitoring Officer and Section 151 (for the Council this is the Director of Finance and Corporate Services) are not formally members of CLT. In order to address the weakness in respect of compliance with the recommended guidance from CIPFA, the Council has put in positive arrangements to ensure these statutory officers can effectively discharge their responsibilities, these include:

  - The Director Finance and Corporate Services (Director F&CS) is invited to and expected to attend the fortnightly CLT meetings.

  - The Monitoring Officer has an 'open' invitation to attend CLT meetings. In addition, all agendas and papers are circulated to this Officer (as well as the forward plan for CLT meetings) and they are welcome to discuss any item in advance with the Director of Finance and Corporate Services or the Chief Executive as an alternative to attending. The attendance of the Monitoring Officer is required once a month, at the meeting which draft Cabinet and Council and other key decision reports are reviewed.

  - Attendance at other meetings of Cabinet and Council and other meetings as required by the Leader and Chief Executive.

  - Unrestricted access to the Chief Executive and Leader or anyone else either post-holder should need to speak to.

  - All CLT members and Directors have responsibility for maintaining a sound system of internal control within their area of responsibility. This is managed through monthly Director meetings.

- A Director's Group has evolved over the course of the year, to pick up projects and allow the CLT to focus on key projects.

3.1.3 Standards of Conduct and Behaviour

Good governance means promoting appropriate values for the Council and demonstrating the values of good governance by upholding high standards of conduct and behaviour. The following describes how the Council achieve this:

- During 2017/18 there was a Standards committee is in place to promote the maintenance of high standards of conduct by Members and co-opted Members of the Authority.

- All Members and Officers are required to complete an annual Declaration of Interests statement and a register of Members' interests, which is updated by Members' Members is maintained and published on the Hounslow web site.

- The Councillor Code of Conduct defines the standards of conduct expected of elected representatives including a requirement for members to declare any interests at the start of every meeting, which are not recorded in a public register.

- In addition, the following Codes, protocols and systems are well established within the Council. All are regularly reviewed and updated to account for developments in governance arrangements and changes in local government. These include:

- The Council adopted the recommendations of the London wide advisory body on Members' remuneration;
- There is a declaration of interest process for Members and Officers as described above;
- 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 subject to periodic review and development;
- There is a corporate complaints procedure in place in line with Ombudsman good practice requirements;
- Whistle-blowing, anti-fraud and anti-corruption policies and effective Standing Orders are in place and publicised;
- In compliance with the national transparency agenda, Senior Officers' remuneration is published on the Council Website.

The work of this committee had been combined with that of the Audit Committee and Constitutional Working Group and from 2018/19 will be covered by the new Audit and Governance Committee.

3.1.4 Decision Making, Scrutiny and Risk Management

Good governance means taking informed and transparent decisions that are effectively scrutinised and which manage risk. The following describes how the Council achieves this:

- The Leader is responsible for determining where executive decisions are to be made and will usually arrange for the discharge of key and other important decisions to be made by Cabinet. Decisions not specifically reserved to Cabinet collectively or individually are delegated to Chief Officers as outlined in Part 7 of the Constitution – Leader's Scheme of Delegation to Directors and Statutory Officers.
- All forthcoming Key decisions are published in the Cabinet'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 also includes decisions made by individual Cabinet members and decisions made under the urgency provisions. Urgent decisions are reported to the next formal meeting of the Council.
- During 2017/18 the Council had an Audit Committee with clear terms of reference and annual work programme for audit, risk management and corporate governance.

- Procedures are in place for Chief Officers which satisfy the statutory requirements for decision making.

- The Council maintains an Internal Audit service that operates in accordance with the published internal audit standards expected of a local authority in the United Kingdom. The Head of Internal Audit has direct access to the Chief Executive, the Director of F&CS and the Chair of the Audit Committee (now Chair of the Audit and Governance Committee).

- An embedded Risk Management Strategy is in place, with each department maintaining a departmental risk register. All major projects undertaken are required to have risk registers.

- Robust financial systems and regulations are in place that provides active support to risk management activity.

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

3.1.5 Developing Capacity and Capability of Members and Officers

Good governance means developing the capacity and capability of members and Officers to be effective. The following describes how the Council achieves this:

- A framework is in place for the Hounslow Leadership Group, which defines the Leadership qualities and values that are expected from Hounslow Managers.

- Individual training and development plans are an integral part of the staff performance system. A target of 100% for appraisal completion is in place and is monitored.

- There is an extensive & well considered induction process for new Councillors which has internal and external input from subject specialists. There are Mandatory sessions for all Councillors and added onto that are specific training and development activities dependent upon Councillors portfolios. Councillors also have access to external training and development opportunities on an ongoing basis.

3.1.6 Engaging with Local People and Stakeholders

Good governance means engaging with local people and other stakeholders to ensure robust public accountability which is achieved through continuous consulting with and engaging local people and communities in a wide range ways on a wide range of important issues. The following describes how the Council achieves this:

- The Council produces a business plan which sets out and clearly communicates the vision and strategy for the Council to all stakeholders and local communities through multiple channels.

- A broad range of communication channels are in place, which are subject to continuous review and improvement to ensure effective reach across all borough communities.

- An annual Overview and Scrutiny report is published and 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, which are subject to regular review and continuous development.

4 Review of Effectiveness

4.1 The Council has responsibility for conducting at least annually a review of the effectiveness of its governance framework, including the system of internal control. This review is informed by the work of executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and comments by the External Auditor and other review agencies and inspectorates.

The key evidence to support the review of effectiveness is outlined below:

4.2.1 Planning

There is a clear vision of the outcomes which the Council wants to achieve for local people, as established in the Council Plan and through Customer and Community outcome plans.

The Council operates a planning process which integrates all aspects of strategic, operational and financial planning which has the full involvement of the Cabinet and all senior managers of the Council. This ensures financial plans realistically support the delivery of the Council's priority outcomes and strategy obligations in the short and medium terms.

4.2.2 Performance Management

The Council has in place an embedded performance management framework, first introduced at the end of 2011-12 in response to the Government's significant reduction in the number of statutory indicators against which councils are required to report. On a quarterly basis the Council produces a corporate performance report, reflective of the range of services that the Council provides, which is presented to Cabinet and which gives both Cabinet and the public an insight into the Council's overall performance. The performance management framework also provides assurance in respect of the quality of services delivered by the Council.

Additionally there is a workforce performance management process operating at all levels of the organisation including the management of staff personal performance through the Personal Development Appraisals process.

4.2.3 The Cabinet

The Cabinet is responsible for most key decisions. The Cabinet met 10 times in the year and makes decisions that are in line with the Council's overall policies and budget. Decisions Cabinet wishes to make outside of the budget or Policy Framework must be referred to full Council. The Cabinet receives regular monitoring reports on key aspects of control including performance and financial management.

4.2.4 Overview and Scrutiny Committees

The Council has appointed the Overview and Scrutiny committees (Scrutiny Committees) to discharge the functions conferred by section 21 of the Local Government Act 2000. Scrutiny committees oversee and scrutinise the decisions made by the Cabinet and Cabinet members under delegated powers.

4.2.5 The Standards Committee

The Standards Committee operated during 2017/18 to promote and seek to maintain high standards of conduct by monitoring the operation of the Councillors Code of Conduct. The functions of this committee will be merged with Audit Committee and Constitutional Working Group for 2017/18 to form a new Audit and Governance Committee.

4.2.6 The Audit Committee

During 2017/18, the Council had an Audit Committee to provide independent, effective assurance on the adequacy of the Council's governance environment. All major political parties elected onto the Council are represented on the Audit Committee.

The Audit Committee met regularly during 2017/18 considering reports, including the annual Internal Audit Report, from the Head of Internal Audit, the Council's senior Finance Officers and the External Auditor. The Minutes of the Audit Committee are presented at Council meetings, which are attended by the Chair of the Audit Committee.

The Chair of the Audit Committee does an Annual Report on the Audit Committee agreed by the Committee to Cabinet. The functions of the audit committee will be merged with Standards Committee and the Constitutional working group to form the Audit and Governance Committee in 2018/19.

4.2.7 Statutory Officers

The statutory functions undertaken by the Head of Paid Service, Monitoring Officer and S151 Officer, were effectively fulfilled during 2017/18 and up to the date of this report.

The Council's financial management arrangements during the period covered by this Annual Governance Statement conform to the requirements of the CIPFA Statement on the Role of the Chief Financial Officer.

4.2.8 Management

Directors are requested to provide self-assurance statements in respect of 2017/18 that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of the Council which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of the Council's key priorities;
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks

4.2.9 Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of the Council's activities. It is the duty of the Head of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of internal control within the Council. This opinion has been used to inform the Annual Governance Statement.

An assurance scoring mechanism is used to reflect the effectiveness of the Council's internal control environment.

The table below details the four levels of assurance

Level	Definition
Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
None	Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.

It is the opinion of the Head of Internal Audit that, taking into account all available evidence, the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2017/18 provides reasonable assurance on the effective management of risk.

4.2.10 External Audit

KPMG LLP is currently the Council's appointed External Auditor. As well as an examination of the Council's financial statements, the work of the Council's External Auditor includes an assessment of the degree to which the Council delivers value for money in its use of its resources.

4.2.11 Local Government Association – Peer Challenge

In March 2017, the Council received a Peer Challenge, which is a core element of the Local Government Association's sector-led improvement offer to local authorities.

The challenge concluded positively that council has a clear and ambitious corporate plan and is making good progress on delivering its priorities to residents. The peer team saw evidence and examples of strong service delivery and good practice although some services were still on an improvement journey.

Recommendations were made around:
- the work smart programme,
- developing a people strategy
- enhancing the shared vision and identity for the borough
- refreshing the Corporate Plan post 2018
- establish an integrated corporate performance framework
- deciding on an accepted level of risk appetite
- the customer services project and channel shift
- Shout about your successes!

The outcome and recommendations were presented to Borough Council in July, along with an action plan which was agreed at the meeting.

4.2.12 Risk Management

The Council managed its risks during 2017/18 in accordance with the approved Risk Management Policy and Strategy. The Corporate Leadership Team and Directorate Management Teams formally considered risk on a quarterly basis. Details of corporate and directorate risks were considered as part of the Corporate Performance process. Quarterly risk management reports were submitted to the Audit Committee.

The indicative Internal Audit Plan for 2018/19 presented to the Audit Committee in February 2018 is chiefly based upon the key risks faced by the Council as identified in the Corporate and Directorate risk registers, such that Internal Audit will provide assurance on the effectiveness of the internal control framework during 2018/19.

4.2.13 Developing Capacity

The Council has operated procedures during the period covered by this Statement to ensure training needs of staff are assessed against core competencies and any key training needs met. Additionally, the Council has provided, or is in the process of providing, appropriate training to councillors to enable them to effectively fulfil their duties.

4.2.14 Engagement

The Council has continued to make strenuous efforts to fully engage the community in the development of its plans and policies.

4.2.15 Third Party Assurance

Consideration has been given to material subsidiaries and how the Council gains assurance. In 2016/17, the Council and Lampton introduced a quarterly report from Lampton 360, this includes governance and performance and core risks. This report continued in to 2017/18 although this slipped for quarter 3 due to a refresh of format, this should be incorporated in to the quarter 4 report. A self-assurance statement was also issued to the Managing Director of Lampton 360. The return was considered for this statement and whilst key for Lampton, are not considered to be issues which at this stage need to be recorded in the Council's statement as the 'group accounting' perspective.

5 Significant Governance Issues

5.1 Based on the Council's established risk management approach, the issues detailed below have been assessed as being significant for the purpose of the 2017/18 Annual Governance Statement. We will over the coming year take appropriate steps to address these matters and further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Issue	Actions
The medium term financial strategy (MTFS) scale of the financial challenges facing the Council is becoming more significant with a real need to continue to identify and deliver further savings and ensure spending is controlled at budget levels or less. Although overall position is being managed to avoid a material overspend, there were material departmental year-end overspend expected in 2017/18.	- Development of MTFS included key stakeholder engagement - Updated MTFS agreed at Council in September 2017 and a balanced 2018/19 budget set by Council in February 2018 - Budget rebasing continually ongoing. Focus on reserves and underspends. - Working towards interactive MTFS budget manager tools - Overspend mitigation process in place - Planning for 2018/19 budget monitoring when a significant number of new savings impact, currently ranked as 'red.' Through 2018/19, additional measures are being introduced: • Identification of deliverable savings to balance the budget • Agresso Planner and programme improvements • Further mitigation & monitoring of savings • MTFS manages key issues. In year savings programme may be required. • Preparation beginning for financial pressures in 2019/20 budget.

Issue	Actions
The Council is continuing to develop processes around Health and Safety for Housing properties. An internal audit in this area completed in quarter 4, identified some areas for improvement.	There is ongoing management and monitoring through the Health and Safety Management system and a system of governance in place, and Corporate Health and Safety Action plan. Ongoing Health & Safety policy and procedural review and development. A housing H&S audits undertaken and a schedule of actions and implementation dates have been put in place. Performance reporting is undertaken to Corporate Leadership Team, Senior Leadership Team and Divisional Leadership Team levels. 3-yearly management review cycle in place for Departments, restarted in April 2017. Health Surveillance programmes for relevant and identified staff.

6 Progress against Actions Identified in the 2016/17 Statement

6.1 Financial pressures were the key issues raised in 2016/17, in year performance saw some departments overspend, but the overall performance has been okay. With funding reduced further in 2018/19, this remains an issue which the London Borough of Hounslow is committed to managing.

Conclusion and Evaluation

As Leader and Chief Executive, we have been advised of the implications of the results of the review of the effectiveness of the Council's governance framework.

Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within the London Borough of Hounslow to ensure effective internal control is maintained.

We are also satisfied that there are appropriate plans in place to address the weaknesses and ensure continuous improvement in the system of internal control.

Signed............................
Councillor Steve Curran
Leader of the Council
Date: 19/07/2018

Signed............................
Mary Harpley
Chief Executive
Date: 19/07/2018

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).

Available for sale assets

Assets that have a quoted market price and/or do not have fixed or determinable payments.

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.

Cash

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

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.

Contingent assets and liabilities

Contingent assets and liabilities arise 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.

Credit Risk

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

Intangible assets

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.

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.

Loans and receivables

Assets that have fixed or determinable payments but are not quoted in an active market.

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.

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.

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.

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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HOUNSLOW COUNCIL

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of London Borough of Hounslow ('the Authority') for the year ended 31 March 2018 which comprise the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Movement in Reserves Statements, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund, the Fund Account and Net Assets Statement for the London Borough of Hounslow Pension Fund and the related notes, including the accounting policies from page 73 to page 88 and the Pension Fund accounting policies in note 3

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 2018 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 London Borough of Hounslow Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information published with the financial statements

The Director of Finance and Corporate Services is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

Director of Finance and Corporate Service's responsibilities

As explained more fully in the statement set out on page 133, the Director of Finance and Corporate Services is responsible for: the preparation of the Authority's 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 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

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

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, London Borough of Hounslow put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether London Borough of Hounslow had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether London Borough of Hounslow put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Statutory reporting matters

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. 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.

CERTIFICATE OF COMPLETION OF THE AUDIT

DELAY IN CERTIFICATION OF COMPLETION OF THE AUDIT

Due to work on the WGA Return not being completed by the 26 July 2018

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

Due to the Pension Fund Annual Report not being prepared by 26 July 2018

We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of London Borough of Hounslow Pension Fund with the pension fund accounts included in the financial statements of London Borough of Hounslow. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December following the end of the relevant financial year. As the authority has not yet prepared the Pension Fund Annual Report we have not issued our report on the financial statements included in the Pension Fund Annual Report. Until we have done so, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Due to matters brought to our attention by a local authority elector

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector relating to 2015/16. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

NThomas

Neil Thomas
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

26 July 2018