

**LONDON BOROUGH OF**  
**HAMMERSMITH AND FULHAM**

**STATEMENT OF ACCOUNTS**

**2004/05**

## **Certification by Chairman of the Audit Committee**

I confirm that these resubmitted accounts were approved by the Audit Committee on 30<sup>th</sup> March 2006.

A handwritten signature in black ink, appearing to be 'C. Allen', is written on a light grey rectangular background. The signature is cursive and includes a horizontal line extending to the right from the bottom of the letters.

Councillor Chris Allen

30<sup>th</sup> March 2006

**LONDON BOROUGH OF HAMMERSMITH AND  
FULHAM**

**STATEMENT OF ACCOUNTS 2004/05**

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An explanatory introduction to the financial statements and a guide to the most significant items reported in the accounts.

**STATEMENT OF RESPONSIBILITIES (Page 10)**

A statement setting out the financial responsibilities of the Council and of the Director of Finance in relation to the Statement of Accounts.

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**STATEMENT OF ACCOUNTING PRACTICES AND POLICIES (Page 19)**

An explanation of the basis on which the accounts have been prepared and their compliance with the guidance of the relevant regulatory bodies.

**FINANCIAL STATEMENTS (Pages 25-73)**

These statements summarise the overall financial performance of the Council in the financial year 2004/05 and its financial position at 31 March 2005. For comparison purposes, figures relating to 2003/04 have been included. The financial statements have been produced to conform with the requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2004 – A Statement of Recommended Practice', often referred to as the 'SORP', and the Best Value Accounting Code of Practice', both published by the Chartered Institute of Public Finance and Accountancy.

**CONSOLIDATED REVENUE ACCOUNT (Page 25)**

This account shows the cost of services provided by the Council and the income which those services generate, and shows how the difference is met by local taxpayers and general government grant. A note is included which summarises the financial results of the Council's trading operations in 2004/05.

**COLLECTION FUND ACCOUNT (Page 38)**

This account summarises income and expenditure relating to the collection of Council Tax and National Non-Domestic Rates, including the precept collected on behalf of the Greater London

Authority. Thus, it sets out the contribution of Hammersmith and Fulham council tax payers to the costs of local services and its distribution to the spending authorities involved.

### **HOUSING REVENUE ACCOUNT (Page 41)**

This account summarises the income and expenditure relating to the provision of housing and associated services to Council tenants and leaseholders. This reflects the statutory obligation of the Council to account separately for the costs of its activities as a landlord in the provision of Council housing.

### **CONSOLIDATED BALANCE SHEET (Page 47)**

The balance sheet sets out all the balances held by the Council at the end of the year, indicating how much is owed to it and how much it owes others, excluding the Pension Fund. It sets out the overall financial position of the Council. A note is included which summarises all movements to and from reserves.

### **STATEMENT OF TOTAL MOVEMENTS IN RESERVES (Page 64)**

This statement brings together all the recognised gains and losses of the authority during 2004/05 and identifies those which have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

### **CASH FLOW STATEMENT (Page 69)**

This statement shows the totality of cash inflows and outflows in respect of revenue, capital and capital financing for the year and their effect on balances at the end of the year.

### **GROUP ACCOUNTS (Page 74)**

The 2004 SORP requires local authorities to consider all their interests in entities and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates and joint ventures. There are four financial statements:

- Group Income and Expenditure Account
- Group Balance Sheet
- Group Cash Flow Statement
- Group Statement of Total Movement on Reserves

### **PENSION FUND ACCOUNTS (Page 81)**

The Pension Fund accounts set out a summary of the transactions during the year and the overall financial position of the Fund. The full accounts are available from the Director of Finance at the address shown below.

### **GLOSSARY OF TERMS (Page 90)**

An explanation of the local government and financial terms used in this statement.

## **FURTHER INFORMATION**

Further information about the Accounts is available from the Corporate Accountancy Services Manager by telephoning (020) 8753 1589, or by writing to the address below;

Corporate Accountancy Services Manager  
Finance Department  
2<sup>nd</sup> Floor  
Hammersmith Town Hall Extension  
King Street  
London  
W6 9JU

# STATEMENT OF ACCOUNTS 2004/05

## FOREWORD

The accounting arrangements of any large organisation are complex. The purpose of this Statement of Accounts is to summarise the financial performance and overall financial position of the Council in a manner which is reasonably comprehensible, whilst acknowledging that over-simplification can also be misleading. Accounting and local government finance have a language of their own so, inevitably, some technical wording remains. However, a Glossary is included at the end of the Statement to assist understanding of the information in this document.

The framework within which the Council's Accounts are prepared and published is regulated, as set out in the Statement of Accounting Policies. The Contents page gives a brief explanation of each statement as a helpful reference. This Foreword aims to give a general guide to the significant features of the information reported in the Statements, and provides a summary of the Council's overall financial position.

### 1. REVENUE EXPENDITURE 2004/05

#### General Fund Services

The outturn for 2004/05 was £232.140m. This is analysed in the Consolidated Revenue Account in the Statement of Accounts. For the purposes of reporting information in the Statement of Accounts, the Council must comply with the Best Value Accounting Code of Practice. This prescribes how Services are to be grouped and presented in the accounts. However, this format of reporting does not correspond exactly with the Council's departmental structure. The table below, therefore, provides a summary of net expenditure against budget at departmental level.

In accordance with Financial Regulations, departmental overspendings and planned underspendings have been carried forward to the following financial year. The table below indicates that a net carry forward of £0.210m has been accounted for in the Council's reserves.

Department	Original Budget	Revised Budget	Actual	Over or (Under) spend	Carry Forward to 2005/06	Net Position
	£000s	£000s	£000s	£000s	£000s	£000s
Education	97,518	97,565	97,397	(168)	118	(50)
Environment	18,654	19,583	19,546	(37)	0	(37)
Housing	14,265	15,640	15,892	252	0	252
Social Services	52,975	55,738	55,720	(18)	0	(18)
Children's Trust	24,384	25,882	26,667	785	(785)	0
Direct Services	18,538	19,169	17,591	(1,578)	500	(1,078)
Central Departments & Other Items	6,628	(3,315)	(5,309)	(1,994)	(43)	(2,037)
<b>Net Departmental Expenditure</b>	<b>232,962</b>	<b>230,262</b>	<b>227,504</b>	<b>(2,758)</b>	<b>(210)</b>	<b>(2,968)</b>
Levies	2,147	2,147	2,147	0		0
Transfers to (from) Reserves	0	2,699	2,489	(210)	210	0
<b>Total</b>	<b>235,109</b>	<b>235,108</b>	<b>232,140</b>	<b>(2,968)</b>	<b>0</b>	<b>(2,968)</b>

The table above shows that against a budget of £235.108m, net expenditure was £232.140m.

This represents an underspending of £2.968m. Significant reasons for the variances are given below;

## **DSD**

There were significant productivity gains and efficiencies with the Council's Borough Construction and Borough Highways trading accounts, the Parking Enforcement service and Refuse and Recycling service.

## **Children's Trust**

There has been an increase in the numbers of, and costs of, fostering and adoption placements and care packages for disabled children.

## **Housing Services**

The overspending relates to a correction to the previous year's housing subsidy claim that had been overstated. The accounts have to be prepared on the basis of estimated payments and subsidy and prior to the completion of the audit of the Housing Benefit subsidy claim.

## **Central Departments and Other Items**

As a result of slippage in the Capital Programme, the Council has retained greater cash balances which, combined with effective treasury management, has resulted in additional Investment income. There were also underspendings in contingency budgets for rent reviews, redundancy and pension costs and for planned maintenance works that could not be charged to the capital programme.

## **2. HOUSING REVENUE ACCOUNT (HRA)**

The Council continues to be a major provider of social housing, working closely with housing associations and other social landlords to provide affordable housing for all tenants in the Borough. The HRA only accounts for the costs of housing people in Council-owned accommodation. The Local Government and Housing Act 1989 requires that this expenditure is ring-fenced and cannot be subsidised by the General Fund.

The Account had a planned deficit of £2.181m in 2004/05, resulting in a balance carried forward into 2005/06 of just under £4.175m.

## **3. CAPITAL SPENDING IN 2004/05**

Capital spending is defined as expenditure on the purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure was incurred. The Council's capital spending in 2004/05 was £58.05m, which represented a decrease of £1.25m from the previous year.

Capital expenditure by department for 2004/05, compared with the previous year, may be summarised as follows:

	<b>2003/04 £000s</b>	<b>2004/05 £000s</b>
Education Department	9,225	10,790
Environment Department	11,132	13,964
Housing Department	28,162	25,382
Social Services Department / Children's Trust	1,402	1,135
Improvements / Other	2,553	2,058
Housing Grants		
Other	6,810	4,719
<b>Total</b>	<b>59,284</b>	<b>58,048</b>

The major schemes on which expenditure was incurred in 2004/05 were mainly for works on the Council's housing stock, such as Maystar (£4.6m), and College Court (£1.4m). There were also significant levels of capital expenditure on roads and infrastructure, as well as schools and general purpose projects. These include expenditure of £1.9 million on a new leisure facility in the borough and £0.9 million on the Bridge Academy. There was also continuing expenditure on E-Government projects and the development of Council IT systems.

Capital commitments on major schemes at 31 March 2005 totalled £0.927m. This is for the Sure Start Broadway programme within the Children's Trust. The majority of the capital expenditure will be to undertake a major refurbishment of Brook Green Day Nursery to enable it to become the Broadway Children's Centre. Of the remaining capital, some will be required to cover the cost of the temporary relocation of the services currently operating with the Day Nursery. Any remaining capital will be used to fund minor works in Early Years settings within the Sure Start Broadway area.

The financing of the capital expenditure incurred in 2004/05 was as follows:

	<b>2003/04 £000s</b>	<b>2004/05 £000s</b>
Loan	12,672	5,442
Direct Revenue Funding	923	1,777
Grants and Contributions	29,494	31,521
Capital Receipts	15,205	18,251
Movement in Capital Creditors	990	1,057
<b>Total</b>	<b>59,284</b>	<b>58,048</b>

The Council plans to maintain a wide-ranging capital programme, including housing improvements, works associated with the New Deals for Schools, the Older People's Strategy, investment in the Borough's infrastructure and Street Scene improvements. This is a key element in the Council's strategy to continue to enhance the quality of services provided to the residents of Hammersmith and Fulham.

An estimated £180 million of capital funding will be invested in the HRA stock between 2005-06 and 2007-08. This includes ALMO borrowing of £125 million (£78 million of which is



confirmed for 2005-06 and 2006-07), Supported Capital Expenditure of £16 million, £35 million from the Major Repairs Allowance, and £4 million of other funding. In addition, a total of £10 million will be invested in the borough’s private sector stock, to be funded from a combination of mainstream Housing resources and government grant.

**4. CURRENT BORROWING AND CAPITAL RESOURCES**

The borrowings disclosed in notes 1 (v) and 9 to the Balance Sheet relate to the financing of capital expenditure incurred in 2004/05 and earlier years. All of the Council’s borrowing (£309.02m) has been borrowed from the Public Works Loans Board.

Future capital expenditure will be financed from borrowing from the Public Works Loans Board, revenue contributions, sales of fixed assets, capital grants and contributions and relevant funds within earmarked reserves.

Use is being made of the new prudential borrowing powers to finance the refurbishment works at Fulham Palace and the development of a professional development centre for teachers at Lila Husset. The borrowing powers are also being used to replace leasing where it is considered prudent to do so.

The Council has voluntarily set aside £10.4 million of unapplied capital receipts for debt redemption in 2004/05. This will realise a one-off saving of £0.416 million in 2005/06 on the Minimum Revenue Provision.

**5. PENSION LIABILITY**

Following the implementation of FRS 17 in the 2003/04 accounts, a total liability of £312.4m has been included in the 2004/05 Consolidated Balance Sheet.

This consists of the funded liabilities of £269.4m relating to the Hammersmith & Fulham Pension Fund and £6.9m relating to the London Pensions Fund Authority Pensions Fund. In addition, there are unfunded liabilities of £36.1m.

**6. COLLECTION FUND**

The Council has reported a deficit of £2.379m for 2004/05. This was an anticipated deficit for which provision has been made in the 2005/06 budget to meet the shortfall.

**7. OUTLOOK**

The Local Government Finance Settlement for 2005/6 contained an increase in grant for Hammersmith and Fulham of 6.99%, as illustrated in the table below.

	<b>2004/5</b> <b>£m</b>	<b>2005/6</b> <b>£m</b>	<b>Increase</b>
Revenue Support Grant	118,078	120,087	
Redistributed Non-Domestic Rates	48,418	58,052	
<b>Total Formula Grant</b>	<b>166,496</b>	<b>178,139</b>	<b>6.99%</b>

In 2005/6, and beyond, the Council is experiencing significant service demands and budgetary pressures. These include, for example, increased numbers of social services and Children’s Trust

clients. The Direct Payments scheme is also leading to increased demand for support from individuals who previously did not require direct services from the Council. In addition, the Council is experiencing extra costs associated with above inflation price increases in areas such as highways contracts, landfill charges, social services placements with external providers, home care contracts, energy costs and pension fund contributions.

There are, at the same time, developing proposals to change the Government grant system that could change the amount of income that the Council is likely to receive in future years.

The current methodology used to distribute Revenue Support Grant to local authorities was introduced in 2003/04, since which time no changes to the formula, other than for updating data, have been made. However, this “formula freeze” has now ended and the Government has commissioned a number of research projects that are looking at potential changes to the grant distribution formula. The last Formula review, in 2003/04, created significant ‘winners’ and ‘losers’. The current review may also result in a major redistribution of resources.

The Government is considering proposals to introduce three-year grant settlements with effect from 2006/07. They would be designed to introduce greater stability and predictability in the government grant system. However, in terms of the outlook for the Council, assurances would be required on issues such as how population growth and inflationary risks would be incorporated in the grant settlements.

Funding arrangements for schools will change from 2006/07. Government funding will be provided through a ring-fenced grant (Dedicated Schools Grant), rather than the Revenue Support Grant process.

The Government has commissioned an independent inquiry to consider the future for Council Tax and local authority funding in general. It is anticipated that the review will make recommendations for the reform of council tax, assess the case for allowing authorities to raise more income locally to include local income tax and reform of business rates. The inquiry is due to report by the end of 2005.

It is not yet possible to model how any potential changes in government grant mechanisms will impact on the Council’s resources. In the meantime, the Council continues to underpin its medium term planning by taking a longer-term view of service pressures and commitments against an estimate of its resources. The Council will also continue to base its capital investment decisions on sound and thorough option appraisals. This ensures that such investment is closely integrated with the Revenue Budget and that decision making seeks to maximise efficiency and value for money gains at all times.

Jane West  
Director of Finance  
27th October 2005

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **The Council's Responsibilities**

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs; for this Council, that officer is the Director of Finance,
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets, and
- to approve the Statement of Accounts.

### **The Director of Finance's Responsibilities**

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice").

In preparing this Statement of Accounts, the Director of Finance has


- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Code of Practice.

The Director of Finance has also

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

## **CERTIFICATE OF THE DIRECTOR OF FINANCE**

I certify that the Statement of Accounts set out on pages 19 to 89 present fairly the financial position of the London Borough of Hammersmith and Fulham as at 31 March 2005 and its income and expenditure for the year then ended.



**Jane West**  
**Director of Finance**  
27th October 2005

## **STATEMENT ON SYSTEM OF INTERNAL CONTROL**

### **1. SCOPE OF RESPONSIBILITY**

The London Borough of Hammersmith & Fulham operates within the statutory framework that applies to all English local authorities. This means that it 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.

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

### **2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

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

The system of internal control outlined in this statement has been in place at London Borough of Hammersmith & Fulham for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

### **3. THE INTERNAL CONTROL ENVIRONMENT**

The H&F HMS (Hammersmith & Fulham Housing Management Services) is a limited company that is wholly owned by the Council. They will have their own Statement of Internal Control within their own annual accounts, which can be referred to separately. As a result the organisation is not directly identified within the Statement.

The Council's internal control environment includes the following key elements:

- **Establishing and monitoring the achievement of the authority's objectives**
  - As required under the Local Government Act 2000, the Council has adopted a constitution, which is reviewed and re-published every year at the end of May. This sets out how the Council operates, how decisions are made, and procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution includes a Code of Conduct (a national code, overseen by the Standards Board for England) and various additional local protocols governing Members and officers.
  - The Council approves its objectives and strategy through its Executive (the Leader's Committee) and through decisions of the full Council in respect of certain defined

matters such as the Council's budget. The meetings are open to the public except where personal or confidential matters (within a limited number of categories set in legislation) are being discussed. In addition, individual Executive Councillors (called "Cabinet Members" at Hammersmith and Fulham) can take decisions as individuals, by signing written reports, provided that these are not in the category of 'key' decisions requiring committee approval. Senior officers of the Council can also make decisions under delegated authority, within written schemes of delegation that form part of the Council's constitution. The principal documents setting out the Council's key objectives are the Borough's Community Strategy, the Council's Corporate (Best Value) Performance Plan, and the Borough's Local Area Agreement.

- A set of Scrutiny Panels are responsible for scrutiny of the decisions made by the Council's Executive, and of the Council's policies and programmes generally. There are five Scrutiny Panels, with the Leadership Scrutiny Panel maintaining a council-wide overview.
- The Council produces annual performance plans following full consultation that direct the work of Council departments. These incorporate forward looking performance indicators and are all incorporated into the Council's Best Value Performance Plan. These are all reported to the relevant Scrutiny Panel.
- The Council establishes its budget and policy framework each year as required by its constitution and the Local Government Act 2000.

- **Decision Making**

- Key decisions (those which involve significant savings or expenditure or which have a significant impact) are taken by the Leader's Committee (the Executive).
- All key decisions are set out in a Forward Plan and decisions are taken in public unless certain statutory 'exempt' subject matter is being discussed.
- Decisions, which are not classified as key, are taken either by Cabinet Members or by officers using the delegated powers set out in the constitution. Cabinet Members' decisions are set out in a report signed by the Cabinet Member.
- Certain matters e.g. planning, licensing and senior appointments must be dealt with by either a politically balanced committee or officers as set out in the constitution.
- Policies other than those decided by the full Council under the Budget and Policy Framework are decided by Leader's Committee.

- **The facilitation of policy and decision making:**

- In its wider community leadership role, the Council established in 1999 the Borough Partnership. This is now accredited as a local strategic partnership (LSP), by the ODPM and Government Office of London. It is responsible for overseeing and updating the local community strategy, as a 10 year strategic vision for the area. The Borough Partnership has established a local public services board, to prepare and deliver the Local Area Agreement for Hammersmith and Fulham.
- Each month, a forward plan of executive key decisions is published (on the council website and in hard copy). These are the decisions that are expected to have significant effect on the community or involve significant expenditure or budget reductions (over

£300,000).

- **Ensuring compliance with established policies, procedures, laws and regulations:**

- Regular reports are produced by the authority of compliance with current initiatives and external requirements e.g. reporting on PI performance.
- Professionally qualified finance staff are employed in key roles throughout the organisation.
- There is an internal audit service that undertakes reviews of and reports on the adequacy and effectiveness of internal control. This includes an annual, independent assurance statement by the Chief Internal Auditor giving their opinion on the authority's overall system of internal control.
- The council has a Monitoring Officer at Director level whose role and responsibilities are clearly defined in legislation and in the Council's constitution. This officer is ably supported by the authority's Legal Services Division.
- All Leader's Committee reports are cleared by the Head of Legal Services and by the Director of Finance.
- The Council has recently approved an Anti-Fraud and Corruption Strategy that incorporates a Code of Conduct for Members and Officers. The strategy incorporates appropriate reporting procedures.
- The Council has had a whistleblowing (confidential reporting) procedure in place since 1996.
- The Council established a Standards Committee in 2003. This is made up of 3 independent members and 3 councillors, and oversees the Council's ethical framework of codes and processes designed to ensure policy probity and high standards of conduct.
- The council has established a risk management process, with standard documents and established processes, which has been approved by the Leadership Scrutiny Panel. Risk registers have been produced for all its departments as well as producing a corporate risk register. Risk management is in the process of being embedded into the authority's existing management processes, to help ensure that in future the information held continues to be complete and up to date.
- The Council has a Standards Committee established under the Local Government Act 2000 that is responsible for Members' conduct. This committee meets regularly.

- **Ensuring the economic, efficient and effective use of resources and for securing continuous improvement:**

- The authority continues to produce a range of Best Value and operational Performance Indicators. These are reported to senior management as well as appropriate Member committees for review.
- The authority has continued to undertake Best Value reviews.
- A programme of change management has been under way during the 2004/05 year and continues into the 2005/06 year that has involved restructuring the authority, helping to

improve overall efficiency and effectiveness.

- **The financial management of the authority and the reporting of financial management:**

- There is a framework of regular financial management information and reporting to all levels of management and to Members.
- There are Financial Regulations and financial procedures in place, including a Contracts code and a structure of Financial Delegations. These include appropriate checks and management monitoring to help ensure compliance.
- Services are delivered by trained and experienced people. All posts have a detailed job description, and professionally qualified finance staff are employed in key roles throughout the organisation.
- There are comprehensive budgeting systems that are linked to the business planning process. These include the setting and monitoring of annual budgets at all levels of the organisation, plus the regular updating and review of the Medium Term Financial Strategy.
- The Council has established a strategic group, the Finance Strategy Board, consisting of senior financial representatives from all departments across the organisation. This group reviews financial plans and performance and helps establish the financial direction of the Council.

- **The performance management of the authority and the reporting of performance management**

- There is a performance management system that is driven by the corporate objectives and priorities identified through the Corporate (Best Value) Performance Plan, Local Area Agreement and the Community Strategy. These focus on corporate priorities.
- These objectives and priorities are cascaded through to departmental performance plans, unit performance plans and individual employee appraisals and targets.
- There are established lines of accountability for meeting objectives and performance targets.
- Key performance indicators are identified through the planning process, setting both the indicators and the performance targets.
- Reports are regularly produced on these indicators.
- The reports are provided to senior management teams and key committees for scrutiny and challenge.
- The Council has been rated an “Excellent” authority though CPA. As a result it has a reduced level of inspection imposed on it.

#### **4. REVIEW OF EFFECTIVENESS**

London Borough of Hammersmith & Fulham has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments

made by the external auditors and other review agencies and inspectorates.

## **5. SIGNIFICANT INTERNAL CONTROL ISSUES**

Listed below are the issues identified as significant control weaknesses for the 2004/05 year.

### ***(i) Bank and Cash Reconciliations***

In view of the difficulties encountered with the new bank reconciliation system in 2003/4, the bank reconciliation system was re-launched, tested and implemented in 2004/5. Regular bank reconciliations have been produced promptly since December 2004 but it has not been possible to produce reconciliations on a monthly basis. Knowledge of the bank reconciliation process has been shared within the relevant team in the Finance department. Guidance and procedural notes are also being developed for reference and training purposes.

### ***(ii) Business Continuity Plans***

The Council currently does not have a formal strategy for Business Continuity. However, it does have built in resilience through the siting of IT and the spread of services across a number of office buildings. The Corporate Management Team has established a project to develop the Business Continuity arrangements and a corporate Service Resilience Group has been set up to drive the project forward.

### ***(iii) Reconciliations to the OLAS Accounting System***

There are a number of reconciliations that should be undertaken on the OLAS accounting system and with other system interfaces with the OLAS system. Audit testing undertaken during the year found that two system interfaces were not being reconciled. In one case this resulted in significant difficulties at year end. A further reconciliation was being carried out several months late, plus for other reconciliations there was no evidence of an independent review of the reconciliation. This is a key area of focus for the Council's finance community. The Financial Strategy Board will monitor the situation during the year through its new performance management system. Follow up work will be undertaken in the 2005/06 year to ensure all the recommendations have been implemented and that the necessary reconciliations are being undertaken as required for good internal control. This will be a key preparation for the earlier closing of the 2005/06 accounts (by 30 June 2006).

### ***(iv) Risk Management***

The Risk Management process has developed during the 2004/05 year with the integration of Risk Management into the Medium Term Financial Strategy, the establishment of a Risk Management Group, the production of risk registers corporately and for all Departments plus a Member's annual review of registers. The transfer of the risk management function to Performance & Procurement Section, along with the recruitment of a Risk Manager who is producing an action plan to further develop and embed risk management more fully into the Council, should help to improve the process further. There is still further work needed to embed the Risk Management process more fully into the culture and processes of the authority.

### ***(v) Collection Fund Deficit***

Although the Council has met its collection targets, Council Tax income has been lower than anticipated. The Council has subsequently reviewed the tax base and the anticipated level of



Council Tax chargeable. Provision has been identified in the Revenue Budget to meet the shortfall. The issue has been fully resolved from 2005/06.

**(vi) Debt Management Strategy**

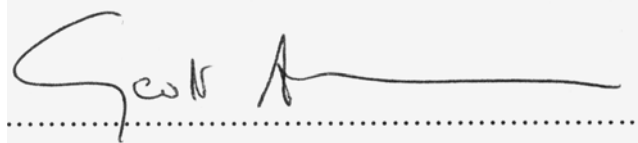
The Council has established a monitoring report that reviews debts for Council Tax and NNDR plus a number of other debtor accounts that are centrally managed by finance department.

The External Audit report titled "Review of Sundry Debtor Management" identified that there is no corporate approach to debtor management and that as a result there was £33 million debtors as at 31 March 2003 that was being managed by departments based on local procedures. A recommendation to bring these within a corporate reporting process was agreed by the Council and an implementation date agreed. Work has been programmed to begin in the 2005/06 year to address this matter.

**6. CONCLUSION**

We have been advised on the outcome of the review of the system of internal control by the Corporate Management Team and the Leadership Scrutiny Panel, having appropriate regard to internal and external sources of assurance. We are satisfied that the Council's system of internal control has been effective throughout 2004/05 and up to the date of this statement. We are also satisfied that there are suitable plans in place to address areas where action is appropriate and to ensure continuous improvement of the system.

**Chief Executive**

A handwritten signature in black ink on a light grey background, positioned above a horizontal dotted line. The signature appears to be "Geoff A..." followed by a long horizontal stroke.

**Leader**

A handwritten signature in black ink on a light grey background, positioned above a horizontal dotted line. The signature is stylized and appears to be "SBR" followed by a flourish.

**26<sup>th</sup> July 2005**

# STATEMENT OF ACCOUNTING PRACTICES AND POLICIES

## 1. STATEMENT OF ACCOUNTING PRACTICE

The 2004/05 Statement of Accounts provides financial information based on the activities of the Council throughout the financial year and reflects the position at the year-end. The Council's accounts have been prepared in accordance with the 2004 Code of Practice on Local Authority Accounting (SORP), Statements of Standard Accounting Practice (SSAPs), and Financial Reporting Standards (FRS), relevant to local authorities. If exceptions occur these are noted at the appropriate place in the statement of accounts.

## 2. BASIS ON WHICH DEBTORS AND CREDITORS ARE INCLUDED IN THE ACCOUNTS

The revenue accounts of the Council are maintained on an accruals basis in accordance with the SORP and FRS 18. This means that sums due to or from the Council during the year are included in the accounts whether or not the cash has actually been paid or received in the year.

Revenue transactions are included as income and expenditure in the year of account. Accounts are kept on a receipts and payments basis and, at the year end, are adjusted in respect of amounts receivable or payable, where the actual transactions had not been completed at the year end, by the inclusion of debtors and creditors. Where the exact amount of a debtor or creditor was not known at the time of closing the accounts then an estimated amount has been used.

## 3. RETIREMENT BENEFITS

Local authorities have a commitment to fund the cost of pensions provided to their employees. The full cost of pensions to the Council is the cost of present and future benefits payable. The SORP requires the full recognition of FRS 17 Retirement Benefits. This requires the recognition of the net asset/liability and a pensions reserve in the Consolidated Balance Sheet and entries in the Consolidated Revenue Account for movements in the asset/liability. More details are provided in disclosure notes to the Consolidated Revenue Account, Consolidated Balance Sheet and Statement of Total Movement in Reserves.

The Council participates in two defined benefits schemes under provisions of the Local Government Pension Scheme. The two schemes are the London Borough of Hammersmith & Fulham Pension Fund, for which the Council acts as the Administering Authority, and the London Pensions Fund Authority Pension Fund, which is administered by the London Pensions Fund Authority. The net assets and liabilities of these pension funds are shown separately on the Consolidated Balance Sheet.

The 2003/04 accounts did not include the Council's liability relating to unfunded benefits. A prior period adjustment has been made to the 2003/04 Consolidated Revenue Account (Note 7) and Consolidated Balance Sheet (Note 18), resulting in an increase to the pensions net asset/liability of £26.9m as at 31 March 2004.

In addition, the Council participates in a defined contribution scheme for Teachers which is administered by the Teachers Pension Agency. Unlike defined benefits schemes, the employer pays fixed amounts into the scheme and has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits. Only the cost of employer's contributions are therefore recognised in the accounts.

## 4. RESERVES

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

Amounts set aside for purposes outside the definition of provisions, defined in section 7 below are classified as reserves. Transfers to and from reserves are distinguished from service expenditure disclosed in the statement of accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances that represent resources set aside for purposes such as general contingencies and cash flow management.

The Council maintains several revenue reserves (see Note 14 to the Balance Sheet on page 56). The General Fund reserves are used to meet revenue expenditure that does not relate to the Housing Revenue Account (HRA).

The HRA reserve may only be applied to fund expenditure relating to that account. The HRA is required to maintain a Major Repairs Reserve, which represents the balance of the HRA Major Repairs Allowance not used to fund major repairs to housing stock during the year.

## **5. TREATMENT OF IN-YEAR CAPITAL EXPENDITURE IN THE ACCOUNTS**

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. In this context, enhancement means the carrying out of works to a fixed asset which are intended to increase substantially the life, value or use of the asset. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts.

To reflect changes in the treatment of capital expenditure in 2004/05, an Intangible Assets category has been created which contains expenditure for software licences. The Non-Operational Assets category has also been split into the following categories: Investment Properties and Surplus Assets held for disposal. Assets under Construction had already been separated out from Non-Operational Assets in 2003/04.

A capital scheme not completed in the year and for which there is more expected expenditure is classified as an Asset Under Construction (AUC). When the AUC is completed, it will be reclassified as a fixed asset at cost in the year of completion. In cases where the total in-year cost of the scheme is £300,000 or more, the asset will be revalued for the following financial year.

Expenditure below £300,000 will be written off to the Fixed Asset Restatement Account (FARA) unless the expenditure can be described as extension to building, enlargement of classroom size and such like. This process would apply in the case of enhancement where the need is to determine the extent to which the new expenditure on an existing asset has increased the value of the asset. Expenditure on new schemes will be added to Fixed Assets at cost and will be carried at cost until they are programmed to be revalued under the five-year revaluation cycle unless the total cost is over £750,000, in which case the asset will be revalued in the following financial year.

All expenditure on Housing Revenue Account (HRA) stock (but not planned maintenance costs, feasibility costs, stock condition survey cost, and expenditure on improvement grants which are written off to FARA) will be carried at cost in the year of expenditure, as all dwellings are revalued on 1<sup>st</sup> April of each financial year. These items will not be referred to the Valuer separately.

## **6. PROVISIONS AND CONTINGENT LIABILITIES**

Provisions are required to be set aside for known, certain or likely obligations arising from past events which are expected to result in future expenditure which can be reliably estimated.

Contingent liabilities have been disclosed in Note 16 to the Balance Sheet on page 57 as the sums involved are likely to be material. Where the risk of the contingent liability materialising is high, or where the financial consequences could be very significant, a specific sum may be set aside in the accounts as a provision.

## **7. STOCKS**

The value of stocks included in the Balance Sheet is based on SSAP 9, which requires valuation to be the lower of cost or net realisable value.

## **8. FIXED ASSET VALUATIONS**

The valuations of fixed assets give rise to accounting charges to the Consolidated Revenue Account (CRA), which in turn, are reflected in the costs of service areas.

- (i) Fixed Assets have been valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Any reduction in asset values resulting from impairment would be reflected in accordance with FRS11. The valuations are carried out by Mr B.G.Wilson FRICS, [Head of Valuation and Property Services.]
- (ii) For stock other than Housing Revenue Account (HRA), fixed assets are revalued on a five year rolling programme, based on departments. The asset portfolio of the Housing Department (not including HRA dwellings) was revalued in 2004/05.
- (iii) The HRA stock has been valued by extrapolating the Borough Valuer's annual revaluation of 20% of the housing stock. The housing stock has been valued on the basis of existing use value for social housing using the vacant possession adjustment factor and the Beacon approach. This methodology was applied in the revaluation of the Housing Stock for 2004/05. The value of HRA stock disposals is shown in the Note 1 to the Balance Sheet which shows the movement in assets between 1st April 2004 and 31st March 2005 under the heading "disposals". They are recorded at the existing use – social housing value.

Asset Valuations under the following classifications have been undertaken as follows:

- a) Intangible Fixed Assets have been introduced as a new asset category with effect from 2004/05. These assets will normally be capitalised at cost. The SORP does not require revaluations and these will normally only be required where there is a readily ascertainable market value.
- b) Buildings (other than schools used for operational purposes) have valuations which take into account market values and the present use of these assets.
- c) Schools are valued on the basis of depreciated replacement cost as it has not been possible to establish a comparable market value for this type of property.
- d) Buildings held for investment or non-operational purposes have been valued at open market value.
- e) Roads and other infrastructure have been valued at historic cost.
- f) Buildings on community asset sites and objets d'art have been valued at open market value.
- g) Vehicles, moveable plant and equipment have been valued at historic cost.
- h) Community and donated assets are valued at cost where appropriate, otherwise they

are included at a nominal value.

## **9. DEPRECIATION**

Depreciation is based upon asset values, excluding land, at the start of the year and is provided for on the basis of a finite life of the asset which is determined at the time of acquisition or when the asset has been re-valued. Other than where stated below, assets are normally depreciated over 40 years, with no charge in the year of disposal. The following treatment has been adopted for the following categories of assets:

- (i) Assets (including Council dwellings) are depreciated in accordance with the 2004 Code of Practice on Local Authority Accounting. Depreciation is charged on the value of all assets, excluding land.
- (ii) Vehicles and moveable plant are depreciated over periods ranging from 4-8 years.
- (iii) Infrastructure is depreciated over a period of 40 years
- (iv) The straight-line basis is used to determine the amount of depreciation in any year.
- (v) Additions to Fixed Assets and to Assets under Construction are not depreciated in the year they are acquired.

For 2004/05 the depreciation for Housing Revenue Account (HRA) dwellings and the General Fund were based on the opening Balance Sheet values.

## **10. CAPITAL RECEIPTS**

Capital receipts arise from the sale of assets and are accounted for on an accruals basis. The proceeds arising from new sales are split between pooled and useable receipts. Pooled receipts are transferred to central government whilst useable receipts can be used to either repay debt or finance further capital expenditure. Further details are provided in the Statement of Total Movements in Reserves on pages 64-68.

## **11. DEFERRED CHARGES**

From 2004/05, the Deferred Charges heading has been removed from the Consolidated Balance Sheet following the designation of the new Intangible Fixed Assets category (see note 9 above). Deferred Charges balances at 31 March 2004 have either been reclassified as Debt Redemption Premiums or amortised to the Consolidated Revenue Account in 2004/05.

## **12. CAPITAL CHARGES**

Services are charged with a capital charge for all fixed assets used in the provision of the service. These include an annual provision for depreciation where appropriate, plus a capital financing charge determined by applying a specified notional rate (3.5% for assets recorded at current value and 4.8% for assets with historical cost values) to the written down value that is included in the Balance Sheet. All capital charges are based upon the opening net values for both Housing Revenue Account (HRA) and General Fund assets.

## **13. BASIS OF PROVISION FOR DEBT REDEMPTION**

Gains and losses on the repurchase or early settlement of borrowing are accounted for in the Consolidated Revenue Account in the accounting year during which the repurchase or early settlement is made. Where, however, the repurchase of the borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains and losses are accounted for over the life of the replacement borrowing.

## **14. REPAYMENT OF DEBT**

In accordance with the requirements of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Council is required to set aside a Minimum Revenue Provision of 4% for repayment of debt from the General Fund, charged to its Revenue Accounts. The Housing Revenue Account is not required to set aside a Minimum Revenue Provision.

## **15. VALUATION OF INVESTMENTS**

All investments included in the Consolidated Balance Sheet are shown at the lower of cost or market value at the year-end.

## **16. COST OF SUPPORT SERVICES**

Charges or apportionments covering all support service costs are made to all their users, including services to the public, divisions of services, trading undertakings, DSOs, Housing Revenue Account (HRA), capital accounts, services provided for other bodies and other support services. The costs of service management are in the same way apportioned to the accounts representing the activities managed. The basis of apportionment adopted is consistent for all the cost centres to which apportionments have been made, and is in line with the Best Value Accounting Code of Practice

The cost of service strategy and regulation of any service to the public is allocated to a separate objective expenditure head in the accounts of that service. The costs of the corporate and democratic core and of unapportionable central overheads is allocated to a separate objective expenditure head in both General Fund and the Housing Revenue Account and not apportioned to other expenditure heads.

## **17. LEASING**

The Council uses various capital assets (primarily computer equipment) under operating leases, which do not appear in the Council's Balance Sheet because the Council does not own assets acquired under such leases. Rental charges are made to revenue on a straight line basis, over the term of the lease, even if the payments are not made on such a basis.

In 2004/05, the Council also took out three finance leases for IT equipment. In accordance with SSAP 21, these items of equipment are treated as Council assets and are shown on the Balance Sheet. The value of the assets is matched by deferred liabilities which are 'written down' by annual leasing payments.

Note 12 to the Consolidated Revenue Account sets out the total leasing charges included in the 2004/05 accounts.

## **18. GOVERNMENT GRANTS**

Whatever their basis of payment, revenue grants are matched with the expenditure to which they relate. Grants received to finance the general activities of the Council or to compensate for a loss of income are credited to the revenue account in the period in which they are payable. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of grant or contribution is credited to the Government Grants Deferred Account and written off to the Asset Management Revenue Account over the useful life of the asset.

Government grants are accounted for on an accruals basis and are recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant will be received.

## **19. PENSION COSTS**

The Council has made provision for pensions under three different schemes, for Local Government employees, for Teachers, and for former Inner London Education Authority staff. These pension schemes are governed by statutory regulation and are made available by the Council to both full and part-time staff.

The introduction of FRS 17 resulted in an increase in the disclosure requirements within the Statement of Accounts. The purpose of these disclosure notes is to provide clear information on the Council's obligation to fund the retirement benefits of its staff in the context of the financial position and performance of the respective Pension Funds.

The disclosures appear as notes to the Consolidated Revenue Account, Consolidated Balance Sheet and the Pension Fund Accounts.

## **20. PROVISION FOR BAD OR DOUBTFUL DEBTS**

Amounts for debtors are adjusted for doubtful debts and known uncollectable debts are written off.

## **21. VALUE ADDED TAX**

VAT is only included in income and expenditure, where it is irrecoverable.

## **22. GROUP ACCOUNTS**

The Council is required to prepare group accounts if it has interests in subsidiaries, associates and joint ventures. There are a number of criteria by which the Council must determine whether the value of the entity and the Council's interest is significant enough for group accounts to be produced. After consideration of these criteria, the Council has determined that a full set of Group Accounts should be produced for 2004/05. As required by the SORP, the Council's accounts have been aligned with UK Generally Accepted Accounting Principles (GAAP) by making the following amendments to the Consolidated Revenue Account:

- Incorporating profits/losses on the disposal of fixed assets in Net Operating Expenditure
- Writing out notional interest charges on fixed assets from Net Cost of Services
- Posting government grants deferred amortisations to individual service revenue accounts in Net Cost of services
- Removal of the Asset Management Revenue Account.

Unless stated in the notes to the Group Accounts, accounting policies of Group Entities are consistent with those of the Council.

## CONSOLIDATED REVENUE ACCOUNT

The Consolidated Revenue Account (CRA) sets out details of expenditure and income for General Fund Services and the Housing Revenue Account (HRA). Details of other transactions such as levies and transfers of surpluses and deficits are also included. The way in which the net expenditure is financed is also shown in this statement.

	NOTE	2003/2004	2004/2005		
		NET EXPENDITURE £000s	GROSS EXPENDITURE £000s	INCOME £000s	NET EXPENDITURE £000s
Central Services to the Public		17,274	93,574	(75,176)	18,398
Cultural, Environmental & Planning Services		28,358	35,850	(6,210)	29,640
Education		85,814	132,161	(40,890)	91,271
Highways & Transport		(3,392)	24,601	(25,115)	(514)
Housing Services:					
Housing General Fund		17,917	144,490	(129,059)	15,431
Housing Revenue Account		10,936	80,547	(52,991)	27,556
Social Services		73,883	129,707	(42,331)	87,376
Non-Distributable Costs		(10)	4,195	(13)	4,182
Corporate and Democratic Core		6,245	7,799	(567)	7,232
<b>NET COST OF SERVICES</b>	<b>(1)</b>	<b>237,025</b>	<b>652,924</b>	<b>(372,352)</b>	<b>280,572</b>
Cost of Levies	<b>(3)</b>	3,213	2,147	0	2,147
(Surplus)/Deficit on Trading Services	<b>(4)</b>	(1,273)	58,905	(59,383)	(478)
Asset Management Revenue Account (GF)	<b>(5)</b>	749	75,480	(79,754)	(4,274)
Asset Management Revenue Account (HRA)	<b>(5)</b>	(18,823)	0	(27,074)	(27,074)
Contribution to Housing Pooled Capital Receipts		-	19,140	0	19,140
Interest and Investment Income		(1,334)	0	(1,735)	(1,735)
Amortised Premiums and Discounts		166	1,529	0	1,529
Pensions Interest Costs		28,397	30,065	0	30,065
Pensions Expected Return on Assets		(18,052)	0	(20,335)	(20,335)
Pensions Settlements & Curtailments		0	3,201	0	3,201
<b>NET OPERATING EXPENDITURE</b>		<b>230,068</b>	<b>843,391</b>	<b>(560,,633)</b>	<b>282,758</b>



**CONSOLIDATED REVENUE ACCOUNT (Continued)**

	NOTES	2003/2004 £000s	2004/2005 £000s
<b>NET OPERATING EXPENDITURE</b>		<b>230,068</b>	<b>282,758</b>
<b>Add:</b>			
Transfer to/(from) HRA Balance		2,340	(2,181)
Transfers to/(from) Reserves	(6)	1,837	3,837
Transfers to/(from) Pensions Reserve	(7)	(10,832)	(21,523)
Minimum Revenue Provision Adjustment (GF)	(8)	(6,716)	(5,420)
Minimum Revenue Provision Adjustment (HRA)	(8)	3,893	0
Capital Financing Adjustment	(9)	(2,896)	(8,343)
Transfer from Useable Capital Receipts re contribution to Housing Pooled Capital Receipts			(19,140)
Contribution to Capital Expenditure (HRA)		0	375
Contribution to Capital Expenditure (GF)		0	1,777
<b>AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAX PAYERS</b>		<b>217,694</b>	<b>232,140</b>
<b>Less:</b>			
Collection Fund Precept		(63,146)	(68,613)
Collection Fund Transfer of Surplus		(480)	0
Revenue Support Grant		(106,005)	(118,078)
Contribution from NNDR Pool		(48,447)	(48,417)
		<b>(218,078)</b>	<b>(235,108)</b>
<b>(SURPLUS) / DEFICIT FOR YEAR</b>		<b>(384)</b>	<b>(2,968)</b>
<b>General Fund Balance</b>			
Balance at Beginning of Year		(12,587)	(12,971)
Add Surplus for Year		(384)	(2,968)
<b>BALANCE AT END OF YEAR</b>		<b>(12,971)</b>	<b>(15,939)</b>
Education Establishment Balances		(5,956)	(9,205)

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 1. EXPENDITURE ON SERVICES

The figures included in the account reflect expenditure and income on services including the Housing Revenue Account, rather than departmental expenditure and income. This is in accordance with the Best Value Accounting Code of Practice.

### 2. STAFF REMUNERATION

The numbers of staff receiving remuneration, excluding pension contributions, of £50,000 and above were as follows:

	2003/2004	2004/2005
£50,000 - £59,999	77	81
£60,000 - £69,999	20	30
£70,000 - £79,999	7	14
£80,000 - £89,999	5	3
£90,000 - £99,999	5	2
£100,000 - £109,999	3	7
£110,000 - £119,999	0	0
£120,000 - £129,999	0	0
£130,000 - £139,999	0	0
£140,000 - £149,999	1	1
	<b>118</b>	<b>138</b>

### 3. COST OF LEVIES

Levies paid by the Council are listed below. The London Pensions Fund Authority raises a levy to meet expenditure on pension payments to former GLC and ILEA employees. In addition, a levy of £4.103m to Western Riverside Waste Authority is included in the Cultural, Environmental & Planning figure shown in the Consolidated Revenue Account.

	2003/2004 £000s	2004/2005 £000s
Environment Agency	1,139	130
Lee Valley Regional Park	200	214
London Pensions Fund Authority	1,323	1,290
Greater London Magistrates Court Authority	551	513
	<b>3,213</b>	<b>2,147</b>

#### 4. TRADING SERVICES

The following Trading Services operated during the year. The table illustrates the surplus or deficit for each service.

	2003/04 (Surplus) / Deficit £000s	2004/05 Expenditure £000s	2004/05 Income £000s	2004/05 (Surplus) / Deficit £000s
Building Division				
<i>Surplus</i>	(304)	29,995	(32,195)	(2,200)
<i>Charge made to HRA under BVACoP</i>	200	800		800
<i>Adjusted surplus</i>	(104)	30,795	(32,195)	(1,400)
Highways Division	105	8,589	(8,342)	247
Construction & Property Related Services	(661)	4,603	(4,637)	(34)
Grounds Maintenance	(82)	940	(943)	(3)
Building Cleaning	187	2,618	(2,332)	286
Catering	(58)	4,733	(4,411)	322
Parking Control	(332)	2,948	(3,082)	(134)
Home to School Transport	(254)	2,003	(1,921)	82
Industrial Estates and Misc. Properties	(120)	790	(667)	123
Other	46	886	(853)	33
<b>Total (surplus)/ deficit</b>	<b>(1,273)</b>	<b>58,905</b>	<b>(59,383)</b>	<b>(478)</b>

Following a review of the authority's trading activities, the following services, formerly classified as trading accounts, are now included within net cost of services in the Consolidated Revenue Account: Street Cleansing, Refuse Collection and Security Services. The 2003/04 amounts for Cultural, Environment & Planning Services, Housing General Fund and Trading Services have been restated to allow for this reclassification.

#### 5. ASSET MANAGEMENT REVENUE ACCOUNT

The Asset Management Revenue Account (AMRA) shows the difference between the charges made to services for the use of assets and the cost of borrowing to fund capital expenditure. It shows also the provision for depreciation which reflects, where appropriate, the reduction in the value of fixed assets.

The charges to services are based on the value of each asset, and consist of depreciation, where appropriate, together with a notional interest charge.

The purpose of the account is to reduce the cost of the notional interest charges included in the asset charges to services to the actual interest charges paid by the Council and therefore needing to be financed. There is also an adjustment made for the element of the difference that relates to the Housing Revenue Account.

	2003/2004		2004/2005	
	£000s	£000s	£000s	£000s
<b>INCOME</b>				
Capital Charges – General Fund	19,223		19,410	
- HRA	43,235		50,927	
Impairment	0		5,000	
HRA Debt Management Costs	120		124	
Gen. Fund Discount on Loans	84		0	
HRA Discount on Loans	99		91	
HRA Premiums on Loans	255		1,620	
Deferred Grants Released	1,075		2,764	
		<b>64,091</b>		<b>79,936</b>
<b>EXPENDITURE</b>				
Net Cost of Borrowing	24,843		23,193	
Impairment	0		5,000	
Debt Management Expenses	121		150	
Finance Lease	0		72	
Depreciation Provision - General Fund	6,870		6,994	
- HRA	9,124		10,755	
HRA Interest on Balances	929		494	
Gen. Fund Premium on Loans	108		219	
Loans Repaid Premium (Gen. Fund)	3,668		0	
Loans Repaid Premium (HRA)	242		0	
HRA Premium on Loans	13		1,620	
HRA Discounts on Loans	99		91	
		<b>46,017</b>		<b>48,588</b>
<b>Transfer to HRA</b>		<b>18,823</b>		<b>27,074</b>
<b>Transfer to Consolidated Revenue Account</b>		<b>(749)</b>		<b>4,274</b>

## 6. TRANSFER TO/(FROM) OTHER RESERVES AND BALANCES

The following table provides details of transfers to/(from) revenue reserves, provisions and other balances that impact on the Consolidated Revenue Account.

	<b>2003/2004</b> <b>£000s</b>	<b>2004/2005</b> <b>£000s</b>
Controlled Parking Fund	(78)	338
Contribution to Capital Expenditure	1,195	0
IT and Computer Funds	345	80
Debtors and Creditors Review	(1,276)	(610)
Planning Inquiries Reserve	(80)	(77)
Capital Financing Account	(3,668)	0
DSD Reserve	0	428
Departmental Carry Forward Reserve	(517)	57
General Contingency	0	1,624
Education Reserve	0	(341)
Central Departments	0	(274)
Housing Benefit Reserve	0	(450)
Major Repairs Reserve	2,401	799
Other	0	127
Waste Management Reserve	0	300
Housing Remedial Works	0	140
Invest to Save Fund	3,515	1,696
	<b>1,837</b>	<b>3,837</b>

## 7. PENSION COSTS

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

The Council participates in two pension schemes under provisions of the Local Government Pension Scheme (LGPS) and acts as an Administering Authority. The LGPS is a defined benefits scheme based on final pensionable salary. This is a funded scheme, meaning that the Council and employees pay contributions into the Fund, calculated at a level intended to balance pension liabilities with investment assets. The two schemes being the London Borough of Hammersmith and Fulham Pension Fund, for which the authority acts as the Administering Authority, and the London Pensions Fund Authority Pension Fund, which is administered by the London Pensions Fund Authority.

Retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the CRA after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	London Borough of Hammersmith & Fulham Pension Scheme £000		London Pensions Fund Authority Pension Scheme £000	
	2003/04	2004/05	2003/04	2004/05
<b>Net Cost of Services:</b>				
Current Service Costs	(14,240)	(18,320)	(422)	(547)
Past Service Costs	0	(4,821)	0	0
	<b>(14,240)</b>	<b>(23,141)</b>	<b>(422)</b>	<b>(547)</b>
<b>Net Operating Expenditures:</b>				
Interest cost	(28,397)	(30,065)	(1,808)	(1,683)
Expected return on assets	18,270	20,220	1,590	1,798
Settlements & Curtailments	0	(3,200)	0	(51)
	<b>(24,367)</b>	<b>(36,186)</b>	<b>(640)</b>	<b>(483)</b>
<b>Amounts to be met from Government grants &amp; Council Tax:</b>				
Movement on pensions reserve	10,713	21,559	119	(36)
	<b>(13,654)</b>	<b>(14,627)</b>	<b>(521)</b>	<b>(519)</b>
<b>Actual amount charged against council tax for pensions in the year:</b>				
Employers contributions payable to the scheme	13,654	14,627	521	519

Note 18 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. The Statement of Total Movements in Reserves contains further information.

### Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pensions Scheme, administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the cost by making payments based on a percentage of members' pensionable salaries.

In 2004/05, the Council paid £4.3m to the Pensions Agency in respect of teachers' retirement benefits, representing 13.5% of pensionable pay. The figures for 2003/04 were £4.1m and 13.5%.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. During 2004/05 the costs arising from additional benefits amounted to £292,894.

## 8. MINIMUM REVENUE PROVISION ADJUSTMENT

The Minimum Revenue Provision (MRP) is the sum the Council is required to set aside each year to repay debt incurred in financing capital expenditure. The amount required to be set aside is 4% of General Fund debt, adjusted (reduced) by the Commutation adjustment (resulting from the changes in improvement grant funding in 1992). In 2003/04 and previous years, there was also a requirement to set aside 2% of Housing Revenue Account debt. This sum replaces the amount charged to services in the form of depreciation, which is transferred from the Capital Financing Reserve. The purpose of this adjustment is to reduce the charge to Council Tax payers to the statutory minimum requirement.

	2003/2004		2004/2005	
	£000s	£000s	£000s	£000s
<b>MRP:</b>				
General Fund (4%)	5,003		5,327	
Commutation adjustment	(4,849)		(3,753)	
HRA (2%)	3,893		0	
		4,047		1,574
<b>Less:</b>				
General Fund Depreciation Charge	6,870		6,994	
HRA Net Depreciation	3,893		0	
		10,763		6,994
		<b>(6,716)</b>		<b>(5,420)</b>

## 9. CAPITAL FINANCING ADJUSTMENT

This represents the capital financing associated with deferred charges written off to revenue during the year, together with deferred government grants released to offset the depreciation on the associated assets.

	2003/2004		2004/2005	
	£000s	£000s	£000s	£000s
Deferred Charges Written Down	(3,971)		(6,107)	
Impairment Adjustment	0		(5,000)	
Capital Grants Deferred	1,075		2,764	
		<b>(2,896)</b>		<b>(8,343)</b>

## 10. DEFERRED CHARGES

Deferred charges arise when capital expenditure is incurred which does not result in, or remain matched to, a tangible asset. These costs are required to be written off to revenue and will normally be written off within one year. Additional information can be found in Note 2 to the Consolidated Balance Sheet on page 51.

## 11. AGENCY INCOME AND EXPENDITURE

The Council acts as agent under agreements with various bodies and receives financial reimbursement for the costs of such services from the bodies concerned. This is summarised below. The expenditure and income relating to the water collection agency is included in the Housing Revenue Account cost of services.

Body	Description	Income £000s	Expen- diture £000s	Net Income £000s
Transport for London	Asset Inventory Study	(192)	310	118
Transport for London	Roads 2000	(573)	619	46
London Centre for Procurement Excellence	E-procurement projects	(206)	206	0
Eagle Star	Collection from Tenants	(50)	42	(8)
Thames Water	Collection from Tenants	(2,778)	2,708	(70)
		<b>(3,799)</b>	<b>3,885</b>	<b>86</b>

## 12. LEASING CHARGES

## Operating Leases

Vehicles, Plant, Furniture & Equipment - the London Borough of Hammersmith & Fulham uses vehicles, information technology and various other items of equipment which are financed under the terms of operating leases. The amount paid under these arrangements in 2004/05 was £2.621m (£2.966m in 2003/04).

The authority is committed to making payments of £2.184m under these leases during 2005/11.

	£000s
Operating Lease payments in 2004/05	2,621
Operating Leases expiring in 2005/06	1,166
Operating Leases expiring in 2006/07 to 2008/09	1,001
Operating Leases expiring in 2009/10 to 2010/11	17

## Finance Leases

Vehicles, Plant, Furniture & Equipment – the London Borough of Hammersmith and Fulham has IT equipment under finance leases. The rentals payable under these arrangements in 2004/05 were £0.403m, charged to the Consolidated Revenue Account as £0.049m finance costs, and £0.354m relating to the write down of obligations to the lessor.

The outstanding obligations amount to payments of £1.020m under these leases in 2005/09.

	£000s
Finance Lease payments in 2004/05	403
Finance Leases expiring in 2005/06	403
Finance Leases expiring in 2006/07 to 2008/09	617

## 13. PUBLICITY ACCOUNT

Under Section 5 of the Local Government Act 1986, the Council is required to keep a separate memorandum account of expenditure on publicity, which is summarised as follows.

	2003/2004 £000s	2004/2005 £000s
Recruitment Advertising	826	717
Other Advertising	323	166
Other Publicity	339	206
	<b>1,488</b>	<b>1,089</b>



#### 14. LOCAL AUTHORITIES (GOODS & SERVICES) ACT 1970

The services provided to other local authorities under the Local Authorities (Goods and Services) Act 1970 are shown below.

	2003/2004	2004/2005		
	NET EXPENDITURE	GROSS EXPENDITURE	LESS INCOME	NET EXPENDITURE
	£000s	£000s	£000s	£000s
Public Mortuary	76	269	(200)	69
Western District Coroner	12	796	(734)	62
	<b>88</b>	<b>1065</b>	<b>(934)</b>	<b>131</b>

#### 15. MATERIAL TRANSACTIONS WITH RELATED PARTIES

In 2004/05 the Council engaged in the following material transactions with related parties:-

- a) Government grants were received as scheduled in Note 2 to the Cash Flow Statement.
- b) Transactions with associated companies and other entities took place as summarised in Note 15 to the Balance Sheet.

Transactions with the pension fund are also required to be disclosed. Since the Council operates its own pension fund, this requirement is met by the publication of a detailed summary of the Pension Fund Accounts within this Statement of Accounts.

In addition, information has been collated by requiring all members and chief officers to declare any related party transactions. Declarations have not been received from Councillors Ghassan Karian and Frances Stainton. A review was also carried out of the Council's Register of Declarations of Interests and of the Register of Pecuniary and Non-pecuniary Interests of Councillors drawn up from declarations made at Committee and other meetings. During the year, the Council engaged in transactions totalling the following with parties disclosed as related in the information provided by Councillors and Chief Officers (please see table overleaf):-

In addition, five Councillors act as the Council's representatives on the Board of Hammersmith & Fulham Housing Management Services (HFHMS). The Council has delegated responsibility for overseeing the management and maintenance of its residential stock to HFHMS in accordance with the five year management agreement signed 27 May 2004 and effective from 1 June 2004. The Council pays HFHMS a monthly management fee and in 2004/05 this amounted to £16.5 million. HFHMS is a private company limited by guarantee with no share capital. In the event of the company being wound up, the Council undertakes to contribute such amounts as may be required for the payment of debts and liabilities providing this amount does not exceed £1. Any remaining assets, after the satisfaction of all debts and liabilities, would be transferred to the Council's Housing Revenue Account.

<b>Organisation</b>	<b>Name</b>	<b>Value of Transactions £</b>
Broadway	Cllr A. Slaughter	634,156
Business Link for London	Cllr S. Powell	1,278
Chelsea Football Club	Cllr M. Adam	7,920
CITAS	Cllr S. Powell	222,728
Daycare Trust Enterprises	Cllr S. Burke	1,284
Fulham Palace Trust	Cllrs C. Napier & C. Treloggan	1,506
Greater London Enterprise	Cllr S. Powell	10,000
H&F Citizens Advice Bureau	Cllr W. Harcourt	199,320
H&F MIND	Cllr A. Lloyd-Harris	12,628
H&F Primary Care Trust	Cllr S. Burke	1,655,852
H&F United Charities	Cllr S. Burke	323,910
Hammersmith & Fulham Community Law Centre	Cllrs A. Slaughter & S.Burke	478,699
Hammersmith & Fulham Volunteer Development Agency	Cllrs S. Powell & S.Burke	132,295
Hammersmith Women's Aid	Cllr S. Powell	374,782
Lyric Theatre	Cllrs D.J Church & H Davies	124,961
Old Oak Housing	Cllrs W. Harcourt & M.Smallman	23,536
Sands End Adventure Project	Cllr B. Bird	60,227
Shepherds Bush Families Project	Cllr S. Powell	52,081
Urban Partnership Group	Cllrs S. Coughlan & M. Smallman	541,728

## **16. MEMBERS' ALLOWANCES**

The total allowances paid to members in 2004/05, including travel and subsistence allowances, amounted to £801,745 (£748,978 in 2003/04).

## **17. SECTION 137 EXPENDITURE**

Almost all the provisions of this section of the Local Government Act 1972 have been repealed through the granting of general enabling powers to local authorities in the Local Government Act 2000. In 2004/05 all main programme voluntary sector grants expenditure across all departments can now be covered under the Local Government Act 2000 so there is not and will not be any further s.137 expenditure.

## 18. BUILDING CONTROL STATEMENT

The Local Authority Building Regulations require the disclosure of information regarding the setting of charges for the building control function. However, certain activities performed cannot be charged for, such as providing general advice and liaising with other statutory authorities. The total cost, analysed between chargeable and non-chargeable activities, is shown below.

	<b>2003/04 Total £000s</b>	<b>Chargeable £000s</b>	<b>Non- Chargeable £000s</b>	<b>2004/05 Total £000s</b>
<b>EXPENDITURE</b>				
Employee Costs	1,096	851	365	1,216
Transport	25	16	7	23
Supplies & Services	29	29	12	41
Support Costs	490	314	135	449
Total Expenditure	1,640	1,210	519	1,729
<b>INCOME</b>				
Building Regulation Charged	(1,051)	(990)	(1)	(991)
Other Income	(61)	(47)	(16)	(63)
Total Income	(1,112)	(1,037)	(17)	(1,054)
<b>(Surplus)/Deficit</b>	<b>528</b>	<b>173</b>	<b>502</b>	<b>675</b>

## 19. FEES PAYABLE TO THE AUDIT COMMISSION

The following fees were payable to the Audit Commission:

	<b>2003/04 £000</b>	<b>2004/05 £000s</b>
External audit services	354	328
Statutory inspection	21	20
Certification of grant claims and returns	234	278
Other services	1	2
<b>Total</b>	<b>610</b>	<b>628</b>

## 20. JOINT ARRANGEMENTS

Under Section 31 of the Health Act 1999, NHS bodies and local authorities can form partnership arrangements for lead commissioning, integrated provisions of services and pooled budgets. A Community Equipment Service and a Learning Disabilities Service are provided under partnership agreements with Hammersmith & Fulham Primary Care Trust. The Council acts as the accountable body. The pooled budget memorandum accounts are summarised in the table below.

	Community Equipment Service		Learning Disabilities £000
	2003/04 £000	2004/05 £000	2004/05 £000
London Borough of Hammersmith & Fulham	221	543	2,368
Hammersmith & Fulham Primary Care Trust	54	130	3,077
<b>Total Income</b>	<b>275</b>	<b>673</b>	<b>5,445</b>
<b>Total Expenditure</b>	<b>317</b>	<b>683</b>	<b>5,442</b>
Net Overspend/(underspend)	<b>42</b>	<b>10</b>	<b>(3)</b>
<b>Liability for the overspend in equal proportion</b>			
London Borough of Hammersmith & Fulham	(21)	5	1
Hammersmith & Fulham Primary Care Trust	(21)	5	1
<b>Revised Contributions</b>			
London Borough of Hammersmith & Fulham	242	548	2,366
Hammersmith & Fulham Primary Care Trust	75	135	3,076
<b>Total Contributions</b>	<b>317</b>	<b>683</b>	<b>5,442</b>

## COLLECTION FUND ACCOUNT

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

	NOTE	2003/2004 £000s	2004/2005 £000s
<b>INCOME</b>			
Income from Council Tax	(1)	(65,707)	(71,084)
Transfers from General Fund:			
- Council Tax Benefits		(14,539)	(15,997)
Non-Domestic Rate Income		(94,534)	(100,493)
<b>TOTAL INCOME</b>		<b>(174,780)</b>	<b>(187,574)</b>
<b>EXPENDITURE</b>			
Precepts and Demands	(3)	80,453	87,216
Non-Domestic Rates			
- Payment to National Pool	(2)	94,040	99,993
- Costs of Collection		494	500
Bad and doubtful debts/appeals			
- Write offs		835	618
- Provisions		337	381
<b>TOTAL EXPENDITURE</b>		<b>176,159</b>	<b>188,708</b>
Change in Fund Balance in Year		1,379	1,134
(Surplus)/Deficit as at 1 April		(134)	1,245
<b>(Surplus)/Deficit as at 31 March</b>		<b>1,245</b>	<b>2,379</b>

## NOTES TO THE COLLECTION FUND ACCOUNT

### 1. INCOME FROM COUNCIL TAX

Council Tax Income is the amount payable by council tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2004/05 it was calculated as follows.

<b>Band</b>	<b>Estimated Number of Taxable Properties after Discounts and Exemptions</b>	<b>Ratio to Band D</b>	<b>Band D Equivalent Dwellings</b>
A	2,171	6/9	1,447
B	4,326	7/9	3,365
C	10,802	8/9	9,602
D	18,698	1	18,698
E	12,326	11/9	15,065
F	8,005	13/9	11,563
G	9,523	15/9	15,871
H	1,727	18/9	3,453
	<b>67,577</b>		<b>79,064</b>

### 2. NATIONAL NON-DOMESTIC RATES

NNDR is organised and administered on a national basis. The government specifies an amount (45.6p in 2004/05) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

The Council is responsible for collecting rates due from ratepayers in its area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of the population.

The NNDR income (after reliefs and provisions) of £100.493m for 2004/05 (£94.534m for 2003/04) was based on an average rateable value for the Council's area of £282.5m for 2004/05 (£284.1m for 2003/04).

### 3. PRECEPTS AND DEMANDS

The Greater London Authority (GLA) levies a precept upon the Council's Collection Fund based upon the Council's tax base for the year. In addition, the Council's own requirement is charged to the Collection Fund and credited to the General Fund. The GLA precept includes elements for the Metropolitan Police Authority, the London Fire and Emergency Planning Authority, Transport For London, the London Development Agency and the core GLA functions.

	<b>2003/2004</b> <b>£000s</b>	<b>2004/2005</b> <b>£000s</b>
London Borough of Hammersmith & Fulham	63,626	68,613
Greater London Authority	16,827	18,603
	<b>80,453</b>	<b>87,216</b>

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for housing provision. It shows the major elements of housing expenditure – management, maintenance, rent rebates, and capital financing costs and how these are met from rents, subsidy and other income. The account is required to be self-financing, and cannot be subsidised by the General Fund.

Details of income and expenditure are shown below.

	NOTES	2003/2004 £000s	2004/2005 £000s
<b>INCOME</b>			
Dwellings Rents (Gross)		(45,332)	(46,305)
Non-dwelling Rents (Gross)		(2,486)	(2,327)
Charges for Services & Facilities		(6,484)	(7,762)
HRA Subsidy Receivable (including MRA)	<b>8</b>	(48,143)	(16,575)
General Fund Contributions to Shared Amenities		(3,632)	(3,921)
General Fund Contributions to Housing Benefits		0	0
<b>TOTAL INCOME</b>		<b>(106,077)</b>	<b>(76,890)</b>
<b>EXPENDITURE</b>			
Repairs, Maintenance and Management			
Repairs and Maintenance		12,768	16,361
General Management		22,516	29,659
Special Services		8,766	4,845
Rent, Rates, Taxes and Other Charges		1,920	2,331
Rent Rebates		26,819	0
Provision for Doubtful Debts		869	199
Cost of Capital	<b>6</b>	34,111	40,172
Depreciation of Fixed Assets	<b>7</b>	9,124	10,755
Impairment of Assets		0	0
Amortisation of Deferred Charges		0	0
Debt Management Costs		120	124
<b>TOTAL EXPENDITURE</b>		<b>117,013</b>	<b>104,446</b>
<b>NET COST OF SERVICES</b>		<b>10,936</b>	<b>27,556</b>



## HOUSING REVENUE ACCOUNT (Continued)

	NOTES	2003/2004 £000s	2004/2005 £000s
<b>NET COST OF SERVICES</b>		<b>10,936</b>	<b>27,556</b>
Adjusting Transfer from the Asset Management Revenue Account for Capital Charges		(18,823)	(27,074)
Amortised Deferred Charges		0	0
Amortised Premiums and Discounts		166	1,529
HRA Investment Income		(562)	(616)
HRA Pensions Interest Costs		2,862	1,638
HRA Pensions Expected Return on Assets		(1,976)	(1,242)
HRA Pensions Settlements & Curtailments		0	1
<b>Net Operating Expenditure</b>		<b>(7,397)</b>	<b>1,792</b>
Appropriations			
Adjustment for Impairment		0	0
Transfer from Pensions Reserve		(1,237)	(785)
Transfer to the Major Repairs Reserve	<b>3</b>	2,401	799
Revenue Contribution to Capital Expenditure		0	375
Minimum Revenue Provision set aside		3,893	0
<b>(Surplus) /Deficit for the year</b>		<b>(2,340)</b>	<b>2,181</b>
Balance at Beginning of Year		(4,016)	(6,356)
<b>BALANCE AT END OF YEAR</b>		<b>(6,356)</b>	<b>(4,175)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. HOUSING STOCK

The Council was responsible for managing an average of 13,652 dwellings during 2004/2005. The stock movement during the year was as follows. The figure for hostels is based on dwelling equivalents (three bed spaces equals one dwelling).

	<b>Dwellings</b>	<b>Hostels</b>	<b>Equity Share</b>	<b>TOTAL</b>
Number at 1 April 2004	13,563	180	18	<b>13,761</b>
Right to Buy Sales	(203)	0	0	(203)
Rent to mortgage sales	(16)	0	0	(16)
Other Sales	0	0	0	0
Other Changes	0	0	0	0
<b>Number at 31 March 2005</b>	<b>13,344</b>	<b>180</b>	<b>18</b>	<b>13,542</b>

### 2. STOCK VALUATION

The net Balance Sheet value of the land, houses and other property items within the HRA is as follows:

	<b>1 April 2004 £000s</b>	<b>31 March 2005 £000s</b>
Housing Stock	1,124,789	1,199,287
Other Land and Building	8,046	13,670
Other Properties	13,187	22,480
Other Assets	0	1,132
<b>TOTAL</b>	<b>1,146,022</b>	<b>1,236,569</b>

The open market, vacant possession value of houses and flats within the HRA as at 1 April 2004 was £2.393m. This compares to the balance sheet value of £1.125m for the houses and flats as at 1 April 2004. The £1.125m includes hostels and is an indication of the economic and social cost of providing Council housing at less than full market rent.

### 3. MAJOR REPAIRS RESERVE

This reserve is credited with the depreciation charged to the HRA each year with an adjustment to ensure the net credit in the year equals the Major Repairs Allowance which forms part of the overall Housing Subsidy arrangements. The reserve is only available for financing major repairs carried out to the housing stock. Any sums unspent are carried forward for use in future years. The amount for 2003/04 has been restated to reconcile with the amount shown in the Consolidated Balance Sheet.

	<b>2003/04 £000s</b>	<b>2004/05 £000s</b>
Balance as at 1 April	(2,040)	(547)
Depreciation Charges to HRA	(9,124)	(10,755)
Adjusting Transfer from HRA:		
Depreciation on Non-Dwellings	122	314
Excess / (Shortfall) of depreciation	(2,523)	(1,113)
on dwellings over MRA		
Funding of Expenditure	13,018	11,867
<b>Balance as at 31 March</b>	<b>(547)</b>	<b>(234)</b>

#### 4. CAPITAL EXPENDITURE FINANCING

Capital expenditure, mainly on dwellings, amounted to £27.4m (£28.2m in 2003/04) in the year. The following summary shows how this was funded.

	<b>2003/04</b> <b>£000s</b>	<b>2004/05</b> <b>£000s</b>
Borrowing	8,093	5,378
Useable Capital Receipts	3,778	6,595
Major Repairs Reserve	13,018	11,867
Single Regeneration Grant	0	0
Other Grants and Contributions	2,225	3,582
Capital Accrual	1,048	18
<b>TOTAL</b>	<b>28,162</b>	<b>27,440</b>

#### 5. CAPITAL RECEIPTS

During the year the following capital receipts from disposals were received:

	<b>2003/04</b> <b>£000s</b>	<b>2004/05</b> <b>£000s</b>
Land	1,640	6,063
Dwellings	26,172	26,170
Other Property	306	0
<b>TOTAL</b>	<b>28,118</b>	<b>32,233</b>

#### 6. CAPITAL CHARGES

Under the requirements of resource accounting the net cost of services show the cost of assets used. This is charged from the Asset Management Revenue Account. This charge of £40.2m (£34.1m in 2003/04) is based on a 3.5% rate of return for assets held at current value and 4.8% for assets held at historic cost, on the balance sheet value of £1,147m (£975m in 2003/04). However, to ensure that the impact on the tenants is neutral, a transfer is made to reduce this charge to the real cost of money borrowed to fund capital expenditure.

	<b>2004/05</b> <b>£000s</b>
Estimated Value of Housing Assets at 1 April 2004	1,147,370
Asset Rental @ 3.5% of Market Value	40,121
Asset Rental @ 4.8% of Historic Value	51

#### 7. DEPRECIATION

The total charge for depreciation within the authority's HRA is shown below:

	<b>2003/04</b> <b>£000s</b>	<b>2004/05</b> <b>£000s</b>
Dwellings	9,002	10,441
Other Housing Assets	122	314
<b>TOTAL</b>	<b>9,124</b>	<b>10,755</b>

## 8. HRA SUBSIDY

The calculation of HRA subsidy for the year, in line with the subsidy determination is set out below:

	2003/04 £000s	2004/05 £000s
Allowance for Management	12,760	12,841
Allowance for Maintenance	19,549	19,675
Allowance for Major Repairs	11,525	11,555
Charges for Capital	22,125	17,389
Admissible Allowance	0	243
Other Items	1,081	1,114
Allowance for Tenant Participation Compacts	0	0
Allowance for Resource Accounting	0	0
Rent	(45,782)	(45,812)
Interest on Receipts	(162)	(141)
Anti Social Behaviour Allowance	0	1
Housing Element	<b>21,096</b>	<b>16,865</b>
Adjustment for Previous Year	300	14
	<b>21,396</b>	<b>16,879</b>
Rent Rebate Element	<b>26,747</b>	<b>(304)</b>
<b>TOTAL</b>	<b>48,143</b>	<b>16,575</b>

## 9. RENT ARREARS AND BAD DEBT PROVISIONS

Gross rent arrears were as follows:

	31 March 2004 £000s	31 March 2005 £000s	Change £000s
Main Council Stock	4,165	4,166	1
Hostels	556	313	(243)
<b>TOTAL</b>	<b>4,721</b>	<b>4,479</b>	<b>(242)</b>

The arrears for 2003/04 have been restated to reconcile with the amount shown in the Consolidated Balance Sheet.

Bad debt provisions at 31 March 2005 were:

	Pre-Ringfence(HGF) £000s	Ringfenced(HRA) £000s	TOTAL £000s
Main Council Stock	135	2,727	2,862
Hostels	0	104	104
<b>TOTAL</b>	<b>135</b>	<b>2,831</b>	<b>2,966</b>

## **10. CHANGES TO THE HRA IN 2004/05**

The Local Government Act 2003 abolished the obligation to set aside a proportion of capital receipts and the minimum revenue provision. These two influences combined increase HRA capital financing requirement and result in a higher interest charge to the HRA. The absence of HRA minimum revenue provision reduces HRA expenditure. There is an overall reduction in HRA capital charges expenditure of £2m. HRA subsidy is increased as a result of the higher subsidy CFR, reduced by subsidy MRP no longer receivable and increased by the admissible allowance intended to mitigate the effect of losing MRP. The overall effect is increase expenditure of about £800k in the HRA.

With effect from 1 April 2004, responsibility for administering rent rebates was transferred from the HRA to the General Fund. All associated costs are now classified within Housing General Fund in the Consolidated Revenue Account.

## CONSOLIDATED BALANCE SHEET

	NOTES	31 MARCH 2004		31 MARCH 2005	
		£000s	£000s	£000s	£000s
<b>LONG TERM ASSETS</b>					
Intangible Fixed Assets	<b>1</b>	-		1,566	
Tangible Fixed Assets	<b>1</b>	1,498,538		1,565,061	
Deferred Charges	<b>2</b>	1,422		0	
Long-term Debtors	<b>3</b>	1,912		1,617	
			1,501,872		1,568,244
<b>CURRENT ASSETS</b>					
Stock	<b>4</b>	495		470	
Debtors	<b>5</b>	59,886		67,804	
Short-term Investments		5,500		27,800	
Cash In Hand	<b>6</b>	5,463		8,342	
			71,344		104,416
			1,573,216		1,672,660
<b>CURRENT LIABILITIES</b>					
Creditors	<b>7</b>	(56,329)		(67,895)	
Short term Borrowing	<b>8</b>	(14,000)		(10,500)	
Cash Balances Overdrawn		(6,111)		(11,415)	
			(76,440)		(89,810)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<b>1,496,776</b>		<b>1,582,850</b>
<b>LONG TERM LIABILITIES</b>					
Long-term Borrowing	<b>9</b>	(279,020)		(298,520)	
Debt Redemption Premiums	<b>10</b>	5,475		12,929	
Provisions	<b>21</b>	(7,592)		(6,074)	
Deferred Liabilities	<b>11</b>	(440)		(1,242)	
Deferred Credits	<b>12</b>	(2,110)		(1,768)	
Government Grants and Contributions Deferred		(42,672)		(55,894)	
Pensions Liability	<b>18</b>	(169,657)		(331,629)	
			<b>(496,016)</b>		<b>(682,198)</b>
<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>1,000,760</b>		<b>900,652</b>
<b>EQUITY</b>					
Fixed Asset Restatement Account			(924,418)		(961,696)
Capital Financing Account			(188,384)		(211,283)
Capital Reserves			(6,954)		(1,547)
Pensions Reserve	<b>18</b>		169,657		331,629
Major Repairs Reserve			(547)		(234)
Earmarked Reserves	<b>13</b>		(26,076)		(30,582)
Revenue Balances	<b>14</b>		(24,038)		(26,939)
<b>TOTAL EQUITY</b>			<b>(1,000,760)</b>		<b>(900,652)</b>



## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1. FIXED ASSETS

#### (i) Fixed Asset Movements

	HRA stock & other assets	Other Land & Buildings	Infrastructure	Vehicles Plant & Equipment	Community Assets incl. Donated Assets	Intangible Assets	Assets Under Construction	Surplus Assets for Disposal	Investment Properties	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Gross Value At 01/4/2004</b>	<b>1,146,735</b>	<b>214,731</b>	<b>83,491</b>	<b>6,344</b>	<b>1,193</b>	<b>0</b>	<b>11,841</b>	<b>13,428</b>	<b>43,046</b>	<b>1,520,809</b>
Additions	20,706	2,682	12,415	4,147	73	859	4,618	0	0	45,500
Adjustments and Reclassifications	1,148	(19,297)	0	(1,454)	0	992	3,313	0	0	(20,298)
Revaluations	85,933	0	0	0	0	0	0	0	(36)	85,897
Impairment	0	0	0	0	0	0	(5,000)	0	0	0
Disposals	(17,293)	(600)	0	0	0	0	0	0	(20,454)	(38,347)
<b>Gross Value At 31/03/2005</b>	<b>1,237,229</b>	<b>197,516</b>	<b>95,906</b>	<b>9,037</b>	<b>1,266</b>	<b>1,851</b>	<b>14,772</b>	<b>13,428</b>	<b>22,556</b>	<b>1,593,561</b>
<b>Depreciation At 01/04/2004</b>	<b>(714)</b>	<b>(9,469)</b>	<b>(10,168)</b>	<b>(1,827)</b>	<b>(93)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(22,271)</b>
Adjustments	11,280	1,810	0	281	0	(285)	0	0	0	13,086
Impairment	0	0	0	0	0	0	0	0	0	0
Depreciation for year	(10,755)	(2,959)	(3,097)	(851)	(88)	0	0	0	0	(17,750)
<b>Depreciation At 31/03/2005</b>	<b>(189)</b>	<b>(10,618)</b>	<b>(13,265)</b>	<b>(2,397)</b>	<b>(181)</b>	<b>(285)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(26,935)</b>
<b>Net Book Value At 31/3/2005</b>	<b>1,237,040</b>	<b>186,898</b>	<b>82,641</b>	<b>6,640</b>	<b>1,085</b>	<b>1,566</b>	<b>14,772</b>	<b>13,428</b>	<b>22,556</b>	<b>1,566,626</b>

The value of Stamford House has been impaired by £5 million in 2004/05, and the property is included in the Assets Under Construction column of Note 1 to the CBS, as building work was undertaken during the year.



(ii) Valuation

The basis of valuing the individual classes of fixed assets owned by the Council is explained in Note 8 of the Statement of Accounting Practices and Policies on page 21.

The tables above, summarise the movement of fixed assets in respect of the Housing Revenue Account (HRA) stock and other assets.

Freehold and leasehold property owned by the Council has been valued in accordance with the Statement of Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors as recommended by the Chartered Institute of Public Finance and Accountancy. The revaluation of assets is carried out over a five year rolling programme.

In accordance with the five year rolling programme a revaluation of the Housing asset portfolio took place with effect from 1<sup>st</sup> April 2004. The amounts are £13.9m (HRA Other Operational Assets), and £27.1m (HRA Non-Operational Assets).

The annual revaluation of the Housing stock in 2004/05 amounted to £1,196m. These values took effect from the 1<sup>st</sup> April 2004.

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

	<b>HRA Stock &amp; Other Assets</b>	<b>Other Land &amp; Buildings</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>Non- Operational Assets</b>	<b>TOTAL</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Valued at Historical Cost	0	0	9,037	0	9,037
Valued at Current Value in:					
2004/2005	1,237,040	186,898	0	50,756	1,474,694
2003/2004	1,146,022	205,260	0	68,315	1,419,597
2002/2003	974,608	215,066	0	48,856	1,238,530
2001/2002	1,001,678	219,786	0	39,483	1,260,947
2000/2001	751,604	205,457	0	29,414	986,475

(iii) Capital Commitments

Capital commitments on major schemes totalled £0.927m at the year-end. Further details are provided in the Foreword on page 7.

(iv) Fixed Assets Held

Fixed assets owned or leased by the Council are shown below.

	<b>31 MARCH 2004 (Numbers)</b>	<b>31 MARCH 2005 (Numbers)</b>
<b>Operational Assets</b>		
Council Dwellings	13,628	13,408
Town Halls	2	2
Offices	14	14
Cemeteries	4	4
Swimming Pools and Sports Centres	4	3
Libraries	6	6
Play Facilities	14	13
Social Service Establishments	41	40
Depots	2	2
Secondary Schools	9	6
Primary and Nursery Schools	31	29
Special Schools	4	5
Other Education Premises	37	30
Other Land and Buildings	57	56
<b>Infrastructure Assets</b>		
Bridges	1	1
<b>Community Assets</b>		
Parks and Open Spaces (hectares)	191	191
<b>Non-operational Assets</b>		
Shops	120	116
Industrial Units	125	125
Other	86	83

The number of assets held at 31 March 2004 has been restated for a number of asset categories.

(v) Capital Expenditure and Funding

	2003/2004 £000s	2004/2005 £000s
<b>Expenditure</b>		
Additional Fixed Assets	29,584	37,694
Non Enhancing Expenditure	18,805	12,111
Deferred Charges	3,075	3,625
Asset Under Construction	7,820	4,618
	<b>59,284</b>	<b>58,048</b>
<b>Funding</b>		
Borrowing	12,672	5,442
Useable Capital Receipts	15,205	18,251
Government Grants	10,522	15,284
Major Repairs Reserve	13,018	11,867
Planning Agreement Funds	4,394	3,135
Other Capital Contributions	1,561	1,235
Revenue Contributions	923	1,777
Movement in Capital Creditors	989	1,057
<b>TOTAL</b>	<b>59,284</b>	<b>58,048</b>

## 2. DEFERRED CHARGES

From 2004/05, the Deferred Charges heading has been removed from the Consolidated Balance Sheet following the designation of the new Intangible Fixed Assets category (see note 1 (i) above). Deferred Charges balances at 31 March 2004 have either been reclassified as Debt Redemption Premiums or amortised to the Consolidated Revenue Account in 2004/05. The Debt Redemption Premiums balances for both 2003/04 and 2004/05 are now shown separately on the Consolidated Balance Sheet under Long Term Borrowing.

	IMPROVEMENT GRANTS £000	OTHER £000	TOTAL £000
Balance 1/4/2004	0	1,422	1,422
Expenditure In Year	2,058	2,627	4,685
Less: Written off in Year	(2,058)	(4,049)	(6,107)
<b>Balance 31/3/2005</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 3. LONG-TERM DEBTORS

	31 MARCH 2004 £000s	31 MARCH 2005 £000s
House Purchase/Renovation Advances	332	271
Sale of Council Dwellings	1,484	1,294
Car Loans	77	52
Other Long Term Debtors	19	0
<b>TOTAL</b>	<b>1,912</b>	<b>1,617</b>

## 4. STOCKS

	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£000s</b>	<b>£000s</b>
<u>Stocks</u>		
Trading Undertakings	425	420
Other	70	50
	<b>495</b>	<b>470</b>

## 5. DEBTORS

	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£000s</b>	<b>£000s</b>
Government Departments	19,259	13,410
Other Public Bodies	86	2,029
Housing Rents	4,551	4,479
Business Rates	8,158	13,326
Council Tax	6,717	10,349
Sundry Debtors	48,864	46,975
Car and Other Employee Loans	160	153
Payments in Advance	2,977	5,446
	<b>90,772</b>	<b>96,167</b>
Less:		
Provision for Doubtful Debts	(30,886)	(28,363)
<b>TOTAL</b>	<b>59,886</b>	<b>67,804</b>

Social Services are responsible for a number of balances such as Receiverships, Appointeeships and Comfort Funds where the funds can only be spent on the relevant clients. Following a review of accounting treatment, these balances are now classified as Creditors. The 2003/04 Debtor balances have been adjusted to take account of this change.

## 6. CASH IN HAND

	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£000s</b>	<b>£000s</b>
Bank/Petty Cash Imprest Balances	217	197
School Bank Accounts	5,246	8,145
<b>TOTAL</b>	<b>5,463</b>	<b>8,342</b>

## 7. CREDITORS

	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£000s</b>	<b>£000s</b>
Government Departments	(12,666)	(15,674)
Other Public Bodies	(1,572)	(1,990)
Housing Rents	(1,100)	(1,594)
Business Rates	(2,866)	(6,789)
Council Tax	(2,368)	(4,189)
Sundry Creditors	(35,757)	(37,659)
<b>TOTAL</b>	<b>(56,329)</b>	<b>(67,895)</b>

Social Services are responsible for a number of balances such as Receiverships, Appointeeships and Comfort Funds where the funds can only be spent on the relevant clients. Following a review of accounting treatment, these balances are now classified as Creditors. The 2003/04

Creditor balances have been adjusted to take account of this change.

The 2003/04 balance has also been restated as a Deferred Liability relating to the property lease of Atlantic House had previously been classified under Creditors.

#### 8. OTHER LOANS REPAYABLE (LESS THAN ONE YEAR)

	<b>31 MARCH 2004</b> £000s	<b>31 MARCH 2005</b> £000s
PWLB	13,000	10,500
Other	1,000	-
<b>TOTAL</b>	<b>14,000</b>	<b>10,500</b>

#### 9. LONG-TERM BORROWING

An analysis of loans outstanding according to type is shown below.

	<b>31 MARCH 2004</b> £000s	<b>31 MARCH 2005</b> £000s
PWLB	<b>279,020</b>	<b>298,520</b>

The maturity profile for these loans is shown below.

	<b>31 MARCH 2004</b> £000s	<b>31 MARCH 2005</b> £000s
One to two years	10,500	10,000
Between two and five years	35,000	10,000
Between five and ten years	54,430	56,534
More than ten years	179,090	221,986
<b>TOTAL</b>	<b>279,020</b>	<b>298,520</b>

#### 10. DEBT REDEMPTION PREMIUMS

The SORP allows for gains or losses from the repurchase of borrowing to be written off to revenue over a number of years provided that:

- The repurchase is coupled with a restructuring or financing of borrowing.
- The overall economic effect is substantially the same when viewed as a whole.
- There is an identifiable period of replacement over which to write off the premiums or discounts.

Debt Redemption Premiums were previously classified as Deferred Charges. However, this heading has been removed from the Consolidated Balance Sheet following the designation of the new Intangible Fixed Assets category. The Debt Redemption Premiums balances for both 2003/04 and 2004/05 are now shown separately on the Consolidated Balance Sheet under Long Term Borrowing.

## 11. DEFERRED LIABILITIES

	31 MARCH 2004 £000s	31 MARCH 2005 £000s
Finance Leases	-	(956)
Property Lease	(322)	(168)
Frozen Holiday Pay	(118)	(118)
<b>TOTAL</b>	<b>(440)</b>	<b>(1,242)</b>

The 2003/04 balance has been restated to include the Deferred Liability relating to the property lease of Atlantic House. This had previously been classified under Creditors.

In 2004/05, the Council entered into three finance leases for IT equipment. Two of the leases are for a duration of three years, whilst the third lease is for four years. The deferred liability has been written down for the first annual lease repayment.

This liability for frozen holiday pay resulted from changes in the conditions of manual workers some years ago. In most instances, payment takes place when individual employees leave the Council's service.

## 12. DEFERRED CREDITS

Deferred credits are amounts derived from the sale of assets that will be repaid to the Council by instalments over an agreed number of years. They have arisen from mortgages provided by the Council for the sale of Council dwellings.

## 13. EARMARKED RESERVES

The Council maintains a number of reserves for specific purposes under the Local Government and Housing Act 1989.

	BALANCE 01/04/04 £000s	NET MOVEMENT IN YEAR £000s	BALANCE 31/03/05 £000s
Insurance Funds	(2,833)	1,342	(1,491)
Controlled Parking Fund	(20)	(88)	(108)
Computer and IT Funds	(790)	(250)	(1,040)
Teachers' Pensions	(348)	348	0
Invest to Save & Modernisation	(5,673)	(1,107)	(6,780)
Debtors & Creditors Review	(745)	48	(697)
Prudential System Transition	(9,000)		(9,000)
Housing Benefit (previously known as Subsidy Clawback)	(2,000)	450	(1,550)
Trading Services Contingency	(3,000)	270	(2,730)
General Contingency Reserve	(719)	(1,708)	(2,427)
Planning Inquiries Reserve	(220)	77	(143)
Departmental Carry Forwards	518	(2,816)	(2,298)
Other Funds	(1,246)	(1,072)	(2,318)
<b>TOTAL</b>	<b>(26,076)</b>	<b>(4,506)</b>	<b>(30,582)</b>

The main purpose of each of the reserves is explained below.

- (i) **Insurance Fund** - this was established to underwrite a proportion of the Council's

insurable risks.

- (ii) **Controlled Parking Fund** - the surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past, this reserve had to be used to meet expenditure on transport and highways related activities. As an 'Excellent' authority this is no longer the case although the Council continues to apply this reserve in this way.
- (iii) **Computer Replacement Funds** - these funds have been set up largely to provide for the replacement of equipment and to fund future computer development work.
- (iv) **Teachers' Pensions** - changes to the Teachers' Superannuation Scheme had meant that employers were expected to bear the additional pension cost of allowing a teacher to retire early. These costs are now met directly by schools so this reserve is no longer required.
- (v) **Invest to Save and Modernisation** – these reserves will fund future revenue expenditure and capital investment that will provide future revenue savings.
- (vi) **Debtors and Creditors Review** – these funds are set aside to meet the cost of a review of all balance sheet debit and credit balances held by the Council and to meet any costs of adjusting those balances.
- (vii) **Prudential System Transition Reserve** – these funds are provided for use in future years to smooth the transition to the Prudential System of capital finance.
- (viii) **Housing Benefit Reserve** – the completion of the audit of the housing benefit subsidy claim often results in a reduction in subsidy paid for the previous financial year. This reserve is used to meet the cost of any adjustments. This reserve was previously known as the Subsidy Clawback Reserve.
- (ix) **Trading Services Contingency Reserve** – this reserve earmarks funds to meet future potential costs emerging from the review of Trading Services.
- (x) **General Contingency Reserve** – this money is set aside to meet general contingencies. A transfer of £1,624,000 was made to the reserve in 2004/05. This will be used to fund the contribution to the collection fund deficit in 2005/06.
- (xi) **Planning Inquiries Fund** - this fund is established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
- (xii) **Departmental Carry Forwards** - this reserve is used to carry forward departmental under and overspends.
- (xiii) **Other Funds** – these comprise a number of minor funds. Social Services are responsible for a number of balances such as Receiverships, Appointeeships and Comfort Funds where the funds can only be spent on the relevant clients. Following a review of accounting treatment, these balances are now classified as Creditors. The 2003/04 Other Funds balance in the table above has been adjusted to take account of this change.

## 14. REVENUE RESERVES AND BALANCES

The Council has a number of revenue reserves and balances as follows.

	2003/2004 £000s	2004/2005 £000s
General Fund	(12,971)	(15,939)
Housing Revenue Account	(6,356)	(4,175)
Collection Fund	1,245	2,379
Education Establishments Account	(5,956)	(9,204)
<b>TOTAL</b>	<b>(24,038)</b>	<b>(26,939)</b>

i) **General Fund**

This fund includes any surplus after meeting net expenditure on Council services.

ii) **Housing Revenue Account**

This reserve provides a working balance for the Housing Revenue Account, for which transactions are ring-fenced under the provisions of the Local Government and Housing Act 1989.

iii) **Collection Fund**

The Collection Fund balance represents surpluses or deficits on the collection of Council Tax. Provision has been made in the 2005/06 budget to meet the deficit of £2.379 million at 31 March 2005.

iv) **Education Establishments Account**

This balance is comprised of unspent revenue balances of schools and other educational establishments at the year-end, which may be applied in the following year. The balances can only be used by the schools or establishments and are not available to the Council for general use.

## 15. INTERESTS IN COMPANIES

The Council has an involvement with a number of associated companies which are set out below. The assets and liabilities of these companies are not included in the Council's accounts as the materiality of the relationship does not justify such consolidation. Information is provided as to the general purpose of the company, its financial position, and any other material financial issues affecting the Council.

(i) **Lyric Theatre Hammersmith Limited**

This is a company limited by guarantee and a registered charity. Its main business is the promotion and encouragement of the lively arts and theatre management. The Council supplies funding under a funding agreement to enable the company to carry out its charitable objectives (£414,102 in 2004/05 and £428,715 in 2003/04). The latest audited accounts available, those relating to 2003/04, show net assets of £2,912,610 (£1,748,384 in 2002/03) and a surplus on its activities in the year of £1,164,226 (£422,209 in 2002/03). The Funding agreement also provides the financial arrangements and responsibilities of the Council and Theatre respectively as a consequence of the Company occupying its premises on the basis of a sub under lease from the Council. Copies of the accounts may be obtained from the Executive Director, Lyric Theatre, King Street, London W6 0QL.



(ii) **Hunchbuy Limited**

This is a company with a share capital of £2 which is a wholly owned subsidiary of UBS UK Ltd. The company was established as a special purpose vehicle to acquire the freehold ownership of 145 King Street, Hammersmith, which it has leased to the Council as office accommodation for some 20 years, from 1987. The Council has guaranteed a loan amounting to £6.1m and interest thereon to the Company that is secured on the property. The Council has an option to purchase the Company's property that may be exercised at any time during the period of tenancy of the property. The latest available audited accounts, those relating to the year ended 31 December 2003, show net assets of £6,100,268 (£6,155,238 in 2002) and a profit of £546 (£143 in 2002). Rent is paid by the Council to the company of £711,000 per annum. Copies of the accounts may be obtained from the Company Secretary, Hunchbuy Limited, 1 Finsbury Avenue, London EC2M 2PP.

(iii) **Hammersmith & Fulham Urban Studies Centre**

This charity is a charitable company limited by guarantee and was set up in 1983. Its objectives are: the advancement of environmental education at all levels particularly in the London Borough of Hammersmith & Fulham and to promote high standards of planning and architecture in or affecting the Borough. The Council is the main source of grant funding for the charity. The charity's most recent available accounts (unaudited at the present date) for 2004/05 show net assets worth £43,074 (£38,717 in 2003/04). A surplus of £4,357 has been reported for 2004/05 (deficit of £432 in 2003/04). Copies of the accounts may be obtained from the Company Secretary, Hammersmith & Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

(iv) **Hammersmith & Fulham Housing Management Services**

The Council has delegated responsibility for overseeing the management and maintenance of its residential stock to Hammersmith & Fulham Housing Management Services (HFHMS) in accordance with the five year management agreement signed 27 May 2004 and effective from 1 June 2004. The Council pays HFHMS a monthly management fee and in 2004/05 this amounted to £16.5 million. HFHMS is a private company limited by guarantee with no share capital. In the event of the company being wound up, the Council undertakes to contribute such amounts as may be required for the payment of debts and liabilities providing this amount does not exceed £1. Any remaining assets, after the satisfaction of all debts and liabilities, would be transferred to the Council's Housing Revenue Account. The 2004/05 accounts of HFHMS have been consolidated in the Council's Group Accounts.

## 16. CONTINGENT LIABILITIES

The Council may have a potentially significant liability for the issues set out below. However, uncertainty exists as to the likelihood, amount and timing of any expenditure in each instance and it is not therefore possible to include any provision in the financial statements.

(i) **Contractual Arbitration**

This relates to the refurbishment of a former school, where the scope of works had to be extended. The costs claimed by the contractor have been disputed and this has gone to arbitration. Arbitration hearings have taken place, but before the matter could be concluded, the Arbitrator died. In an attempt to avoid the costs of a new arbitration and potentially extended actions in the courts, negotiations are being held between the parties to try and reach a commercial settlement. The costs of any settlement or eventual arbitration award would have to be met from the Council's capital programme and/or revenue budget and are estimated to be anything up to £1,000,000.

(ii) **Stamford House Closure**

Following a sudden and unexpected change of policy regarding the placement of young offenders in secure accommodation by the Home Office and Youth Justice Board (YJB), notification was received by the Council in January 2004 that the YJB would not be renewing its contract. This contract involved the block purchase of 20 out of 26 placements at Stamford House and would terminate on 31<sup>st</sup> March 2004. Consequently, the Council had no option but to close the facility at the earliest practicable date which was 30<sup>th</sup> June 2004. The building of Stamford House was financed by Department of Health grant of £7.7 million. The grant conditions provide that repayment may be requested if the building ceases to be used for the purpose for which it was built. The possible repayment of grant is unlikely to be resolved until the future of Stamford House has been agreed.

(iii) **Housing Benefit and Housing Subsidy Grant Claims**

Provision has been made in the accounts based on the latest available information but there is a possibility that anticipated grant income has been overstated.

**17. WORMWOOD SCRUBS CHARITABLE TRUST**

The Mayor and Burgesses of the Council are the trustees of the Wormwood Scrubs Charitable Trust. The trust's objective is to hold Wormwood Scrubs Open Space "upon trust for the perpetual use thereof the inhabitants of the Metropolis for exercise and recreation" as defined by the Wormwood Scrubs Act of 1879.

	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£000s</b>	<b>£000s</b>
Balance at 1 April	(317)	(440)
Income	(522)	(583)
	(839)	(1,023)
Less:		
Expenditure and Transfers	399	728
<b>Balance at 31 March</b>	<b>(440)</b>	<b>(295)</b>

In addition, the trust owns assets valued at £5m. Specifically these are car parks that are classified as investment assets and valued on an existing use basis.

These accounts are not consolidated with the Council's accounts. Both the 2003/04 and 2004/05 accounts are still subject to audit.

**18. PENSIONS LIABILITIES**

Note 7 to the Consolidated Revenue Account contains details of the Council's participation in the London Borough of Hammersmith & Fulham Pension Scheme, for which the Authority acts as the Administering Authority and the London Pensions Fund Authority, which is administered by the London Pensions Fund Authority.

(i) **The London Borough of Hammersmith and Fulham Pension Fund**

The date of the most recent full actuarial valuation was 31<sup>st</sup> March 2004. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of

possible values.

The primary cause of the change from an estimated net liability of £172.37m at 31<sup>st</sup> March 2004 to an estimated net liability of £324.74m at 31<sup>st</sup> March 2005 is that CIPFA have changed the discount rate used in the pension calculations to bring it in line with private sector funds.

The £324.74m net liability represents the difference between the value of the pension fund assets at 31 March 2005 and the estimated present value of the future pension payments to which it was committed at that date. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1<sup>st</sup> April 2005 would have an impact on the capital value of the pension fund assets.

	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£m</b>	<b>£m</b>
Estimated Liability	(458.87)	(607.98)
Estimated Liability (Unfunded)	(26.88)	(36.09)
Estimated Assets	313.38	319.33
<b>Net Liability</b>	<b>(172.37)</b>	<b>(324.74)</b>

Liabilities have been assessed on an actuarial basis using the projected unit method; an estimate of pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The liability has been assessed by Hewitt Bacon & Woodrow, an independent firm of actuaries. The main assumptions used in their calculation are summarised in the following table.

A prior period adjustment to include the Council's unfunded liabilities of £26.88m has been made to the 2003/04 figures shown above.

<b>Assumptions</b>	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>%</b>	<b>%</b>
Rate of Inflation	2.9	2.9
Rate of Increase in Salaries	4.4	4.4
Rate of Increase in Pensions	2.9	2.9
Rate of Discount for scheme liabilities	6.4	5.3
Rate of Discount for pensions costs over the following year	5.4	5.3

The assets of the scheme are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

<b>Assets Held</b>	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>	<b>Long Term Return</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Equity	70.1	70.4	7.7
Bonds	28.8	28.2	5.0
Property	0.0	0.0	6.7
Cash	1.1	1.4	4.8

The movement in the net pension liability for the year to 31<sup>st</sup> March 2005 is as follows:

<b>Net Movement in Pensions Liability for Year</b>	<b>£m</b> (Funded)	<b>£m</b> (Unfunded)
Net Pensions Deficit as at 1 <sup>st</sup> April 2004	(145.49)	(26.88)
Movements in Year		
Current Service Costs	(18.32)	0
Employers Contribution Payable to Scheme	11.60	3.03
Past Service Costs	0	(4.82)
Settlements and Curtailments	3.20	
Other Finance Income	(8.07)	(1.78)
Actuarial Gains	(125.17)	(5.64)
<b>Net Pensions Deficit at 31<sup>st</sup> March 2005</b>	<b>(288.65)</b>	<b>(36.09)</b>

The actuarial gains can be analysed into the following categories, measured in absolute amounts and as percentages of assets at 31<sup>st</sup> March 2005.

<b>Actuarial Gains</b>	<b>£m</b>	<b>% Assets/ Liabilities</b>
Difference between Expected and Actual Returns on Assets	6.97	2.2
Difference between Actuarial Assumptions about Liability and Actual Experience	(130.54)	20.3
Experienced Gains and Losses on Pension Liabilities	(7.24)	1.1
	<b>(130.81)</b>	

(ii) **The London Pensions Fund Authority Pensions Fund**

	<b>31 MARCH 2004</b> <b>£000s</b>	<b>31 MARCH 2005</b> <b>£000s</b>
Estimated Liability	(31,075)	(35,728)
Estimated Assets	33,791	28,842
<b>Net Assets</b>	<b>2,716</b>	<b>(6,886)</b>

Liabilities have been assessed on an actuarial basis using the projected unit method; an estimate of pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The liability has been assessed by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculation are summarised in the following table.

Assumptions	31 MARCH 2004	31 MARCH 2005
	%	%
Rate of Inflation	2.9	2.9
Rate of Increase in Salaries	4.4	4.4
Rate of Increase in Pensions	2.9	2.9
Rate of Discounting Scheme (Based on a real rate of 3.5%)	6.5	5.4

The assets of the scheme are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

Assets Held	31 MARCH 2004	31 MARCH 2005	Long Term Return
	%	%	%
Equity	13.5	15.1	7.7
Bonds	82.3	76.9	4.8
Property	0.0	0.0	5.7
Cash	4.2	8.0	4.8

The movement in the net pension liability for the year to 31<sup>st</sup> March 2005 is as follows:

Net Movement in Pensions Liability for Year	£000s
Net Pensions Surplus as at 1st April 2004	2,716
Movements in Year	
Current Service Costs	(547)
Employers Contribution Payable to Scheme	482
Contributions re Unfunded Benefits	37
Impact of Settlement & Curtailments	(51)
Expected Return on Assets	115
Actuarial Gains / (Losses)	(9,638)
<b>Net Pensions Surplus at 31st March 2005</b>	<b>(6,886)</b>

The actuarial gains can be analysed into the following categories, measured in absolute amounts and as percentages of assets at 31<sup>st</sup> March 2005.

Actuarial Gains	£000s	%
Difference between Expected and Actual Returns on Assets	155	0.5
Difference between Actuarial Assumptions about Liability and Actual Experience	(4,504)	12.6
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	(5,289)	14.8
	<b>(9,638)</b>	

### (iii) Teachers' Pension Scheme

With regard to the Teachers' Pension Scheme, there were no contributions remaining payable at the year-end.

The Scheme is a defined benefit scheme, administered by the Teachers Pensions Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as a basis for calculating the employers' contribution rate paid by Local Education Authorities (LEAs). However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

## 19. COSTS ASSOCIATED WITH THE EURO

Costs incurred in 2004/05 in preparing for possible adoption of the Euro were minimal and were absorbed within existing budgetary provision. Euro compliance is considered in the acquisition of new computer systems and in the entering of contracts with suppliers. At the date of preparation of the accounts the Council had no commitments regarding, nor had identified any additional cost of preparing for, the possible introduction of the Single European Currency.

## 20. ANALYSIS OF NET ASSETS EMPLOYED

The net assets (revenue and capital) employed at the year end were:

	2003/2004 £000s	2004/2005 £000s
General Fund	144,866	(8,388)
Housing Revenue Account	857,139	930,629
Collection Fund	(1,245)	(2,379)
	<b>1,000,760</b>	<b>919,862</b>

## 21. PROVISIONS

	BALANCE 01/04/04 £000s	NET MOVEMENT IN YEAR £000s	BALANCE 31/03/05 £000s
Insurance	(2,589)	(600)	(3,189)
Section 117	(3,516)	1,084	(2,432)
Stamford House Closure Costs	(1,487)	1,034	(453)
<b>TOTAL</b>	<b>(7,592)</b>	<b>1,518</b>	<b>(6,074)</b>

The Authority maintains an Insurance Provision (£3.189m) for known future insurance claims resulting from the Authority's self-insurance of liability risks and fire damage. The Authority self-insures against part of its risk (i.e. public, employers and fire) by meeting up to the first £100,000 of every claim.

The House of Lords ruled in August 2002 that local authorities have no power to charge for care provided under Section 117 (Mental Health Act 1983). The Council has charged

for this service for some ten years, and stopped doing so in March 2002. The Council has established a provision (£2.432m) to meet the liabilities for repayment of these charges. Measures are taken to ensure that Section 117 applies in each case and determine the period for which it applies. Formal reporting takes place within the Social Services Department to monitor repayments made.

Following a sudden and unexpected change of policy regarding the placement of young offenders in secure accommodation by the Home Office and Youth Justice Board (YJB), notification was received by the Council in January 2004 that the YJB would not be renewing its contract. This contract involved the block purchase of 20 out of 26 placements at Stamford House and would terminate on 31<sup>st</sup> March 2004. Consequently, the Council had no option but to close the facility at the earliest practicable date which was 30<sup>th</sup> June 2004. The provision of £0.453 million relates to ongoing severance costs.

## STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	31 MARCH 2004 £000s	31 MARCH 2005 £000s
Revenue Surplus / (Deficit) for the Year		
General Fund	384	2,968
Housing Revenue Account	2,340	(2,181)
Collection Fund	(1,379)	(1,134)
Education Establishments Account	1,448	3,249
Net Revenue Movement on Earmarked Reserves	1,959	3,225
Net Other Movements on Earmarked Reserves	770	1,281
Appropriation from Pensions Reserve	(10,832)	(21,523)
Actuarial gains and losses relating to pensions	44,111	(140,449)
<b>Total Increase/(Decrease) in Revenue Resources (Note i)</b>	<b>38,801</b>	<b>(154,564)</b>
Increase / (Decrease) in Useable Capital Receipts	4,213	(6,985)
Increase / (Decrease) in Unapplied Capital Grants & Contributions	(3,837)	1,264
<b>Total Increase/(Decrease) in Realised Capital Resources (Note iii)</b>	<b>376</b>	<b>(5,721)</b>
Revaluation of Fixed Assets	138,562	85,897
Accumulated Depreciation Written Off	0	12,389
Gains / (Losses) on Adjustments to Fixed Asset Values	1,455	(10,610)
<b>Total increase/(decrease) in Unrealised Value of Fixed Assets (Note iv)</b>	<b>140,017</b>	<b>87,676</b>
<b>Value of Expenditure Written off for Capital Expenditure not Enhancing Asset Values (Note v)</b>	<b>(55,598)</b>	<b>(50,398)</b>
Capital Receipts Set Aside	33,573	28,651
Revenue Resources Set Aside	(11,023)	(15,511)
Movement on Capital Grants & Contributions Deferred	11,222	13,224
Grants and Contributions Set Aside	18,114	20,867
Amounts Written off	(8,524)	(11,107)
<b>Total Increase/(Decrease) in Amounts Set Aside to Finance Capital Investment (Note vi)</b>	<b>43,362</b>	<b>36,124</b>
<b>TOTAL RECOGNISED GAINS AND LOSSES</b>	<b>166,958</b>	<b>(86,883)</b>



**Notes to the Statement of Total Movement In Reserves:**

**(i) Movements in Revenue Resources**

	<b>General Fund</b>	<b>HRA</b>	<b>Coll'n Fund</b>	<b>Educ'n Estabs</b>	<b>Earmark-ed Reserves</b>	<b>Pensions Reserve</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Surplus/(deficit)	2,968	(2,181)	(1,134)	3,249	-	-
Approps to/from reserves	-	-	-	-	4,506	(21,523)
Actuarial gains/losses	-	-	-	-	-	(140,449)
	2,968	(2,181)	(1,134)	3,249	4,506	(161,972)
Balance b/fwd	12,971	6,356	(1,245)	5,956	26,076	(169,657)
<b>Balance c/fwd</b>	<b>15,939</b>	<b>4,175</b>	<b>(2,379)</b>	<b>9,205</b>	<b>30,582</b>	<b>(331,629)</b>

Details of the movements in Earmarked Reserves are shown in Note 13 to the Consolidated Balance Sheet.

The 2003/04 amount for General Fund has been restated to allow for prior year adjustments for Unfunded Pensions.

**(ii) Movements on the Pensions Reserve - Actuarial Gains/Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005.

	<b>LBHF Pension Fund</b>		<b>LPFA Pension Fund</b>	
	<b>£000s</b>	<b>%</b>	<b>£000s</b>	<b>%</b>
Difference between Expected and Actual Returns on Assets	6,970	2.2	155	0.5
Difference between Actuarial Assumptions about Liability and Actual Experience	(130,540)	20.3	(4,504)	12.6
Experienced Gains and Losses on Pension Liabilities	(7,240)	1.1	0	0
Change in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	0	0	(5,289)	14.8

(iii) **Movement in Realised Capital Resources**

	<b>Useable Capital Receipts</b>	<b>Unapplied Capital Grants &amp; Contributions</b>
	<b>£000s</b>	<b>£000s</b>
Amounts Received in 2004/05	21,666	30,710
Amounts Applied to Finance New Capital Expenditure in 2004/05	(18,251)	(29,446)
Amounts Applied as Voluntary Repayment of Debt	(10,400)	0
<b>Total Increase/(Decrease) in Realised Capital Resources in 2004/05</b>	<b>(6,985)</b>	<b>1,264</b>
Balance Brought Forward 1 April 2004	7,280	222
<b>Balance Carried Forward at 31<sup>st</sup> March 2005</b>	<b>295</b>	<b>1,486</b>

Useable Capital Receipts represent the proportion of the income from the sale of fixed assets that can be used to fund capital expenditure. The Council is required to transfer a percentage of certain receipts to a central government pool. This mainly relates to the sale of council dwellings (75% pooling). In 2004-05, the Council had total capital receipts of £40.806m and pooled £19.140m to central government, leaving a net capital receipt of £21.666m.

Unapplied Capital Grants and Contributions relates to sums received to fund the capital expenditure. The major item being the Major Repairs Reserve, details of which can be found in the notes to the Housing Revenue Account on page 43.

(iv) **Movement in Unrealised Value of Fixed Assets**

	<b>Fixed Asset Restatement Account</b>
	<b>£000s</b>
Revaluation of Fixed Assets in 2004/05	85,897
Accumulated Depreciation Written Off	12,389
Adjustments to Fixed Asset Values	(10,610)
<b>Total Increase / (Decrease) in unrealised capital resources in 2004/05</b>	<b>87,676</b>

(v) **Movement in Unrealised Value of Fixed Assets (Continued)**

	<b>Fixed Asset Restatement Account (cont'd) £000s</b>
Amounts Written off Fixed Asset Balances for Capital Expenditure which does not Enhance Asset Values in 2004/05	(12,111)
Amounts Written off for Disposals of Assets	(38,287)
<b>Total Value of Assets Sold and Written Off</b>	<b>(50,398)</b>
<b>Total Movement in the Reserve in 2004/05</b>	<b>37,278</b>
Balance Brought Forward at 1 April 2004	924,418
<b>Balance Carried Forward at 31 March 2005</b>	<b>961,696</b>

The Fixed Assets Restatement Account represents the difference between the initial revaluation of assets and their historic values, together with the effects of subsequent revaluations. It also includes the write down for asset disposals and capital expenditure written off.

(vi) **Movement in Amounts Set Aside to Finance Capital Investment**

	<b>Capital Finance Account</b>	<b>Capital Grants and Contributions Deferred</b>
	<b>£000s</b>	<b>£000s</b>
Capital Receipts Set Aside in 2004/05:		
Useable Capital Receipts Applied	18,251	0
Voluntary Repayment of Debt	10,400	0
<b>Total Capital Receipts Set Aside</b>	<b>28,651</b>	<b>0</b>
Revenue Resources Set Aside in 2004/05:		
Revenue Funding of Capital Expenditure	1,777	0
Reserves used to Fund Capital expenditure	0	0
Reconciliation Amount for Provision for Loan Repayments (MRP less Depreciation)	(17,288)	
<b>Total Revenue Resources Set Aside in 2004/05</b>	<b>(15,511)</b>	<b>0</b>
Grants and Contributions Applied in 2004/05		
Grants and Contributions Applied	9,000	18,179
Major Repairs Reserve Applied	11,867	0
Contributions Received in 2004/05	0	2,571
Amounts Credited to AMRA & via CFR in 2004/05	0	(7,526)
<b>Total Movement on Grants and Contributions</b>	<b>20,867</b>	<b>13,224</b>
<b>Amounts Written Out in the Year</b>	<b>(11,107)</b>	<b>0</b>
<b>Total Increase / (Decrease) in Amounts Set Aside to Finance Capital Investment</b>	<b>22,900</b>	<b>13,224</b>
Balance Brought Forward at 1 April 2004	188,384	42,658
<b>Balance Carried Forward at 31 March 2005</b>	<b>211,284</b>	<b>55,882</b>

The Capital Financing Account contains the amounts which are required by statute to be set aside from capital receipts and revenue for the repayment of external loans, together with the amounts of revenue, useable capital receipts and contributions which have been used to fund capital expenditure.

The Capital Grants and Contributions Deferred account represents amounts received to fund capital expenditure, which will be released to offset depreciation in respect of the fixed assets to which they relate. The account also includes planning agreement monies unapplied.

## CASH FLOW STATEMENT

	NOTES	2003/2004		2004/2005	
		£000s	£000s	£000s	£000s
<b>REVENUE ACTIVITIES</b>					
<b>Cash Inflows</b>					
Net Dwelling Rents (Housing)		(18,922)		(16,200)	
Council Tax Income	(1)	(65,256)		(69,654)	
NNDR Receipts from Pool		(48,447)		(48,418)	
Non-Domestic Rate Income		(93,645)		(101,566)	
Revenue Support Grant		(106,005)		(118,078)	
DSS Benefit Grant		(100,424)		(116,692)	
Other Government Grants	(2)	(100,481)		(93,714)	
Cash Received for Goods and Services		(74,268)		(74,674)	
Other Revenue Income/ Cash Payments		<u>(24,162)</u>	(631,610)	<u>(29,732)</u>	(668,728)
<b>Cash Outflows</b>					
Cash Paid to Employees		222,251		219,600	
Other Operating Expenses		181,142		206,343	
Housing Pooled Capital Receipts		0		17,547	
NNDR Payments to Pool		93,546		99,493	
Levies and Charges		3,213		2,147	
Precepts Paid		16,827		18,603	
Housing Benefit Paid Out		<u>76,936</u>	593,915	<u>85,267</u>	649,000
<b>Revenue Activities Net Cash Flow</b>	<b>(3)</b>		<b>(37,695)</b>		<b>(19,728)</b>
<b>SERVICING OF FINANCE</b>					
<b>Cash Inflow</b>					
Interest Received		(1,896)		(2,351)	
<b>Cash Outflow</b>					
Interest Paid		24,843		23,193	
Interest Paid for Finance Leases		<u>0</u>	22,947	<u>72</u>	20,914
<b>NET CASH (INFLOW)/OUTFLOW</b>			<b>(14,748)</b>		<b>1,186</b>

## CASH FLOW STATEMENT (Continued)

	NOTES	2003/2004		2004/2005	
		£000s	£000s	£000s	£000s
<b>NET CASH (INFLOW)/OUTFLOW</b>			<b>(14,748)</b>		<b>1,186</b>
<b>CAPITAL ACTIVITIES</b>					
<b>Cash inflow</b>					
Sale of Assets		(19,727)		(42,303)	
Capital Grants Received		(12,428)		(13,151)	
Other Capital Receipts	<b>(4)</b>	(13,151)		(5,704)	
			<b>(45,306)</b>		<b>(61,158)</b>
<b>Cash outflow</b>					
Expenditure on Fixed Assets		37,397		42,745	
Other Capital Payments		15,005		13,352	
			<b>52,402</b>		<b>56,097</b>
<b>NET CASH(INFLOW)/ OUTFLOW BEFORE FINANCING</b>			<b>(7,652)</b>		<b>(3,875)</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>					
Liquid Resources	<b>(6)</b>		(14,700)		22,300
<b>FINANCING</b>					
<b>Cash inflow</b>					
New loans raised		(41,400)		(104,500)	
<b>Cash Outflow</b>					
Repayments of amounts borrowed		64,400		88,500	
			<b>23,000</b>		<b>(16,000)</b>
<b>NET DECREASE IN CASH</b>	<b>(5)</b>		<b>648</b>		<b>2,425</b>

## NOTES TO CASH FLOW STATEMENT

### 1. COUNCIL TAX INCOME

The Council Tax income represents the Council's drawing on the Collection Fund after adjustments for bad debts provision and movement in debtor and creditor balances.

### 2. OTHER GOVERNMENT GRANTS

The Grants shown below are the amounts receivable and included in Revenue Accounts whereas the Cash Flow Statement shows amounts actually received in the year. The difference comprises changes in debtor and creditor balances.

	2003/2004 £000s	2004/2005 £000s
Aids and HIV	802	714
Supporting People	0	15,237
Education Standards Fund	14,973	16,179
Single Regeneration Budget, NRF	5,248	485
Mental Illness Grant	834	1,500
Community Care Grant	980	3,993
Housing Subsidy	21,396	16,879
Mandatory Rent Allowances & Rent Rebates Outside HRA Subsidy	3,682	96,089
Council Tax Benefit Grant	14,637	17,039
Housing Benefit Administration	1,288	1,277
Asylum Seekers	4,695	7,559
Sure Start	1,748	2,151
Education Maintenance Allowances	1,120	454
Youth Offending Team	939	851
NNDR Collection Allowance	494	500
Transport Grants	883	1,061
Asset Management	900	192
Housing Grants	1,045	1,321
Minority Ethnic Pupils	1,044	1,239
Funding for Sixth Forms	6,479	6,638
Children's Trust	0	1,927
Other Education Grants	4,249	4,853
CCTV	21	26
Civil Defence	77	77
Other Social Services Grants	6,829	5,500
PSL	337	2
Other Grants	1,336	315
Community Initiatives	516	0
Quality Protects	16,563	0
<b>TOTAL GRANTS</b>	<b>113,115</b>	<b>204,058</b>

### 3. REVENUE MOVEMENTS

The Revenue movements include transactions involving the Consolidated Revenue Account and the Housing Revenue Account (HRA). The analysis showing the net cash flow derived from revenue activities is shown as follows.

RECONCILIATION OF SURPLUS TO NET CASHFLOW	2003/2004		2004/2005	
	£000s	£000s	£000s	£000s
<b>(SURPLUS) DEFICIT FOR YEAR</b>				
General fund	(1,871)		(1,481)	
Housing Revenue Account	(2,340)		2,182	
Collection fund	1,379		1,134	
Education Funds	(1,448)		(3,249)	
Interest (shown later in CFS)	<u>(22,947)</u>		<u>20,914</u>	
		<b>(27,227)</b>		<b>19,500</b>
<b>NON-CASH TRANSACTIONS</b>				
Depreciation charge	(15,994)		(17,749)	
Minimum Revenue Provision	4,047		1,574	
Deferred Charges written down	(10,548)		0	
Revenue contributions to capital	(923)		(1,777)	
Long-term Debtors	(337)		(295)	
Provisions	(273)		1,078	
Earmarked Reserves	(2,721)		(4,008)	
Other transactions	<u>18,131</u>		<u>(14,005)</u>	
		<b>(8,618)</b>		<b>(35,182)</b>
<b>ITEMS ON AN ACCRUALS BASIS</b>				
(Increase)/Decrease in Stocks/Work in Progress	5		(25)	
Increase/(Decrease) in Debtors	3,442		7,358	
(Increase)/Decrease in Creditors	<u>(5,297)</u>		<u>(11,379)</u>	
		<b>(1,850)</b>		<b>(4,046)</b>
<b>NET CASH FLOW FROM REVENUE ACTIVITIES</b>		<b>(37,695)</b>		<b>(19,728)</b>

### 4. OTHER CAPITAL PAYMENTS/INCOME

Other income includes capital financing transactions and deferred capital receipts movements.



## 5. MOVEMENTS IN CASH AND CASH EQUIVALENTS

The actual 2004/05 movements in cash and cash equivalent balances are shown in the following table.

	<b>BALANCE 1 APRIL 2004 £000s</b>	<b>BALANCE 31 MARCH 2005 £000s</b>	<b>NET MOVEMENT IN THE YEAR £000s</b>
Petty Cash Imprests	217	197	(20)
Cash Overdrawn	(6,111)	(11,415)	(5,304)
Education Establishments	5,246	8,145	2,899
	<b>(648)</b>	<b>(3,073)</b>	<b>(2,425)</b>

## 6. RECONCILIATION OF ITEMS UNDER FINANCING & MANAGEMENT OF LIQUID RESOURCES TO THE OPENING & CLOSING BALANCE SHEETS

	<b>BALANCE 1 APRIL 2004 £000s</b>	<b>BALANCE 31 MARCH 2005 £000s</b>	<b>NET MOVEMENT IN THE YEAR £000s</b>
Short Term Investments	5,500	27,800	22,300
	<b>5,500</b>	<b>27,800</b>	<b>22,300</b>

## GROUP ACCOUNTS

1. The 2004 SORP requires local authorities to consider all their interests in entities and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates and joint ventures. For the 2004/05 accounts, no prior year comparative figures are required to be produced. However, prior year comparative figures will be required from 2005/06 onwards.
2. Before group accounts can be produced, the following actions need to be carried out:
  - Determine whether the Council has any form of interest in an entity.
  - Assess the nature of the relationship between the Council and the entity.
  - Determine on the grounds of materiality whether group accounts should be prepared.
3. In preparing group accounts, it is necessary to adjust the Council's accounts to comply with UK Generally Accepted Accounting Principles (GAAP). This has required the following adjustments:
  - i) Profits on the disposal of fixed assets (£2.035 million) have been identified over the Best Value Accounting Code of Practice segmental analysis in the Group Income and Expenditure Account.
  - ii) Notional interest charges (GF £12.416 million, HRA £40.172 million) have been written out of the Group Income and Expenditure Account.
  - iii) The amortisation of deferred grants (£2.764 million) has been posted to service revenue accounts in the Group Income and Expenditure Account.
  - iv) The net effect of the adjustments has resulted in the Asset Management Revenue Account (AMRA) being eliminated in the Group Income and Expenditure Account and replaced by Cost of Borrowing line.
4. Two entities have been identified for consolidation into the Group Accounts. These are Hammersmith & Fulham Housing Management Services (HFHMS) and Wormwood Scrubs Charitable Trust (WSCT).
5. HFHMS has elected not to implement in full the requirements of FRS17 in the 2004/05 accounts. It has therefore been necessary to adjust the HFHMS accounts to align with the accounting policies of the Council.
6. The Group Accounts on the following pages consist of four financial statements;
  - Group Income and Expenditure Account
  - Group Balance Sheet
  - Group Cash Flow Statement
  - Group Statement of Total Movement on Reserves

## GROUP INCOME AND EXPENDITURE ACCOUNT

	2004/2005		
	GROSS EXPENDITURE £000s	INCOME £000s	NET EXPENDITURE £000s
Central Services to the Public	106,319	(82,685)	23,634
Cultural, Environmental & Planning Services	32,359	(7,333)	25,026
Education	128,105	(41,313)	86,792
Highways & Transport	24,601	(25,115)	(514)
Housing Services:			
Housing General Fund	144,305	(129,059)	15,246
Housing Revenue Account	62,606	(86,564)	(23,958)
Social Services	128,405	(42,567)	85,838
Non-Distributable Costs	4,195	(13)	4,182
Corporate and Democratic Core	7,799	(567)	7,232
<b>NET COST OF SERVICES</b>	<b>638,694</b>	<b>(415,216)</b>	<b>223,478</b>
Cost of Levies	2,147	0	2,147
(Surplus)/Deficit on Trading Services	58,733	(59,144)	(411)
Asset Management Revenue Account (GF)	5,000	(5,000)	0
Contribution to Housing Pooled Capital Receipts	19,140	0	19,140
Cost of Borrowing	24,004	0	24,004
Interest and Investment Income	0	(1,994)	(1,994)
Amortised Premiums and Discounts	1,529	0	1,529
Pensions Interest Costs	31,275	0	31,275
Pensions Expected Return on Assets	0	(20,755)	(20,755)
Pensions Settlements & Curtailments	3,201	0	3,201
Taxation of Group Entities	96	0	96
<b>NET OPERATING EXPENDITURE</b>	<b>783,819</b>	<b>(502,109)</b>	<b>281,710</b>

## GROUP INCOME AND EXPENDITURE ACCOUNT (Continued)

	<b>2004/2005 £000s</b>
<b>NET OPERATING EXPENDITURE</b>	<b>281,710</b>
<b>Add:</b>	
Transfer to/(from) HRA Balance	(2,181)
Transfers to/(from) Reserves	5,872
Transfers to/(from) Pensions Reserve	(21,523)
Minimum Revenue Provision Adjustment (GF)	(5,420)
Minimum Revenue Provision Adjustment (HRA)	0
Capital Financing Adjustment	(8,343)
Transfer from Useable Capital Receipts re contribution to Housing Pooled Capital Receipts	(19,140)
Contribution to Capital Expenditure (HRA)	375
Transfer to Wormwood Scrubs Trust Fund	(142)
Transfer to Profit and Loss Reserve	(845)
<b>AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAX PAYERS</b>	<b>232,140</b>
<b>Less:</b>	
Collection Fund Precept	68,613
Collection Fund Transfer of Surplus	0
Revenue Support Grant	118,078
Contribution from NNDR Pool	48,418
	<b>235,108</b>
<b>SURPLUS ( DEFICIT) FOR YEAR</b>	<b>2,968</b>
<b>General Fund Balance</b>	
Balance at Beginning of Year	12,971
Add Surplus for Year	2,968
<b>BALANCE AT END OF YEAR</b>	<b>15,939</b>

## GROUP BALANCE SHEET

	31 MARCH 2005	
	£000s	£000s
<b>LONG TERM ASSETS</b>		
Intangible Fixed Assets	1,567	
Tangible Fixed Assets	1,570,060	
Long-term Debtors	1,617	
		<b>1,573,244</b>
<b>CURRENT ASSETS</b>		
Stock and Work in Progress	470	
Debtors	68,808	
Short-term Investments	27,800	
Cash In Hand	14,400	
		111,478
		<b>1,684,722</b>
<b>CURRENT LIABILITIES</b>		
Creditors	(74,341)	
Short term Borrowing	(10,500)	
Cash Balances Overdrawn	(11,415)	
		(96,256)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,588,466</b>
<b>LONG TERM LIABILITIES</b>		
Long-term Borrowing	(298,520)	
Debt Redemption Premiums	12,929	
Provisions	(6,074)	
Deferred Liabilities	(1,242)	
Deferred Credits	(1,768)	
Government Grants and Contributions Deferred	(55,894)	
Pensions Liability	(346,819)	
		<b>(697,388)</b>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>891,078</b>
<b>EQUITY</b>		
Fixed Asset Restatement Account		(961,696)
Capital Financing Account		(211,284)
Capital Reserves		(1,546)
Pensions Reserve		345,649
Major Repairs Reserve		(234)
Earmarked Reserves		(30,582)
Revenue Balances		(26,939)
Wormwood Scrubs Trust Fund		(5,291)
Profit and Loss Reserve		845
<b>GROUP BALANCES AND RESERVES</b>		<b>(891,078)</b>

## GROUP CASH FLOW STATEMENT

	2004/2005	
	£000s	£000s
<b>Net Cash Inflow from Revenue Activities</b>		(25,012)
<b>Returns on Investments and Servicing of Finance</b>		
<b>- Cash Inflow</b>		
Interest Received	(2,780)	
<b>- Cash Outflow</b>		
Interest Paid	23,193	
Interest Paid for Finance Leases	72	20,485
<b>NET CASH (INFLOW)/OUTFLOW</b>		<b>(4,527)</b>
<b>Taxation</b>		96
<b>Capital Expenditure and Financial Investment</b>		
<b>- Cash Inflow</b>		
Sale of fixed assets	42,303	
Capital grants received	13,151	
Other capital cash receipts	5,704	(61,158)
<b>- Cash Outflow</b>		
Purchase of Fixed Assets	42,745	
Other capital cash payments	13,352	56,097
<b>NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING</b>		<b>(9,492)</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>		22,300
<b>FINANCING</b>		
<b>Cash inflow</b>		
New loans raised	(104,500)	
<b>Cash Outflow</b>		
Repayments of amounts borrowed	88,500	(16,000)
<b>NET (INCREASE) IN CASH</b>		<b>2,984</b>

## MOVEMENTS IN CASH

The actual 2004/05 movements in cash balances are shown in the following table.

	<b>BALANCE 1 APRIL 2004 £000s</b>	<b>BALANCE 31 MARCH 2005 £000s</b>	<b>NET MOVEMENT IN THE YEAR £000s</b>
Cash Balances	(208)	3,192	2,984





## GROUP STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	Fixed Asset Restatement Account £000s	Capital Reserves £000s	Capital Financing Account £000s	Major Repairs Reserve £000s	Pensions Reserve £000s	General Fund £000s	Profit and Loss £000s	Other Reserves £000s	Total Reserves £000s
<b>Balance Brought Forward</b>	(924,418)	(6,954)	(188,384)	(547)	142,774	(12,971)	0	(42,430)	(1,032,930)
Net Surplus/Deficit for year	22,721	24,555	17,995	(11,554)	202,875	(2,968)	845	(4,439)	250,026
Unrealised Gains/Losses on Revaluation of Fixed Assets	(98,286)								(98,286)
Effects of Disposal of Fixed Assets	38,287	(38,287)							0
Effects of Amounts Payable to the Housing Capital Receipts Pool		19,140							19,140
Financing of Fixed Assets			(40,895)	11,867					(29,028)
<b>Balance Carried Forward</b>	<b>(961,696)</b>	<b>(1,546)</b>	<b>211,284</b>	<b>(234)</b>	<b>345,649</b>	<b>(15,939)</b>	<b>845</b>	<b>(46,873)</b>	<b>(891,078)</b>

## PENSION FUND ACCOUNTS 2004/2005

		2003/2004 £000s		2004/2005 £000s
<b><u>CONTRIBUTIONS &amp; BENEFITS</u></b>				
Contributions Receivable				
From Employers	11,642		12,799	
From Employees or members	6,130	17,772	6,339	19,138
Transfers In		5,223		5,838
Other Income				
Combined Benefits	34		46	
Refund of Tax	22		27	
Early Retirement Cost	0	56	30	103
Benefits Payable				
Pensions	(14,086)		(14,907)	
Lump Sums (Retirement/Death Grants)	(2,518)	(16,604)	(2,018)	(16,925)
Payments to and on account of leavers				
Transfers Out		(4,711)		(4,672)
Refund of Contributions		(128)		(149)
Administration and Other Expenses		(489)		(719)
Contributions Equivalent Premium		(78)		(126)
<b>Net Additions (Withdrawals) From Dealings with Members</b>		<b>1,041</b>		<b>2,488</b>
<b><u>RETURN ON INVESTMENTS</u></b>				
Investment Income		7,816		7,248
Change in Market Value of				
Investments Realised		(4,535)		2,670
Unrealised		53,415		18,497
Investment Management Expenses		(843)		(904)
<b>Net Return on Investments</b>		<b>55,853</b>		<b>27,511</b>
<b>Net Increase (Decrease) in the Fund during the Year</b>		<b>56,894</b>		<b>29,999</b>
<b>Opening Net Assets of the Scheme</b>		<b>260,256</b>		<b>317,150</b>
<b>Closing Net Assets of the Scheme</b>		<b>317,150</b>		<b>347,149</b>

## NET ASSETS STATEMENT

	<b>31 MARCH 2004</b> £000s	<b>31 MARCH 2005</b> £000s
<b>INVESTMENT ASSETS</b>		
Fixed Interest Securities – Public Sector	9,255	5,790
Fixed Interest Securities – Private Sector	33,381	34,308
Fixed Interest Securities – Overseas	831	6,133
Index Linked Securities	31,436	32,433
Equities – UK	100,731	112,467
Equities – Overseas	89,508	32,170
Managed Funds - Property	0	0
Managed Funds – Other	192	1,509
Unit Trusts - Property	0	0
Unit Trusts – UK	6,664	12,231
Unit Trusts – UK Fixed Interest	16,512	17,869
Unit Trusts - Overseas	25,332	86,474
	<b>313,842*</b>	<b>341,384*</b>
<b>OTHER NET ASSETS</b>		
Debtors less Creditors	1,845**	1,809**
Cash	1,463	3,956
<b>Total Net Assets</b>	<b>317,150</b>	<b>347,149</b>

\* A detailed breakdown of the investment assets is shown in note 6. The method of valuation is shown in note 2 (b).

\*\* A detailed breakdown of the debtors and creditors is shown in note 10.

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. INTRODUCTION

The Pension Fund is a funded, defined benefits scheme established in accordance with statute, which provides for the payment of benefits to Hammersmith and Fulham Council employees and former employees. These benefits include retirement pensions, widows' pensions, and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The Fund is financed by contributions from employees, from the Council and from interest and dividends on the Fund's investments. The benefits payable being based on the final year's pay and the number of years of eligible service. Pensions are increased in line with the Retail Price Index.

The objective of the Pension Fund's financial statements generally is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management, that is the accountability of management for the resources entrusted to it and the disposition of its assets at the period end. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future, which are reported upon separately in the actuary's statement.

The Council has delegated the investment arrangement of the scheme to the Pensions Fund Investments Panel ("The Panel") who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment policy lies with it. The Panel is made up of five elected representatives of the Council (including two opposition party representatives), who each have voting rights and has three trade union representatives as observers.

The Panel reports to the full Council and has full delegated authority to make investment decisions. The Panel obtains and considers advice from the Director of Finance, and as necessary from the Pension Fund's appointed actuary (including specific investment advice), investment managers and advisor.

The Panel has delegated the management of the Pension Fund's investments to professional investment managers, appointed in accordance with the Scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

At the 31<sup>st</sup> March 2005 there was 4,442 employees (4,480 at 31<sup>st</sup> March 2004) contributing to the scheme, 3,590 pensioners (3,556 at 31<sup>st</sup> March 2004) receiving benefits and 3,260 deferred pensioners (2,994 at 31<sup>st</sup> March 2004). There are thirteen external bodies who have been admitted to the Fund by admission agreements. Details of these scheduled and admitted bodies are shown in note 7 below.

## **2. ACCOUNTING POLICIES**

### **(a) General Principles**

The accounts have been prepared in accordance with the main recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice (the Pensions SORP) and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They do not take account of future liabilities to pay pensions and other benefits.

The accounts have been prepared on an accrual basis, apart from Transfer Values, which have been accounted for on a cash basis and in accordance with the CIPFA Code of Practice on Local Authority Accounting.

### **(b) Investments**

Quoted securities are included at the market value (either mid, ask, bid or last traded price according to the type, class and country of investment) at the balance sheet date. Where appropriate, market values and cash deposits listed in overseas currencies are converted into sterling at the rates of exchange ruling at the balance sheet date. Unlisted investments are valued at an approximation of their current market value having regard to latest dealings, professional valuations and other appropriate financial information. Unit Trust investments are valued at the mid price of the bid and offer prices quoted by their managers at the balance sheet date.

### **(c) Acquisition Costs**

The only acquisition costs incurred by the Pension Fund relate to stock market investments. Where appropriate they are shown at book value.

### **(d) Investment Management Expenses**

The Council has appointed external investment managers to manage the investments of the Fund. These managers are paid a fee based on the market value of the investments they manage.

### **(e) Administration Expenses**

In accordance with the regulations the Council's expenses in administering the scheme are charged to the Fund.

## **3. ACTUARIAL VALUATION**

In accordance with regulations an actuarial valuation of the fund was carried out as at 31 March 2004 using the market-led approach. This valuation showed there was a past service deficit of £170.9m (£9.6m at 31 March 2001) and that the required long term rate of employer contributions by all employers combined, disregarding the fund deficit, is 13.1% (11.2% at 31 March 2001) of pensionable pay.

The market value of the fund's assets at the 31<sup>st</sup> March 2004 was £317.1m (£354.1m at 31 March 2001). The funding level of the fund was 66% at 31 March 2004 compared to 98% at 31 March 2001. The main reason for the deterioration in the funding level since 2001 was adverse financial experience, notably the drop in world equity markets during the period coupled with reductions in yields on index-linked gilt edged stocks (which increased the value placed on the Fund's liabilities).

The additional contribution that is required from the employers as a whole to reduce the fund deficit and restore the funding level of the Fund to 100% over a period of 25 Years is 8.2% of pensionable pay.

As a result of the valuation, the Council’s overall contribution rate applicable from 1 April 2005 to 31 March 2008 is 21.3% of pensionable pay. To achieve this, the Council’s contribution rate is being increased from 12.3% to 21.3% in three annual stages of 3.0% with effect from 1 April 2005.

The Council’s contribution rate was calculated using the projected unit actuarial method. The main actuarial assumptions were as follows:

Rate of Return on Investments	6.2% per annum long term
Rate of General Pay Increases	4.4% per annum plus an allowance for promotional increases
Rate of Pensions Increase	2.9% per annum on pensions in excess of GMPs
Valuation of Assets	Smoothed Market Value
Mortality	In line with standard tables, adjusted for the observed experience of the Fund. These tables assume that men and women aged 65 and in normal health will live on average for a further 19 years and 22 years respectively.

The next actuarial valuation of the Fund will be carried out as at 31 March 2007 and the results of the valuation will come into effect from 1 April 2008.

**4. MANAGEMENT OF INVESTMENTS**

The Council has adopted an investment approach which involves actively and passively managed equities and bond portfolios in order to give diversification/specialisation and achieve optimum return against acceptable risk. The Fund’s investments are split 70% in Equities and 30% in Fixed Interest securities.

At the 1 April 2004 the active manager was Goldman Sachs Asset Management (GSAM) and the passive manager was Legal and General Investment Management (L&G). In December 2004 the Panel decided to replace GSAM for the investment of equities with two new active specialist managers, one for UK equities and the other for Global (ex UK) equities. GSAM continue to manage an active bond portfolio.

Consequently GSAM’s equity assets totalling £121.1m were transferred to L&G in January 2005 to manage on a temporary basis whilst the new managers are appointed. Tenders for the new managers were advertised in February 2005 and it is expected that the new managers will be appointed in summer 2005.

Additionally, the Panel at its meeting in October 2004 agreed to invest up to £5 million in each of two private equity fund of funds. One managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other by Unigestion which is invested entirely in Europe.

The market value and proportion of the investments managed by each Fund Manager at 31<sup>st</sup> March 2005 is as follows:

	2003/2004		2004/2005	
	MARKET VALUE £000s	TOTAL %	MARKET VALUE £000s	TOTAL %
Legal and General	158,589	50.5	293,644	86.0
Goldman Sachs	155,061	49.4	46,231	13.5
Barings English Growth Fund	192	0.1	273	0.1
Invesco Private Equity			268	0.1
Unigestion Private Equity			968	0.3
	<b>313,842</b>	<b>100.0</b>	<b>341,384</b>	<b>100.0</b>

The Council has appointed Northern Trust as its global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions.

## 5. INVESTMENTS - TOTAL MOVEMENT IN YEAR

The table below shows a reconciliation of the movement in net assets of the fund in the year.

	2003/2004 £000s	2004/2005 £000s
Market Value at 1 <sup>st</sup> April	276,000	313,842
Purchase of Investments	184,227	267,564
Sale of Investments	(195,265)	(261,189)
Realised Profit/(Loss) on Sales	(4,535)	2,670
Unrealised Profit/(Loss) in Market Value	<u>53,415</u>	<u>18,497</u>
Market Value At 31 <sup>st</sup> March	<b><u>313,842</u></b>	<b><u>341,384</u></b>

## 6. ANALYSIS OF INVESTMENTS

The table below shows a detailed analysis of the investments held by the Fund as at 31<sup>st</sup> March 2004.

	<u>MARKET VALUE</u>		<u>MARKET VALUE</u>	
	<u>31.03.04</u>		<u>31.03.05</u>	
	<b>TOTAL</b>		<b>TOTAL</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>United Kingdom</b>				
Fixed Interest – Public Sector		9,255		5,790
Fixed Interest – Private Sector		33,381		34,308
Index Linked		31,436		32,433
Equities		100,731		112,467
Unit Trusts (Indexed)				
UK Equity	4,816		7,961	
UK Smaller Companies	1,848		4,270	
Corporate Bonds – Over 10 years	7,926		8,676	
Over 15 years Gilt	8,024		8,525	
Over 5 years Index Linked Gilt	561	23,175	668	30,100
Managed Funds (Unlisted)		192		1,509
<b>Total United Kingdom</b>		<b>198,170</b>		<b>216,607</b>
<b>Overseas</b>				
Fixed Interest		831		6,133
Equities				
North America	61,216		32,170	
Europe (ex UK)	17,916		0	
Japan	6,571		0	
Pacific Basin	3,805	89,508	0	32,170
Unit Trusts (Indexed)				
North America	3,773		38,871	
Japan	5,983		11,446	
Europe (ex UK)	10,871		25,584	
World Advanced Emerging Index	1,005		2,543	
Asia Pacific ex Japan	3,701	25,333	8,030	86,474
<b>Total Overseas</b>		<b>115,672</b>		<b>124,777</b>
<b>Total Value of Investments</b>		<b>313,842</b>		<b>341,384</b>

## 7. CONTRIBUTIONS TO THE FUND



Employees who were members of the fund prior to 31 March 1998 are required to make fixed contributions by deductions from earnings at the rate of 6% for salaried staff and 5% for manual workers. As from 1 April 1998, all new entrants to the fund are required to pay 6% of earnings. The Council and admitted bodies are required to make balancing contributions determined by the fund's actuary (Hewitt Bacon & Woodrow) to maintain the solvency of the fund.

The table below shows a breakdown of the amount of contributions made during the year to 31<sup>st</sup> March 2005.

	<b>Employer's Contributions 2003/04 £000s</b>	<b>Employer's Contributions 2004/05 £000s</b>	<b>Employees Contributions 2003/04 £000s</b>	<b>Employees Contributions 2004/05 £000s</b>
<b>Scheduled Bodies</b>				
LB Hammersmith and Fulham	11,420	11,607	5,889	5,758
LB Hammersmith and Fulham Housing Management Services	0	964	0	463
Mortlake Crematorium Board	29	20	14	9
London Oratory School	32	40	17	19
<b>Admitted Bodies</b>				
Peter Pan Trust	13	13	7	7
Urban Partnership Group	18	17	10	9
H&F Community Law Centre	36	27	19	14
Family Housing Association	43	44	23	27
Disabilities Trust	17	8	9	4
Greenwich Leisure Ltd	8	23	0	12
Medequip Assistive Technology	6	9	2	3
Blythe Neighbourhood Council	20	22	12	12
Glencross Cleaning Ltd	0	5	0	2
<b>GRAND TOTALS</b>	<b>11,642</b>	<b>12,799</b>	<b>6,002</b>	<b>6,339</b>

At present, the Council can not provide the equivalent figures for the amount of benefits paid to the scheduled and admitted bodies.

## 8. RELATED PARTIES

The Council was a related party to the fund. Details of the relationship are disclosed in Note 1 to the Pension Fund Accounts. No other material transactions with related parties of the fund during 2004/2005 were identified.

## 9. STOCK LENDING AGREEMENTS

We do not actively participate in stock lending or underwriting, however there is a small amount within the Japan, Europe and Asia Pacific pooled funds.

## 10. DEBTORS AND CREDITORS

<b>DEBTORS</b>	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£000s</b>	<b>£000s</b>
Amounts Outstanding on Sales of Investments	613	161
Investment Income due	2,381	2,357
Amounts due from Admitted Bodies	23	30
Combined Benefits	32	46
	<b>3,049</b>	<b>2,594</b>

<b>CREDITORS</b>	<b>31 MARCH 2004</b>	<b>31 MARCH 2005</b>
	<b>£000s</b>	<b>£000s</b>
Amounts Outstanding on Purchase of Investments	(849)	(227)
Investment Manager's fees	(147)	(207)
Retirement Allowances & Death Gratuities due	(208)	(351)
	<b>(1,204)</b>	<b>(785)</b>

## 11. STATEMENT OF INVESTMENT PRINCIPLES

The Panel has approved a Statement of Investment Principles and this is available on the Council's Internet site. The Statement shows the Authority's compliance with the Myners ten principles of investment management.

## 12. POST BALANCE SHEET EVENTS

There are no post balance sheet events to report.

## **GLOSSARY OF TERMS**

### **ACCRUALS**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **ACTUARIAL VALUATION**

Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

### **APPROPRIATION**

The transfer of ownership of an asset, from one Committee to another at an agreed (usually market or outstanding debt) value.

### **CAPITAL EXPENDITURE**

Capital expenditure is defined as expenditure on new fixed assets such as land and buildings or on the enhancement of existing assets so as to significantly prolong their useful life or increase their market value.

### **CAPITAL FINANCING**

This term describes the method of financing capital expenditure, the principal methods now being loan financing, leasing, capital receipts and Capital Resource Funds.

### **CAPITAL RECEIPTS**

This term describes monies received from the sale of the Council's capital assets such as land and buildings.

### **COLLECTION FUND**

The Collection Fund is a statutory fund set up under the provisions of the Local Government Finance Act 1988. It includes the transactions of the charging Authority in relation to non-domestic services and the Council Tax, and illustrates the way in which the fund balance is distributed to preceptors and the General Fund.

### **CONTINGENT LIABILITIES**

Potential losses for which a future event will establish whether a liability exists and for which it is inappropriate to set up a provision in the accounts.

### **CREDIT CEILING**

The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

## **CREDITORS**

Sums owed by the Authority for goods and/or services received, but for which payment has not been made by the end of the accounting period.

## **DEBTORS**

Sums due to the Authority but not received by the end of the accounting period.

## **DEFERRED CREDITS**

This is the term applied to deferred capital receipts. These transactions arise when fixed assets are sold and the amounts owed by the purchasers are repaid over a number of years. The balance is reduced by the amount repayable in any financial year.

## **DEFERRED CHARGES**

Deferred Charges are represented by items for which expenditure is charged to capital and met from borrowing, but where there is no tangible asset, for example improvement grants.

## **DEFERRED LIABILITIES**

These are creditor balances repayable after one year.

## **DEPRECIATION**

The loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

## **EARMARKED RESERVES**

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

## **FINANCE & OPERATING LEASES**

A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset.

For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

## **FIXED ASSETS**

These are tangible assets that yield benefit to the Council and the services it provides for a period of more than a year.

## **GENERAL FUND**

The main revenue fund of an authority. Day-to-day spending on services is met from the fund.

## **GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE**

Gross Expenditure and Gross Income arise from the provision of services as shown in the General Fund and exclude the Direct Services/Labour Organisation accounts. Net Expenditure is the cost of service provision after the income is taken into account.

## **HISTORIC COST**

The actual cost of an asset in terms of past consideration as opposed to its current value.

## **HOUSING SUBSIDY**

This represents a Government grant payable towards the cost of providing Local Authority housing and the management and maintenance of that housing.

## **NATIONAL NON-DOMESTIC RATE (NNDR)**

Under the revised arrangements for uniform business rates, which came into effect on 1 April 1990, the Council collects Non-Domestic Rates for its area which are based on local rateable values, multiplied by a uniform rate. The total amount, less certain reliefs and deductions, is paid to a central pool managed by the Government, which, in turn, pays back to Authorities their share of the pool based on a standard amount per head of the local adult population.

## **NET REALISABLE VALUE**

The open market value of the asset less the expenses to be incurred in realising the asset.

## **OUTTURN**

Actual income and expenditure in a financial year.

## **POST BALANCE SHEET EVENTS**

These events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the Director of Finance.

## **PRECEPT**

A precept is a charge raised by another Authority to meet its net expenditure. The precepting Authorities for this Council are the Metropolitan Police and the London Fire and Civil Defence Authority.

## **PROVISIONS**

A provision is an amount set aside in the accounts for liabilities anticipated in the future which cannot always be accurately quantified.

## **PUBLIC WORKS LOAN BOARD (PWLB)**

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from

this source.

### **REVENUE BALANCES**

These reserves represent surplus balances, which can be used in the future. Some reserves are set up to meet expenditure included in a particular account, such as the Housing Revenue Account.

### **REVENUE EXPENDITURE**

The day to day expenditure of the Council, e.g. pay, goods and services and capital financing charges.

### **REVENUE SUPPORT GRANT**

This funding is the Government Grant provided by the Office of the Deputy Prime Minister (ODPM), which is based on the Government's perception as to what should be spent on local services via the Formula Spending Share. The amount provided by the ODPM is fixed at the beginning of a financial year.