

LONDON BOROUGH OF
HAMMERSMITH AND FULHAM

STATEMENT OF ACCOUNTS

2005/06

Independent auditor's report to the London Borough of Hammersmith and Fulham

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of the London Borough of Hammersmith and Fulham and its group accounts for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Group Accounts and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them. This report is made solely to the London Borough of Hammersmith and Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Council and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and

disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the London Borough of Hammersmith and Fulham in the preparation of the financial statements, and of whether the accounting policies are appropriate to the London Borough of Hammersmith and Fulham's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the London Borough of Hammersmith and Fulham and its Group as at 31 March 2006 and its income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

LJ Kidner
District Auditor
Audit Commission
1st Floor, Millbank Tower
Millbank
London SW1P 4HQ
29 September 2006.

Certification by Chairman of the Audit Committee

I confirm that these accounts were re-approved by the Audit Committee on 25th September 2006.

Councillor Will Bethell

25th September 2006

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

STATEMENT ON INTERNAL CONTROL (Page 12)

A statement by the Leader and the Chief Executive on the arrangements and systems for internal control across the Council.

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 25-81)

These statements summarise the overall financial performance of the Council in the financial year 2005/06 and its financial position at 31 March 2006. For comparison purposes, figures relating to 2004/05 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.

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. 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.

STATEMENT OF TOTAL MOVEMENTS IN RESERVES (Page 65)

This statement brings together all the recognised gains and losses of the authority during 2005/06 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 70)

This statement shows the total 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 75)

The 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 82)

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 FINANCIAL TERMS (Page 92)

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

FURTHER INFORMATION

Further information about the 2005/06 Statement of 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
2nd Floor
Hammersmith Town Hall Extension

King Street
London W6 9JU

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. 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 provides a summary of the Council's overall financial position.

1. REVENUE EXPENDITURE 2005/06

General Fund Services

The outturn for 2005/06 was £245.917m. 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.

Department	Original Budget	Revised Budget	Actual	Over or (under) spend	Carry Forward to 2006/07	Net Position
	£000s	£000s	£000s	£000s	£000s	£000s
Direct Services	18,861	21,836	19,524	(2,312)	500	(1,812)
Environment	18,126	22,558	22,722	164	0	164
Community Services	57,101	63,579	63,553	(26)	40	14
Children's Services	126,368	128,429	129,230	801	0	801
Housing Services	16,231	17,844	18,806	962	372	1,334
Central Department & Other Items	6,550	(2,572)	(3,510)	(938)	642	(296)
Net departmental expenditure	243,237	251,674	250,325	(1,349)	1,554	205
Levies	1,603	1,603	1,603	0	0	0
Transfer to (from) reserves	(600)	(9,046)	(6,011)	3,035	(1,554)	1,481
TOTAL	244,240	244,231	245,917	1,686	0	1,686

The table above shows that against a revised budget of £244.231m, net expenditure was £245.917m. This represents an overspending of £1.686m. Significant reasons for the variances are given below;

Direct Services

There were significant productivity gains and efficiencies within the Council's Borough Construction and Borough Highways trading accounts. In addition, efficiencies have been secured in the Refuse and Recycling service following a reorganisation of the refuse rounds and a review of the lease arrangements of the vehicle fleet.

Environment

The overspend is the net position between income shortfalls in certain service areas, such as cemeteries and advertising income from bus shelters, largely offset by expenditure efficiencies and income gains in other service areas such as Building Control and Building Technical Services. Service charges payable in respect of leased civic accommodation premises were higher than budgeted for.

Children's Services

The service continued to experience pressures in demand led services such as care and transport packages for disabled children. The outturn includes the overspend of £785,000 brought forward from 2004/05 into 2005/06. Successful measures were implemented in 2005/06 to reduce expenditure commitments by initiatives that included the use of more cost effective placements, more pre-emptive work with children and families and a more challenging approach to eligibility criteria for services, such as transport.

Housing Services

There was an overspending on Housing Benefits payments of £1.78m. Difficulties were experienced with the new Benefits Information System. An overspending on administering Housing and Council Tax Benefits was more than offset, however, by measures taken within the Housing Services Options and Assessment Service in respect of accommodating homeless households in private sector leased property and bed and breakfast accommodation.

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.

2. HOUSING REVENUE ACCOUNT (HRA) 2005/06

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.

Net expenditure in 2005/06 for the Housing Revenue Account was £28.74m, which represents an underspend of £0.37m. The balance carried forward into 2006/07 is £4.55m.

3. CAPITAL SPENDING IN 2005/06

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 2005/06 was £74.87m. (£58.05m in 2004/5). This represents an increase of £16.82m from the previous year.

Capital expenditure by department for 2005/06, compared with the previous year, may be summarised as follows:

	2004/05 £000s	2005/06 £000s
Children's Services	10,950	12,994
Environment Department	13,964	20,044
Housing Revenue Account	25,382	29,116
Community Services	975	3,810
Improvements / Other	2,058	2,561
Housing Grants	4,719	6,349
Other		
Total	58,048	74,874

The major schemes on which expenditure was incurred in 2005/06 were mainly for works on the Council's housing stock, such as the Maystar and Clement Attlee estates and Barton House. There were also significant levels of capital expenditure on roads and infrastructure, as well as schools and general purpose projects. These include expenditure of £2.8 million on a new leisure facility in the borough, £2.4 million on Normand Croft Community School for Early Years and Primary Education and £1.9 million on Fulham Palace. There was also continuing expenditure on E-Government projects and the development of Council IT systems.

Capital commitments on major schemes at 31st March 2006 totalled £94.15m, and are based within the Children's Services and Community Services departments.

- Within Children's Services, £1.7m has been approved for a three year scheme to expand Wendell Park Primary School by an additional 150 school places. The DFES have also approved £5.547m of funding for the Transforming Secondary Education project.
- Community Services are committed to contributing £1.6m to the Tamworth Mental Health Unit, and will also continue the £2.518m ISCIS IT project. Various Housing stock refurbishment projects totalling £34.5m are currently underway or due to commence in May 2006. There is an ongoing scheme with a budget of £2.27m for the supply and implementation of an integrated housing management system. A major adaptations and improvements project for the Council's hostel accommodation at 229 King Street of £1.015m is also on-going.
- The Decent Homes Partnering Contracts, which will have a value of between £40-£45m, are due to be agreed but only framework agreements have been entered into at the moment.

The financing of the capital expenditure incurred in 2005/06 was as follows:

	2004/05 £000s	2005/06 £000s
Loans	5,442	34,466
Direct Revenue Funding	1,777	2,100
Grants and Contributions	31,521	25,211
Capital Receipts	18,251	15,535
Movement in Capital Creditors	1,057	(2,438)
Total	58,048	74,874

4. CURRENT BORROWING AND CAPITAL RESOURCES

The borrowings disclosed in notes 8 and 9 to the Balance Sheet relate to the financing of capital expenditure incurred in 2005/06 and earlier years. All of the Council's borrowing (£359m) has been borrowed from the Public Works Loans Board.

Future capital expenditure will be financed from borrowing, in accordance with the Council's Treasury Management Strategy, revenue contributions, sales of fixed assets, capital grants and contributions and relevant funds within earmarked reserves.

5. PENSION LIABILITY

In accordance with FRS 17 a total liability of £350.78m has been included in the 2005/06 Consolidated Balance Sheet.

This consists of the funded liabilities of £308.69m relating to the Hammersmith & Fulham Pension Fund and £10.26m relating to the London Pensions Fund Authority Pensions Fund. In addition, there are unfunded liabilities of £31.83m.

6. COLLECTION FUND

The Council has reported a surplus of £1.297m for 2005/06. This surplus will be taken into account in the Council Tax setting process for 2007/08.

7. OUTLOOK

The Local Government Finance Settlement for 2006/07 contained an increase in grant for Hammersmith and Fulham of 2.6%. This was slightly less than the national increase of 3%, and the London average increase of 2.7%.

The provisional grant allocation for 2007/08 has also been notified, as part of the Government's aim to announce longer term (eventually 3 year) settlements in advance. This is designed to bring stability into the Authority's medium term planning process. For 2007/08 the grant notification provides a further increase of 3.3%, that again is slightly lower than the national increase of 3.8% and the London average increase of 3.5%.

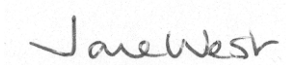
Government grant for 2006/07 onwards has been calculated in accordance with a new set of criteria. The previous Formula Spending Share system has been abolished and has been replaced with a model based on the following 4 blocks:

- A relative needs block. This is based on formulae equivalent to FSS in the old system. The Government emphasise that such formulae should no longer be interpreted as notional figures for spending.
- A relative resource block. This takes account of the ability of authorities to raise income from council tax.
- A central allocation which is allocated on a per capita basis.
- A floor damping block. Authorities below the floor receive extra grant whilst those above have their grant reduced.

The Council is concerned that the effects of the new formulae are counter-intuitive. The new Children's formula moves funding away from Hammersmith and Fulham, where the need for children's services is increasing, to areas where need is static or actually falling. The new formula for Younger Adults social services results in the relative share for London boroughs being less than London's share of the 18-64 population. The Council continues to experience significant service

demands and budgetary pressures in respect of the increased numbers of social services and Children's placements. The Direct Payments scheme is also leading to increased demand for support from individuals who previously did not require direct services from the Council. Currently, the Grant mechanism contains an element of protection to cushion the reduction in grant that would otherwise be received, if in strict accordance with the new formula.

The Council will continue to use the Medium Term Financial Strategy and other financial and performance monitoring tools to ensure that service pressures and commitments are planned within estimates of the resources available and to secure improved value for money.

A handwritten signature in black ink that reads "Jane West". The signature is written in a cursive, slightly slanted style.

Jane West
Director of Finance
21st September 2006

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

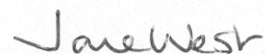
- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Code of Practice.

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 Accounts set out on pages 25 to 81 present fairly the financial position of the London Borough of Hammersmith and Fulham as at 31 March 2006 and its income and expenditure for the year then ended and that the Accounts set out on pages 82 to 91 present fairly the net assets of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2006 and its income and expenditure for the year then ended.



Jane West
Director of Finance
21st September 2006

STATEMENT ON 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 regards 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 2006 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 Organisation) 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 contains procedures which ensure that these are efficient, transparent and accountable to local people. The Constitution includes a code of conduct for members (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/Cabinet from May 2006) 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, confidential or exempt matters (within a limited number of categories set out 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 Executive 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 Local Performance Plan, and the Borough's Local Area Agreement.

- A set of Scrutiny Panels (Scrutiny Committees from May 2006) are responsible for scrutiny of the decisions made by the Council's Executive, and of the Council's policies and programmes generally. In 2005/06 there were five Scrutiny Panels, with the Leadership Scrutiny Panel maintaining a council-wide overview. From May 2006 there are six new Scrutiny Committees with the Value for Money Scrutiny Committee taking the overview role.
- 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/Committee.
- 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 – from May 2006 called the Cabinet)
- 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 relevant 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/Cabinet.
- The Cabinet is responsible for all executive functions. Non-executive functions which are set out in regulations must be dealt with by committees of members or individual officers e.g. planning applications.

- 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 DCLG 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 up to May 2006, now £100,000).

- 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 Leaders' Committee/Cabinet 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 whistle blowing (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. This committee meets regularly.
 - The Council has also established an Audit Committee for the purposes of approving its accounts and considering audit matters generally. This committee met for the first time in March 2006.
 - 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.
- 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.
 - A programme of change management has been under way since 2004/05 and continued through 2005/06 year that has involved restructuring the authority, helping to improve overall efficiency and effectiveness. This should be completed in 2006/07.
- 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 (MTFS).

- There is a continuous programme of MTFS projects that seek to deliver efficiency savings to contribute to both the Council Tax setting process and the Gershon agenda.
- 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.

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 2005/06 year.

5.1 Bank and Cash Reconciliations

Bank reconciliations were raised in the previous Statement on Internal Control. Monthly reconciliations were produced promptly from August 2005 onwards and the latest unreconciled balance is only £2,000 as at the end of March. Subsequently officers have not been able to achieve prompt reconciliations and the arrangements are now under review to ensure prompt reconciliations are achieved.

5.2 Business Continuity Plans

Last year the statement of internal control identified Business Continuity as a potential weakness through the lack of a defined strategy. This year significant progress has been achieved towards the delivery of a Corporate and Service Level response however the process is not fully embedded and tested and remains an item on departmental and the Corporate Risk Register. Many mitigating factors and controls have been put into place and the council has appointed a dedicated officer to support the development of its Business Continuity plans assisted part time by the Civil Protection Research Officer. An integrated response to emergencies has also been developed and the council has prepared a document that incorporates internal service failure response into a core incident management procedures document. A Local Service Continuity Plan template has been produced and these are being completed by Service Managers. Critical Services have been identified and prioritised and focussed work has been undertaken in the event of a flu pandemic. One to one briefings have been conducted with plan leaders and the

information drawn from the Local Service Continuity Plans will be collated and managed through a database held by the Emergency Services Team. Work continues to be rolled out with training sessions for Plan Leaders held in the first quarter of this financial year. A total of 37 Plan Leaders have already been trained. The Corporate Management team have been updated on progress and outstanding issues throughout the year.

5.3 Reconciliations to the OLAS Accounting System

This issue was originally raised in the Statement for the 2004/05 year accounts. Audit testing during the 2005/06 year has confirmed that many reconciliations are being undertaken regularly and unreconciled balances are under control, including the Housing Benefits Academy system reconciliation with OLAS. There remain a number where improvement is still needed – four systems had not been regularly reconciled during the year and a further two had unreconciled variances that remained to be cleared. A process exists to report through the year to the Finance Strategy Board on completion of reconciliations and this needs to be developed to be more effective, plus there will continue to be annual Internal Audit coverage of the reconciliations.

5.4 Risk Management

Risk Management has matured during the 2005/06 year with the process being firmly embedded at Corporate, Departmental and Service Level. The authority is now risk enabled and has incorporated risk assessment and management across many of its key policy, project, procurement and business planning areas. Risk Registers are held by all Departments and these are actively monitored and reviewed on a quarterly basis by Departmental Management Teams. An Intranet area has been set up enabling staff to access best practice information, guidance and training on-line. Significant projects are risk assessed and monitored by project teams on an ongoing basis. Progress in this area has been confirmed by the attainment of satisfactory assurance following an internal audit review. In view of the progress sustained in embedding the risk management process this matter is no longer considered a significant control issue.

5.5 Debt Management Strategy

The council had already established monitoring arrangements for Council Tax, NNDR, and sundry debtors that are centrally managed by Finance Department. A Debt Management Group was been set up in June 2005 to meet bi-monthly, their first meeting was held in July 2005, and a corporate debt management report has been provided to the Finance Strategy Board quarterly from October 2005. Further enhancements to the report continue to be agreed and the Group are reviewing how to maximise use of the management information they are generating, such as reviewing the methods of payment available to debtors and further analysing outstanding debt to establish the effectiveness of the various recovery actions currently used. These actions now ensure that all significant debts are monitored and managed centrally, as a result this is no longer considered to be a significant control issue.

5.6 Grant Claims

External Audit reviewed the SRB grant claim and as a result has raised questions with the funding Government department on how to account for a large value of the grant. The Housing Benefit claim for the 2004/05 year is still to be finalised and it is anticipated that problems will be encountered in producing the 2005/06 year Housing Benefit claim. The SRB claim production process is now being reviewed by Internal Audit to identify how the process can be improved to prevent a future recurrence of the issues raised. The financial support for the Housing Benefit claim is now being provided by Corporate Finance rather than from within the operational department, plus consultancy support has been sought to help produce the claim.

5.7 Project Management

The council has been developing new project management procedures that are currently being tested on existing projects. While these are being evaluated other projects continue to use alternative procedures. Internal audit coverage of some of these projects has identified some

common weaknesses including not considering disaster recovery procedures at the development stage of the process, having no formal migration testing, and user training not being identified prior to implementation. These issues have been raised in the individual audit reports and action is in hand to address the points raised.

5.8 Recruitment and Retention of Staff

The council continues to face challenge from the private sector in relation to its ability to compete in the employment market and this is a matter shared by most departments on their risk registers. Choice and opportunities for individuals has created pressures particularly in the area of professionally qualified staff as for example in the Social Care and Welfare market. Progress has been made to mitigate some of the effects of this risk through training and development linked to personal appraisals, the retention of Corporate Investors in People and the accommodation of a Vendor Neutral Managed Service that enables the council to have greater control and transparency of its appointment of temporary workers. The appointment of an Assistant Chief Executive for Organisational Development will provide focus and support to meet external competition for key workers and positively contribute to the recruitment and retention process. It is recognised that the issue is one faced by a number of London Boroughs and departmental arrangements are continually reviewed in order to mitigate this risk to a manageable level.

5.9 Managing statutory duties

Derived from the Corporate Risk Register the potential exposure for this risk is high and impacts across a variety of areas including financial, contractual, reputational and human resources. The council operates within an environment bound primarily by statute. Breaches of our statutory duty are rare and are mitigated by a wide ranging series of controls that the council has in place. Each department is responsible, through their director, to ensure that there are sufficient controls in operation that enable it to perform its duties reasonably and efficiently and without causing harm to the finances, community (internal and external), environment or reputation of the authority. Insurance arrangements reduce the effect of the potential financial cost of claims against the authority and internal management arrangements such as separation of duties, management reporting, performance management and scrutiny reduce the potential of a breach of duty significantly.

5.10 Single Status

The council primarily faces a financial risk as a result of the need to introduce single status and to introduce equal pay, which has been identified as a potential corporate risk from the Organisational Development Division. Negotiations between the employer's side and staff side may result in amendment to terms and conditions that could impact on the salary and wages cost of the authority. Consultation with Trade Unions and maintaining positive employee relationships may help to mitigate the risk to a degree. The council has already set aside an earmarked reserve and have plans to set aside further funds in the future as the situation becomes clearer.

5.11 Partnerships

A recent internal audit report on partnerships identified a number of weaknesses. These included establishing a register of partnerships, maintaining risk registers for each partnership, and an annual review of partnership agreements. All recommendations were agreed and the target date for their implementation is May or June 2006.

6. Conclusion

We have been advised on the outcome of the review of the system of internal control by the Corporate Management Team, 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 2005/06 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.

Signed
Councillor Stephen Greenhalgh, Council Leader

Date 22nd September 2006

Signed
Geoff Alltimes, Chief Executive

Date 22nd September 2006

STATEMENT OF ACCOUNTING PRACTICES AND POLICIES

1. STATEMENT OF ACCOUNTING PRACTICE

The 2005/06 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 2005 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. Amounts for debtors are adjusted for doubtful debts and known uncollectible debts are written off.

The only exception to this policy is income from Parking Control Notices which is accounted for on a cash basis. There is therefore no debtor balance or bad debt provision in the accounts for this income.

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 (LBHF) Pension Fund, for which the Council acts as the Administering Authority, and the London Pensions Fund Authority (LPFA) 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.

In addition, the Council participates in a defined benefits scheme for Teachers which is administered by the Teachers Pension Agency. This scheme is exempt from the accounting requirements for defined benefits schemes and is accounted for using the FRS17 principles that would be applied to defined contribution schemes, i.e. recognising the contributions payable for the year and not accruing any underlying pensions asset/liability. Only the cost of employer's contributions are therefore recognised in the accounts.

Regulation 3 of the Local Government Pension Scheme (Amendment) Regulations 2006 (Statutory Instrument 2006/966) introduced a new option into the retirement benefits of the Local Government Pension Scheme (LGPS) giving LGPS members retiring on or after 6 April 2006 the option to increase the amount of the tax-free lump sum from the current 3/80ths of the pension to 25% of the value of the benefits in exchange for commuting (i.e. reducing) their annual pension. Hewitt, Bacon and Woodrow, the actuaries to the LBHF Pension Fund, have assumed that 50% of members will elect to commute the maximum amount of pension possible. The impact is a gain of £14.02 million and is included in the calculation of the actuarial loss of £6.5 million. Hymans Robertson, the actuaries to the LPFA Pension Fund have made no allowance for members electing to commute their annual pension.

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 6 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 Consolidated Balance Sheet). 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 over £10,000 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. Capital expenditure on a scheme which totals less than £10,000 is charged to service revenue accounts.

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 cost of the scheme is £750,000 or more, the asset will be revalued in the following financial year.

Expenditure on buildings over £10,000 and below £300,000 will be written off to the Fixed Asset Restatement Account (FARA). 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 and stock condition survey costs which are written off to FARA) will be carried at cost in the year of expenditure, as all dwellings are revalued on 1st 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 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. STOCK

The value of stock 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

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.

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 Education Department was revalued in 2005/06.

The HRA stock has been valued in 2005/06 using the Beacon approach. 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 2005 and 31st March 2006 under the heading “disposals”. They are recorded at the existing use – social housing value.

The basis for the valuation of all types of assets is shown below:

- a) Intangible Fixed Assets are capitalised at cost. The SORP does not require revaluations, and these would 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) Vehicles, moveable plant and equipment have been valued at historic cost.
- g) Community and donated assets are valued at historic cost where appropriate; otherwise they are included at a nominal value.

9. DEPRECIATION

Depreciation is charged to service revenue accounts to reflect the cost of using assets to provide services. Depreciation is based upon opening Balance Sheet asset values, excluding land, 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. Assets are depreciated from the year after their acquisition or completion, and are depreciated in the year of disposal. Depreciation is calculated on a straight line basis with no residual value.

The following depreciation treatment has been adopted for these categories of assets (N.B. the useful lives stated below cover the majority of assets):

- (i) Assets (including Council dwellings) are depreciated in accordance with the 2005 Code of Practice on Local Authority Accounting. Depreciation is charged on the value of all operational assets, excluding land.
- (ii) Vehicles and moveable plant are depreciated over periods ranging from 3-25 years.
- (iii) Infrastructure is depreciated over periods ranging from 5 - 40 years
- (iv) Community Assets are generally depreciated over a 10 – 20 year period
- (v) Intangible Assets are depreciated over periods ranging from 3 – 10 years.
- (vi) Non-Operational Assets (Assets under Construction, Surplus Assets & Investment Properties) are not depreciated, as they are not being used for the provision of Council services.

10. CAPITAL RECEIPTS

Capital receipts arise from the sale of assets and are accounted for on an accruals basis. The proceeds arising from the sale of HRA assets are split between pooled and useable receipts. Pooled receipts are transferred to central government whilst useable receipts are retained by the Council to either repay debt or finance further capital expenditure. All capital receipts from General Fund assets are kept and used by the Council. Further details are provided in the Statement of Total Movements in Reserves.

11. DEFERRED CHARGES

Deferred Charges are for capital expenditure incurred by the Council, which does not result in, or remain matched with, assets controlled by the Council. For example improvement grants which enhance non-Council properties. The deferred charge is written down to the appropriate service revenue account in the year of expenditure.

12. CAPITAL CHARGES

Services are charged with a capital charge for all fixed assets used in the provision of the service. The capital charge consists of an annual provision for depreciation where appropriate, plus a notional interest charge. Notional interest is determined by applying a specified notional rate (3.5% for assets recorded at current value and 4.95% for assets with historical cost values) to the opening written down value that is included in the Balance Sheet.

Capital charges are applied to all assets, with two exceptions:

- a) Non-Operational assets have only notional interest charged on them. No depreciation is calculated.
- b) Intangible Assets have only depreciation calculated for them, and no notional interest.

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. However, where 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. This Minimum Revenue Provision is charged to the revenue account. The Housing Revenue Account is not required to set aside a Minimum Revenue Provision.

Interest payable on external borrowings is included in the accounts on an accruals basis. In 2005/06 the average rate of interest paid by the Council was 6.7%.

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.

The Council has also taken out several 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 2005/06 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. VALUE ADDED TAX

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

20. 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 2005/06. 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.

21. PRIVATE FINANCE INITIATIVE

In 2003/04 the Council entered into a 25 year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created new nursing homes, sheltered accommodation and a day care centre.

FRS 5 provides the detailed factors to be taken into account when determining the treatment of the assets of the project, and whether they should be reflected on the balance sheet of the purchaser or the contractor. An assessment of the project's risks and rewards and the substance of the transaction was carried out in accordance with FRS 5. As a result, the PFI project is not included on the Council's Balance Sheet.

The total unitary charge for the project was £214.683 million, of which £213.408 million is remaining as at the end of 2005-06. This cost is shared between the Council and the Hammersmith and Fulham Primary Care Trust. In 2005-06, the Council's full unitary payment was £1,275,304.

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	2004/05	2005/06		
		NET EXPENDITURE £000s	GROSS EXPENDITURE £000s	INCOME £000s	NET EXPENDITURE £000s
Central Services to the Public		18,398	58,805	(38,239)	20,566
Cultural, Environmental & Planning Services		29,640	38,969	(8,993)	29,976
Education		91,271	137,055	(42,342)	94,713
Highways & Transport		(514)	30,088	(30,484)	(396)
Housing Services:					
Housing General Fund		15,431	155,215	(136,808)	18,407
Housing Revenue Account		27,556	100,954	(72,213)	28,741
Social Services		87,376	133,921	(43,116)	90,805
Non-Distributable Costs		7,383	3,275	(2,397)	878
Corporate and Democratic Core		7,232	8,079	(567)	7,512
NET COST OF SERVICES	1	283,773	666,361	(375,159)	291,202
Cost of Levies	3	2,147	1,603	0	1,603
(Surplus)/Deficit on Trading Services	4	(478)	51,216	(49,930)	1,286
Asset Management Revenue Account (GF)	5	(4,274)	76,160	(79,454)	(3,294)
Asset Management Revenue Account (HRA)	5	(27,074)	0	(29,934)	(29,934)
Contribution to Housing Pooled Capital Receipts		19,140	10,856	0	10,856
Interest and Investment Income		(1,735)	0	(2,435)	(2,435)
Amortised Premiums and Discounts		1,529	1,778	0	1,778
Pensions Interest Costs		30,065	35,837	0	35,837
Pensions Expected Return on Assets		(20,335)	0	(23,544)	(23,544)
NET OPERATING EXPENDITURE		282,758	843,811	(560,456)	283,355

CONSOLIDATED REVENUE ACCOUNT (Continued)

	NOTES	2004/05 £000s	2005/06 £000s
NET OPERATING EXPENDITURE		282,758	283,355
Add:			
Transfer to/(from) HRA Balance		(2,181)	373
Transfers to/(from) Reserves	(6)	3,837	(2,280)
Transfers to/(from) Pensions Reserve	(7)	(21,523)	(15,301)
Minimum Revenue Provision Adjustment (GF)	(8)	(5,420)	(6,716)
Capital Financing Adjustment	(9)	(8,343)	(4,754)
Transfer from Useable Capital Receipts re contribution to Housing Pooled Capital Receipts		(19,140)	(10,856)
HRA Contribution to Capital Expenditure		375	89
GF Contribution to Capital Expenditure		1,777	2,007
AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAX PAYERS		232,140	245,917
Less:			
Demand on the Collection Fund		(68,613)	(67,725)
Transfers to/(from) the Collection Fund		0	1,967
Revenue Support Grant		(118,078)	(120,421)
NNDR Redistribution		(48,417)	(58,052)
		(235,108)	(244,231)
(SURPLUS) / DEFICIT FOR YEAR		(2,968)	1,686
General Fund Balance			
Balance at Beginning of Year		(12,971)	(15,939)
Add Surplus for Year		(2,968)	1,686
BALANCE AT END OF YEAR		(15,939)	(14,253)
Education Establishment Balances		(9,204)	(9,969)

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:

	2004/05	2005/06
£50,000 - £59,999	81	85
£60,000 - £69,999	30	37
£70,000 - £79,999	14	17
£80,000 - £89,999	3	8
£90,000 - £99,999	2	3
£100,000 - £109,999	7	3
£110,000 - £119,999	0	4
£120,000 - £129,999	0	1
£130,000 - £139,999	0	0
£140,000 - £149,999	1	0
£150,000 - £159,999	0	0
£160,000 - £169,999	0	1
	138	159

Of the 159 employees listed above, 73 (46%) were employees where pay decisions rest with the School Governing Body and not the local authority.

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 £4.772m to Western Riverside Waste Authority is included in the Cultural, Environmental and Planning Services figure shown in the Consolidated Revenue Account.

	2004/2005 £000s	2005/2006 £000s
Environment Agency	130	139
Lee Valley Regional Park	214	218
London Pensions Fund Authority	1,290	1,246
Greater London Magistrates Court Authority	513	0
	2,147	1,603

4. TRADING SERVICES

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

	2004/05 (Surplus) / Deficit £000s	2005/06 Expenditure £000s	2005/06 Income £000s	2005/06 (Surplus) / Deficit £000s
Building Division				
<i>Surplus</i>	(2,200)	17,413	(17,752)	(339)
<i>Charge made to HRA under BVACoP</i>	800	568		568
<i>Adjusted surplus</i>	(1,400)	17,981	(17,752)	229
Highways Division	247	12,250	(12,250)	0
Construction & Property Related Services	(34)	5,351	(5,359)	(8)
Grounds Maintenance	(3)	814	(875)	(61)
Building Cleaning	286	2,776	(2,467)	309
Catering	322	5,080	(4,630)	450
Parking Control	(134)	3,203	(3,212)	(9)
Home to School Transport	82	1,995	(1,969)	26
Industrial Estates and Misc. Properties	123	755	(708)	47
Other	33	1,011	(708)	303
Total (surplus)/ deficit	(478)	51,216	(49,930)	1,286

In 2005/06, the Highways Division recorded a surplus of £750,000. This has been re-apportioned to Highways and Transport in accordance with the Best Value Accounting Code of Practice.

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.

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.

	2004/05		2005/06	
	£000s	£000s	£000s	£000s
INCOME				
Capital Charges – General Fund	19,410		20,904	
- HRA	50,927		55,024	
Impairment	5,000		0	
Finance Lease Interest	0		42	
HRA Debt Management Expenses	124		116	
HRA Premiums and Discounts	1,529		1,778	
Deferred Grants Released	2,764		1,590	
		79,754		79,454
EXPENDITURE				
External Interest Charges	23,412		23,757	
Impairment	5,000		0	
Debt Management Expenses	150		176	
Finance Lease Interest	72		42	
Depreciation – General Fund	6,994		8,762	
- HRA	10,755		11,711	
HRA Interest on Balances	494		0	
HRA Premiums and Discounts	1,529		1,778	
		48,406		46,226
Transfer to HRA		27,074		29,934
Transfer to Consolidated Revenue Account		4,274		3,294

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

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

	2004/05 £000s	2005/06 £000s
Controlled Parking Fund	338	1,733
IT Reserves	80	(169)
Debtors and Creditors Review	(610)	(386)
Planning Inquiries Reserve	(77)	(3)
DSD Reserve	428	(1,631)
Departmental Carry Forward Reserve	57	(744)
General Contingency	1,624	(1,483)
Education Reserve	(341)	0
Central Departments	(274)	(516)
Housing Benefit Reserves	(450)	200
Major Repairs Reserve	799	(313)
Waste Management Reserve	300	0
Housing Reserves	140	200
Single Status Reserve	0	720
Capital Reserves	0	1,080
Invest to Save Fund	1,696	(893)
Other	127	(75)
	3,837	(2,280)

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

	2004/05	2005/06	2004/05	2005/06
Net Cost of Services:				
Current Service Costs	(18,320)	(19,310)	(547)	(582)
Past Service Costs	(4,821)	(770)	0	(86)
Net Operating Expenditures:	(23,141)	(20,080)	(547)	(668)
Interest cost	(30,065)	(33,930)	(1,683)	(1,907)
Expected return on assets	20,220	22,060	1,798	1,484
Settlements & Curtailments	(3,200)	-	(51)	(37)
Amounts to be met from Government grants & Council Tax:	(36,186)	(31,950)	(483)	(1,128)
Movement on pensions reserve	21,559	14,760	(36)	541
Actual amount charged against council tax for pensions in the year:	(14,627)	(17,190)	(519)	(587)
Employers contributions payable to the scheme	14,627	17,190	519	587

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 2005/06, the Council paid £5.1m to the Pensions Agency in respect of teachers' retirement benefits, representing 13.5% of pensionable pay. The figures for 2004/05 were £4.3m 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 2005/06 the costs arising from additional benefits amounted to £303,129.

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).

	2004/05		2005/06	
	£000s	£000s	£000s	£000s
MRP:				
General Fund (4%)	5,327		4,945	
Commutation Adjustment	(3,753)		(2,899)	
		1,574		2,046
Less:				
General Fund Depreciation Charge		6,994		8,762
		(5,420)		(6,716)

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.

	2004/05 £000s	2005/06 £000s
Deferred Charges Written Down	(6,107)	(6,344)
Impairment Adjustment	(5,000)	0
Capital Grants Deferred	2,764	1,590
	(8,343)	(4,754)

10. DEFERRED CHARGES

Deferred charges arise when capital expenditure is incurred which does not result in, or remain matched to, a Council-owned 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.

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. A summary of the expenditure is as follows.

The expenditure and income relating to the water collection agency is included in the Housing Revenue Account cost of services.

The council is the accountable body for the London Centre of Excellence (LCE). The council is working in partnership with the Association of London Government and Westminster City Council to provide support to London Boroughs on procurement and efficiency initiatives.

	2004/05 Net Expenditure £000s	2005/06		Net Expenditure £000s
		Income £000s	Expenditure £000s	
London Centre of Excellence - Procurement and Efficiency Projects	0	(3,167)	3,167	0
Transport for London - Asset Inventory Study	118	(208)	226	18
- Roads 2000	46	(674)	700	26
Other London Boroughs - Scanner Survey of Roads	0	(218)	210	(8)
Thames Water - Collection from Tenants	(70)	(3,432)	3,299	(133)
Eagle Star - Tenants Insurance	(8)	(50)	34	(16)
	86	(7,749)	7,636	(113)

12. LEASING CHARGES

Operating Leases

Vehicles, Plant, Furniture & Equipment - the Council 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 2005/06 was £1.583m (2004/05 - £2.621m).

The authority is committed to making payments of £1.249m under these leases in the years 2006/07 to 2011/12.

	£000s
Operating Lease payments in 2005/06	1,583
Operating Leases expiring in 2006/07	1,135
Operating Leases expiring in 2008/09 to 2009/10	106
Operating Leases expiring in 2009/10 to 2010/12	8

Finance Leases

Vehicles, Plant, Furniture & Equipment – the Council has IT equipment under finance leases. The rentals payable under these arrangements in 2005/06 were £0.403m, charged to the Consolidated Revenue Account as £0.035m finance costs, and £0.368m relating to the write down of obligations to the lessor.

The outstanding obligations amount to payments of £0.617m under these leases in the years 2006/07 to 2008/09.

	£000s
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.

	2004/05 £000s	2005/06 £000s
Recruitment Advertising	717	661
Other Advertising	166	255
Other Publicity	206	114
	1,089	1,030

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.

	2004/05 Net Expenditure	Gross Expenditure	2005/06 Income	Net Expenditure
	£000s	£000s	£000s	£000s
Public Mortuary	69	305	(174)	131
Western District Coroner	62	896	(839)	57
	131	1,201	(1,013)	188

15. MATERIAL TRANSACTIONS WITH RELATED PARTIES

In 2005/06 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 Dominic Church, Fiona Evans, Chris Graham, Ghassan Karian, Colin Pavelin, Josie Wicks and Chief Officers Sandy Adamson and Roger Khanna who have left the Council during 2005/06. 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:-

Organisation	Value of Transactions £
Bishop Creighton House (Councillor Birdsey)	24,715
Business Enterprise Centre (Councillor Smallman)	40
Chelsea Football Club (Councillor Adam)	11,505
CITAS (Councillor Powell)	275,155
Fulham Palace Trust (Councillor Allen)	160
Greater London Enterprise (Councillor Powell)	22,700
Hammersmith and Fulham Citizens Advice Bureau (Councillor Wesley Harcourt)	285,315
Hammersmith & Fulham Community Law Centre (Councillor Burke)	169,442
Hammersmith and Fulham Volunteer Development Agency (Councillor Burke)	133,582
Hammersmith & Fulham Law Centre (Councillor Burke)	169,442
Hammersmith & Fulham Primary Care Trust (Councillor Burke)	12,770,198
Hammersmith & Fulham MIND (Councillor Al-Uzaizi)	4,371
Hammersmith Women's Aid (Councillor Powell)	75,877
Hammersmith United Charities (Councillor Burke)	357,445
HillCrest Care Ltd (Andrew Christie, Director of Children's Services)	18,213
Improvement & Development Agency (Councillor Siobhan Coughlan)	1,395
Lyric Theatre Ltd (Councillor Davis)	398,517
Old Oak Housing Association (Councillor Harcourt)	13,068
Sands End Adventure Project (Councillor Bird)	69,696
Shepherds Bush Families Project (Councillor Powell)	57,602
Sir William Powell's Almshouse (Councillor Burke)	56
Urban Partnership Group (Councillor Coughlan)	482,344
Townmead Youth Group (Councillor Vaughan)	2,000
Western Riverside Waste Authority (Councillor Cartwright)	523,255
West London Mental Health NHS Trust (Councillor Umeh)	699,460

In addition to the above, nine councillors are School Governors within the borough and one Councillor has a related family member who sits on a school board.

Four 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. This in accordance with the five year management agreement which was signed on 27 May 2004 and was effective from 1 June 2004.

The Council pays HFHMS a monthly management fee and in 2005/06 the annual fee amounted to £20.5 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.

16. MEMBERS' ALLOWANCES

The total allowances paid to members in 2005/06, including travel and subsistence allowances, amounted to £835,654 (£801,745 in 2004/05).

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 2005/06 all main programme voluntary sector grants expenditure across all departments can now be covered under the Local Government Act 2000.

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.

	2004/05 Total £000s	Chargeable £000s	Non- Chargeable £000s	2005/06 Total £000s
EXPENDITURE				
Employee Costs	1,216	912	391	1,303
Transport	23	14	6	20
Supplies & Services	41	25	11	36
Support Costs	449	228	98	326
Total Expenditure	1,729	1,179	506	1,685
INCOME				
Building Regulation Charged	(991)	(1,316)	(2)	(1,318)
Other Income	(63)	(18)	(26)	(44)
Total Income	(1,054)	(1,334)	(28)	(1,362)
(Surplus)/Deficit	675	(155)	478	323

19. FEES PAYABLE TO THE AUDIT COMMISSION

The following fees were payable to the Audit Commission:

	2004/05 £000s	2005/06 £000s
External audit services	328	352
Statutory inspection	20	14
Certification of grant claims and returns	278	169
Other services	2	0
Total	628	535

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	
	2004/05 £000s	2005/06 £000s	2004/05 £000s	2005/06 £000s
London Borough of Hammersmith & Fulham	(543)	(560)	(2,368)	(2,533)
Hammersmith & Fulham Primary Care Trust	(130)	(133)	(3,077)	(3,228)
Total Income	(673)	(693)	(5,445)	(5,761)
Total Expenditure	683	801	5,442	5,753
Net Overspend/(Underspend)	10	108	(3)	(8)
Liability for the overspend in equal proportion				
London Borough of Hammersmith & Fulham	5	54	1	4
Hammersmith & Fulham Primary Care Trust	5	54	1	4
Revised Contributions				
London Borough of Hammersmith & Fulham	548	614	2,366	2,529
Hammersmith & Fulham Primary Care Trust	135	187	3,076	3,224
Total Contributions	683	801	5,442	5,753

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	2004/05 £000s	2005/06 £000s
INCOME			
Income from Council Tax	1	(71,084)	(73,036)
Transfers from General Fund:			
- Council Tax Benefits		(15,997)	(16,472)
Non-Domestic Rate Income		(100,493)	(92,136)
Contributions towards Previous Year's Collection Fund deficit		-	(2,499)
TOTAL INCOME		(187,574)	(184,143)
EXPENDITURE			
Precepts and Demands	3	87,216	86,812
Non-Domestic Rates			
- Payment to National Pool	2	99,993	91,641
- Costs of Collection		500	495
Bad and doubtful debts/appeals			
- Write offs		618	970
- Provisions		381	549
TOTAL EXPENDITURE		188,708	180,467
Change in Fund Balance in Year		1,134	(3,676)
(Surplus)/Deficit as at 1 April		1,245	2,379
(Surplus)/Deficit as at 31 March		2,379	(1,297)

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 2005/06 it was calculated as follows.

Band	Estimated Number of Taxable Properties after Discounts and Exemptions	Ratio to Band D	Band D Equivalent Dwellings
A	2,120	6/9	1,413
B	4,200	7/9	3,267
C	10,330	8/9	9,182
D	18,124	1	18,124
E	12,030	11/9	14,703
F	7,669	13/9	11,078
G	9,391	15/9	15,652
H	1,734	18/9	3,468
	65,598		76,887

2. NATIONAL NON-DOMESTIC RATES

NNDR is organised and administered on a national basis. The government specifies an amount (42.2p in 2005/06) 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) was £92.136m for 2005/06 (£100.493m for 2004/05). The rateable value at 31st March 2006 was £305.1m (£282.5m at 31st March 2005.)

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.

	2004/05 £000s	2005/06 £000s
London Borough of Hammersmith & Fulham	68,613	67,725
Greater London Authority	18,603	19,087
	87,216	86,812

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	2004/05 £000s	2005/06 £000s
INCOME			
Dwellings Rents (Gross)		(46,305)	(48,019)
Non-dwelling Rents (Gross)		(2,327)	(2,250)
Charges for Services & Facilities		(7,762)	(9,344)
HRA Subsidy Receivable (including MRA)	8	(16,575)	(12,600)
General Fund Contributions to Shared Amenities		(3,921)	0
TOTAL INCOME		(76,890)	(72,213)
EXPENDITURE			
Repairs, Maintenance and Management			
Repairs and Maintenance		16,361	13,684
General Management		29,659	22,700
Special Services		4,845	7,054
Rent, Rates, Taxes and Other Charges		2,331	1,842
Provision for Doubtful Debts		199	534
Cost of Capital	6	40,172	43,313
Depreciation of Fixed Assets	7	10,755	11,711
Debt Management Costs		124	116
TOTAL EXPENDITURE		104,446	100,954
NET COST OF SERVICES		27,556	28,741

HOUSING REVENUE ACCOUNT (Continued)

	NOTES	2004/05 £000s	2005/06 £000s
NET COST OF SERVICES		27,556	28,741
Adjusting Transfer from the Asset Management Revenue Account for Capital Charges		(27,074)	(29,934)
Amortised Premiums and Discounts		1,529	1,778
HRA Investment Income		(616)	(603)
HRA Pensions Interest Costs		1,638	980
HRA Pensions Expected Return on Assets		(1,242)	(671)
HRA Pensions Settlements & Curtailments		1	0
Net Operating Expenditure		1,792	291
Appropriations			
Transfer from Pensions Reserve		(785)	(440)
Transfer to the Major Repairs Reserve	3	799	(313)
Revenue Contribution to Capital Expenditure		375	89
(Surplus) /Deficit for the year		2,181	(373)
Balance at Beginning of Year		(6,356)	(4,175)
BALANCE AT END OF YEAR		(4,175)	(4,548)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

The Council has overall responsibility for managing the housing stock. The day to day management is carried out on behalf of the Council by Hammersmith and Fulham Housing Management Services. The average number of dwellings during 2005/2006 was 13,348. The stock movement during the year was as follows. The figure for hostels is based on dwelling equivalents (three bed spaces equals one dwelling).

	Dwellings	Hostels	Equity Share	TOTAL
Number at 1 April 2005	13,344	180	18	13,542
Voids for demolition (included above)	(138)	0	0	(138)
	13,206	180	18	13,404
Right to Buy Sales	(94)	0	0	(94)
Rent to Mortgage sales	(16)	0	0	(16)
Other Changes	0	(5)	0	(5)
Voids for demolition	(2)	0	0	(2)
Number at 31 March 2006	13,094	175	18	13,287

2. STOCK VALUATION

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

	1 April 2005 £000s	31 March 2006 £000s
Housing Stock	1,199,287	1,028,502
Other Land and Building	13,670	13,781
Other Properties	22,480	22,208
Other Assets	1,132	1,509
TOTAL	1,236,569	1,066,000

The open market, vacant possession value of houses and flats within the HRA as at 1 April 2005 was £2,552m. This compares to the balance sheet value of £1,199m for the houses and flats as at 1 April 2005. The £1,199m 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.

	2004/05 £000s	2005/06 £000s
Balance as at 1 April	(547)	(234)
Depreciation Charges to HRA	(10,755)	(11,711)
Adjusting Transfer from HRA:		
Depreciation on Non-Dwellings	314	512
Excess / (Shortfall) of depreciation on dwellings over MRA	(1,113)	(199)
Funding of Expenditure	11,867	844
Balance as at 31 March	(234)	(10,788)

4. CAPITAL EXPENDITURE FINANCING

Capital expenditure, mainly on dwellings, amounted to £29.1m (£27.4m in 2004/05) in the year. The following summary shows how this was funded.

	2004/05 £000s	2005/06 £000s
Borrowing	5,378	27,380
Useable Capital Receipts	6,595	0
Major Repairs Reserve	11,867	844
Other Grants and Contributions	3,582	2,173
Capital Accrual	18	(1,281)
TOTAL	27,440	29,116

5. CAPITAL RECEIPTS

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

	2004/05 £000s	2005/06 £000s
Land	6,063	1,640
Dwellings	26,170	14,942
TOTAL	32,233	16,582

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 £43.3m (£40.2m in 2004/05) is based on a 3.5% rate of return for assets held at current value and 4.95% for assets held at historic cost, on the balance sheet value of £1,237m (£1,147m in 2004/05). 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.

	2005/06 £000s
Estimated Value of Housing Assets at 1 April 2005	1,237,039
Notional Interest @ 3.5% of Market Value	43,257
Notional Interest @ 4.95% of Historic Value	56

7. DEPRECIATION

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

	2004/05 £000s	2005/06 £000s
Dwellings	10,441	11,198
Other Housing Assets	314	513
TOTAL	10,755	11,711

8. HRA SUBSIDY

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

	2004/05 £000s	2005/06 £000s
Allowance for Management	12,841	12,885
Allowance for Maintenance	19,675	19,743
Allowance for Major Repairs	11,555	11,398
Charges for Capital	17,389	15,487
Admissible Allowance	243	162
Other Items	1,114	1,141
Rent	(45,812)	(47,941)
Interest on Receipts	(141)	(120)
Anti Social Behaviour Allowance	1	0
Housing Element	16,865	12,755
Adjustment for Previous Year	14	(3)
	16,879	12,752
Rent Rebate Element	(304)	(152)
TOTAL	16,575	12,600

9. RENT ARREARS AND BAD DEBT PROVISIONS

Gross rent arrears were as follows:

	31 March 2005 £000s	31 March 2006 £000s	Change £000s
Main Council Stock	4,166	3,917	(249)
Hostels	313	350	37
TOTAL	4,479	4,267	(212)

Bad debt provisions at 31 March 2006 were:

	Pre-Ringfence(HGF) £000s	Ringfenced(HRA) £000s	TOTAL £000s
Main Council Stock	2,727	140	2,867
Hostels	181	0	181
TOTAL	2,908	140	3,048

10. FRS17 RETIREMENT BENEFITS

The authority considers it to be proper accounting practice to allow the HRA to be charged with an attributable share of current and past service costs, interest costs and expected return on assets. To ensure that there is no net effect on the HRA, these entries are reversed out and replaced by employers' contributions payable via an appropriation to the Pensions Reserve after net operating expenditure.

Note 7 to the Consolidated Revenue Account, note 18 to the Consolidated Balance Sheet and note (ii) to the Statement of Total Movement in Reserves provide further details.

CONSOLIDATED BALANCE SHEET

	NOTES	31 MARCH 2005		31 MARCH 2006	
		£000s	£000s	£000s	£000s
LONG TERM ASSETS					
Intangible Fixed Assets	1	1,566		1,065	
Tangible Fixed Assets	1	1,565,061		1,552,301	
Deferred Charges	2	0		0	
Long-term Debtors	3	1,617		1,373	
			1,568,244		1,554,739
CURRENT ASSETS					
Stock	4	470		386	
Debtors	5	67,804		83,181	
Short-term Investments		27,800		44,800	
Cash In Hand	6	8,342		9,814	
			104,416		138,181
			1,672,660		1,692,920
CURRENT LIABILITIES					
Creditors	7	(67,895)		(74,173)	
Short term Borrowing	8	(10,500)		(5,000)	
Cash Balances Overdrawn		(11,415)		(7,633)	
			(89,810)		(86,806)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,582,850		1,606,114
LONG TERM LIABILITIES					
Long-term Borrowing	9	(298,520)		(353,520)	
Debt Redemption Premiums and Discounts	10	12,291		11,078	
Provisions	21	(6,074)		(4,381)	
Deferred Liabilities	11	(1,242)		(722)	
Deferred Credits	12	(1,130)		(889)	
Government Grants and Contributions Deferred		(55,894)		(71,707)	
Pensions Liability					
- LBHF	18(i)	(324,743)		(340,520)	
- LPFA	18(ii)	(6,886)		(10,260)	
			(682,198)		(770,921)
TOTAL ASSETS LESS LIABILITIES			900,652		835,193
EQUITY					
Fixed Asset Restatement Account			(961,696)		(900,579)
Capital Financing Account			(211,283)		(214,673)
Capital Reserves			(1,547)		(4,093)
Pensions Reserve					
- LBHF	18(i)		324,743		340,520
- LPFA	18(ii)		6,886		10,260
Major Repairs Reserve			(234)		(10,788)
Earmarked Reserves	13		(30,582)		(25,773)
Revenue Balances	14		(26,939)		(30,067)
TOTAL EQUITY			(900,652)		(835,193)

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. FIXED ASSETS

1(i) Fixed Asset Movements

	HRA stock & other assets	Other Land & Building s	Infrastructu re	Vehicles Plant & Equipmen t	Community Assets incl. Donated Assets	Intangible Assets	Assets Under Construction	Surplus Assets for Disposal	Investment Properties	<u>TOTAL</u>
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross Value At 01/4/2005	1,237,229	197,516	95,906	9,037	1,266	1,851	14,772	13,428	22,556	1,593,561
Additions	24,533	5,952	16,025	4,283	457	177	5,575	0	0	57,002
Adjustments and Reclassifications	1,063	6,037	0	341	0	(299)	(13,104)	1,857	(255)	(4,360)
Revaluations	(175,320)	126,159	0	0	0	0	0	844	0	(48,317)
Impairment	0	0	0	0	0	0	0	0	0	0
Disposals	(12,106)	(603)	0	0	0	0	0	(530)	(5,778)	(19,017)
Gross Value At 31/03/2006	1,075,399	335,061	111,931	13,661	1,723	1,729	7,243	15,599	16,523	1,578,869
Depreciation At 01/04/2005	(189)	(10,618)	(13,265)	(2,397)	(181)	(285)	0	0	0	(26,935)
Adjustments	(58)	114	0	0	0	58	0	0	0	114
Revaluation	11,198	10,571	0	0	0	0	0	0	0	21,769
Impairment	0	0	0	0	0	0	0	0	0	0
Disposals	0	22	0	0	0	0	0	0	0	22
Depreciation for year	(11,711)	(2,881)	(3,717)	(1,628)	(99)	(437)	0	0	0	(20,473)
Depreciation at 31/03/2006	(760)	(2,792)	(16,982)	(4,025)	(280)	(664)	0	0	0	(25,503)
Net Book Value At 31/3/2006	1,074,639	332,269	94,949	9,636	1,443	1,065	7,243	15,599	16,523	1,553,366

1(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.

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 Education department land and buildings portfolio took place with effect from 1st April 2005. These assets were revalued to £270.9m.

The annual revaluation of the Housing stock in 2005/06 gave a new gross value of £1,016m. These values took effect from 1st April 2005.

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

	HRA Stock & Other Assets £000s	Other Land & Buildings £000s	Vehicles, Plant & Equipment £000s	Non- Operational Assets £000s	TOTAL £000s
Valued at Historical Cost	0	0	13,661	0	13,661
Valued at Current Value in:					
2005/06	1,074,639	332,269	0	39,365	1,446,273
2004/05	1,237,040	186,898	0	50,756	1,474,694
2003/04	1,146,022	205,260	0	68,315	1,419,597
2002/03	974,608	215,066	0	48,856	1,238,530
2001/02	1,001,678	219,786	0	39,483	1,260,947
2000/01	751,604	205,457	0	29,414	986,475

1(iii) Capital Commitments

Capital commitments on major schemes at 31st March 2006 totalled £94.15m, and are based within the Children's Services and Community Services departments.

- Within Children's Services, £1.7m has been approved for a three year scheme to expand Wendell Park Primary School by an additional 150 school places. The DFES have also approved £5.547m of funding for the Transforming Secondary Education project.
- Community Services are committed to contributing £1.6m to the Tamworth Mental

Health Unit, and will also continue the £2.518m ISCIS IT project. Various Housing stock refurbishment projects totalling £34.5m are currently underway or due to commence in May 2006. There is an ongoing scheme with a budget of £2.27m for the supply and implementation of an integrated housing management system. A major adaptations and improvements project for the Council's hostel accommodation at 229 King Street of £1.015m is also on-going.

- The Decent Homes Partnering Contracts, which will have a value of between £40-£45m, are due to be agreed but only framework agreements have been entered into at the moment.

In 2003/04 the Council entered into a 25 year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created new nursing homes, sheltered accommodation and a day care centre.

FRS 5 provides the detailed factors to be taken into account when determining the treatment of the assets of the project, and whether they should be reflected on the balance sheet of the purchaser or the contractor. An assessment of the project's risks and rewards and the substance of the transaction was carried out in accordance with FRS 5. As a result, the PFI project is not included on the Council's Balance Sheet.

The total unitary charge for the project was £214.683 million, of which £213.408 million is remaining as at the end of 2005-06. This cost is shared between the Council and the Hammersmith and Fulham Primary Care Trust. In 2005-06, the Council's full unitary payment was £1,275,304.

1(iv) Fixed Assets Held

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

	31 MARCH 2005 (REVISED) (Numbers)	31 MARCH 2006 (Numbers)
Operational Assets		
Council Dwellings	13,344	13,094
Town Halls	2	2
Offices	10	10
Cemeteries	4	4
Swimming Pools and Sports Centres	3	4
Libraries	6	6
Play Facilities	12	12
Social Service Establishments	38	37
Depots	5	5
Secondary Schools	5	5
Primary and Nursery Schools	26	26
Special Schools	6	6
Other Education Premises	27	23
Other Land and Buildings	46	46
Infrastructure Assets		
Bridges	1	1
Community Assets		
Parks and Open Spaces (hectares)	191	191
Non-operational Assets		
Shops	126	126
Industrial Units	9	9
Other	72	74

1(v) Capital Expenditure and Funding

	2004/05 £000s	2005/06 £000s
Expenditure		
Additional Fixed Assets	37,694	51,426
Non Enhancing Expenditure	12,111	11,528
Deferred Charges	3,625	6,344
Asset Under Construction	4,618	5,576
	58,048	74,874
Funding		
Borrowing	5,442	34,466
Useable Capital Receipts	18,251	15,535
Government Grants	15,284	19,135
Major Repairs Reserve	11,867	844
Planning Agreement Funds	3,135	1,753
Other Capital Contributions	1,235	3,479
Revenue Contributions	1,777	2,100
Movement in Capital Creditors	1,057	(2,438)
TOTAL	58,048	74,874

1(vi) Intangible Assets

All intangible assets are for software licences or for software development. Software is generally amortised over a five year life.

2. DEFERRED CHARGES

Deferred charges refer to capital expenditure which does not create a fixed asset for the authority. This expenditure is charged to revenue in the year it is incurred.

	IMPROVEMENT GRANTS £000s	OTHER £000s	TOTAL £000s
Balance 1/4/2005	0	0	0
Expenditure In Year	2,561	3,783	6,344
Less: Written off in Year	(2,561)	(3,783)	(6,344)
Balance 31/3/2006	0	0	0

3. LONG-TERM DEBTORS

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
House Purchase/Renovation Advances	271	265
Sale of Council Dwellings	1,294	1,059
Car Loans	52	49

TOTAL	1,617	1,373
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4. STOCK

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
Trading Undertakings	420	333
Other	50	53
	470	386

5. DEBTORS

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
Government Departments	13,410	35,573
Other Public Bodies	2,029	5,966
Housing Rents	4,479	4,267
Business Rates	13,326	11,600
Council Tax	10,349	10,287
Sundry Debtors	46,975	40,270
Car and Other Employee Loans	153	141
Payments in Advance	5,446	4,474
	96,167	112,578
Less:		
Provision for Doubtful Debts	(28,363)	(29,397)
TOTAL	67,804	83,181

6. CASH IN HAND

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
Bank/Petty Cash Imprest Balances	197	309
School Bank Accounts	8,145	9,505
TOTAL	8,342	9,814

7. CREDITORS

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
Government Departments	(15,674)	(17,996)
Other Public Bodies	(1,990)	(5,090)
Housing Rents	(1,594)	(1,470)
Business Rates	(6,789)	(7,213)
Council Tax	(4,189)	(4,910)
Sundry Creditors	(37,659)	(37,494)
TOTAL	(67,895)	(74,173)

8. OTHER LOANS REPAYABLE (LESS THAN ONE YEAR)

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
PWLB	10,500	5,000

9. LONG-TERM BORROWING

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

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
PWLB	298,520	353,520

The maturity profile for these loans is shown below.

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
One to two years	10,000	-
Between two and five years	10,000	-
Between five and ten years	56,534	84,056
More than ten years	221,986	269,464
TOTAL	298,520	353,520

10. DEBT REDEMPTION PREMIUMS AND DISCOUNTS

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.

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
PWLB - Premiums	12,929	11,625
PWLB - Discounts	(638)	(547)
	12,291	11,078

11. DEFERRED LIABILITIES

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
Finance Leases	(956)	(588)
Property Lease	(168)	(86)
Frozen Holiday Pay	(118)	(48)
TOTAL	(1,242)	(722)

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. In 2005/06 the deferred liability has been written down for the annual lease repayment.

The 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 01/04/05 £000s	NET MOVEMENT IN YEAR £000s	BALANCE 31/03/06 £000s
Insurance Funds	(1,491)	(338)	(1,829)
Controlled Parking Fund	(108)	(104)	(212)
Computer and IT Funds	(1,040)	169	(871)
Invest to Save & Modernisation	(6,780)	2,162	(4,618)
Debtors & Creditors Review	(697)	489	(208)
Prudential System Transition	(9,000)	30	(8,970)
Housing Benefit (previously known as Subsidy Clawback)	(1,550)	-	(1,550)
Trading Services Contingency	(2,730)	900	(1,830)
General Contingency Reserve	(2,427)	1,708	(719)
Planning Inquiries Reserve	(143)	4	(139)
Departmental Carry Forwards	(2,298)	744	(1,554)
Single Status Reserve	-	(720)	(720)
LPSA1 Reward Grant Reserve	-	(636)	(636)
Other Funds	(2,318)	401	(1,917)
TOTAL	(30,582)	4,809	(25,773)

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.
- (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) **Invest to Save and Modernisation** - these reserves will fund future revenue expenditure and capital investment that will provide future revenue savings.

- (v) **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.
- (vi) **Prudential System Transition Reserve** – these funds are provided for use in future years to smooth the transition to the Prudential System of capital finance.
- (vii) **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.
- (viii) **Trading Services Contingency Reserve** – this reserve earmarks funds to meet future potential costs emerging from the review of Trading Services.
- (ix) **General Contingency Reserve** – this money is set aside to meet general contingencies. The transfer of £1,624,000 made to the reserve in 2004/05 has been used to fund the contribution to the Collection Fund deficit in 2005/06.
- (x) **Planning Inquiries Reserve** - this reserve is established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
- (xi) **Departmental Carry Forwards** - this reserve is used to carry forward departmental under and overspends.
- (xii) **Single Status Reserve** – this reserve has been created to meet the costs of the implementation of Single Status. Local authorities are required to introduce harmonised pay and conditions for staff by 31st March 2007.
- (xiii) **LPSA1 Reward Grant Reserve** - reward grant has been received for achieving the targets set in the first tranche of the Local Public Service Agreement (LPSA1). The grant is split equally between capital and revenue, and this earmarked reserve contains the revenue element of the grant.
- (xiv) **Other Funds** – these comprise a number of other reserves held by various departments of the council.

14. REVENUE RESERVES AND BALANCES

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

	2004/05 £000s	2005/06 £000s
General Fund	(15,939)	(14,253)
Housing Revenue Account	(4,175)	(4,548)
Collection Fund	2,379	(1,297)
Education Establishments Account	(9,204)	(9,969)
TOTAL	(26,939)	(30,067)

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.

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 (£344,568 in 2005/06 and £414,102 in 2004/05). The latest audited accounts available, those relating to 2004/05, show net assets of £3,356,579 (£2,912,610 in 2003/04) and a surplus on its activities in the year of £286,698 (£1,164,226 in 2003/04). 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 2004, show net assets of £6,100,909 (£6,100,268 in 2003) and a profit of £641 (£546 in 2003). 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 latest audited accounts available, those relating to 2004/05 show net assets worth £43,074 (£38,717 in 2003/04). A surplus of £4,357 has been reported for 2004/05 (£432 loss 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 2005/06 this amounted to £20.5 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 2005/06 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) **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 31st March 2004. Consequently, the Council had no option but to close the facility at the earliest practicable date which was 30th 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.

(ii) **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.

(iii) **1 – 15 King Street**

The council held the lease on this property from the freeholder, and on termination of the lease the freeholder has served a dilapidations schedule of over £1m. Legal Services and Corporate Property Services are currently in negotiations with the freeholder through his solicitor.

(iv) **Single Status**

Single status is the harmonisation of pay and conditions across a local authority for comparable posts. Following the national single status agreement on local government conditions of service and pay scales in 1997, local authorities have until 31 March 2007 to implement single status. The Council established an earmarked reserve of £720,000 in 2005/06 and has a base budget allocation of £720,000 in 2006/07 which will also be added to the reserve to meet any potential compensation claims. Potential additional annual ongoing costs of £400,000 have been identified in the Medium Term Financial Strategy from 2007/08 onwards.

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.

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
Balance at 1 April	(440)	(295)
Income	(583)	(611)
	(1,023)	(906)
Less:		
Expenditure and Transfers	728	662
Balance at 31 March	(295)	(244)

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. The 2005/06 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.

Regulation 3 of the Local Government Pension Scheme (Amendment) Regulations 2006 (Statutory Instrument 2006/966) introduced a new option into the retirement benefits of the Local Government Pension Scheme (LGPS) giving LGPS members retiring on or after 6 April 2006 the option to increase the amount of the tax-free lump sum from the current 3/80ths of the pension to 25% of the value of the benefits in exchange for commuting (i.e. reducing) their annual pension. Hewitt, Bacon and Woodrow, the actuaries to the LBHF Pension Fund, have assumed that 50% of members will elect to commute the maximum amount of pension possible. The impact is a gain of £14.02 million and is included in the calculation of the actuarial loss of £6.5 million. Hymans Robertson, the actuaries to the LPFA Pension Fund have made no allowance for members electing to commute their annual pension.

18(i) London Borough of Hammersmith and Fulham Pension Fund

The date of the most recent full actuarial valuation was 31st 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 opening position has been restated due to an error in the calculation of unfunded liabilities in the Actuarial report used for the 2004/05 accounts.

The £340.52m net liability represents the difference between the value of the pension fund assets at 31 March 2006 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 1st April 2006 would have an impact on the capital value of the pension fund assets.

	31 MARCH 2005	31 MARCH 2006
	£m	£m
Estimated Liability	(607.98)	(696.56)
Estimated Liability (Unfunded)	(36.09)	(31.83)
Estimated Assets	319.33	387.87
Net Liability	(324.74)	(340.52)

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.

Assumptions	31 MARCH 2005	31 MARCH 2006
	%	%
Rate of Inflation	2.9	3.0
Rate of Increase in Salaries	4.4	4.5
Rate of Increase in Pensions	2.9	3.0
Rate of Increase to deferred pensions	2.9	3.0
Discount Rate	5.3	4.9

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 2005	31 MARCH 2006	Long Term Return
	%	%	%
Equity	70.4	71.7	7.3
Bonds	28.2	27.3	4.6
Cash	1.4	1.0	4.6

The movement in the net pension liability for the year to 31st March 2006 is as follows:

Net Movement in Pensions Liability for Year	Funded £m	Unfunded £m	Total £m
Net Pensions Deficit as at 1 st April 2005	(288.65)	(36.09)	(324.74)
Revisions to 2004/05 Actuary Report		5.48	5.48
Movements in Year			
Current Service Costs	(19.31)	0	(19.31)
Employers Contribution Payable to Scheme	14.81	2.38	17.19
Past Service Costs	0	(0.77)	(0.77)
Other Finance Income	(10.29)	(1.58)	(11.87)
Actuarial Gains/ (Losses)	(5.25)	(1.25)	(6.50)
Net Pensions Deficit at 31st March 2006	(308.69)	(31.83)	(340.52)

The actuarial gains and losses can be analysed into the following categories, measured in absolute amounts and as percentages of assets at 31st March 2006.

Actuarial Gains /(Losses)	£m	% Assets/ Liabilities
Difference between Expected and Actual Returns on Assets	46.28	11.9
Difference between Actuarial Assumptions about Liability and Actual Experience	(53.43)	-7.3
Experienced Gains and Losses on Pension Liabilities	0.65	0.1
	(6.50)	

18(ii) The London Pensions Fund Authority Pensions Fund

	31 MARCH 2005	31 MARCH 2006
	£000s	£000s
Estimated Liability	(35,728)	(40,700)
Estimated Assets	28,842	30,440
Net Assets	(6,886)	(10,260)

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 2005	31 MARCH 2006
	%	%
Rate of Inflation	2.9	3.1
Rate of Increase in Salaries	4.4	4.6
Rate of Increase in Pensions	2.9	3.1
Rate of Discounting Scheme	5.4	4.9

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 2005	31 MARCH 2006	Long Term Return
	%	%	%
Equity	15.1	13.9	7.4
Bonds	76.9	83.0	4.2
Cash	8.0	3.1	4.6

The movement in the net pension liability for the year to 31st March 2006 is as follows:

Net Movement in Pensions Liability for Year	£000s
Net Pensions Deficit as at 1st April 2005	(6,886)
Movements in Year	
Current Service Costs	(582)
Employers Contribution Payable to Scheme	547
Past Service Costs	(86)
Contributions re Unfunded Benefits	40
Impact of Settlement & Curtailments	(37)
Expected Return on Assets	(423)
Actuarial Gains / (Losses)	(2,833)
Net Pensions Deficit at 31st March 2006	(10,260)

The actuarial gains and losses can be analysed into the following categories, measured in absolute amounts and as percentages of assets at 31st March 2006.

Actuarial Gains /(Losses)	£000s	%
Difference between Expected and Actual Returns on Assets	1,137	3.7
Difference between Actuarial Assumptions about Liability and Actual Experience	(5)	0.01
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	(3,965)	9.74
	(2,833)	

18(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 2005/06 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:

	2004/05 £000s	2005/06 £000s
General Fund	(27,598)	47,464
Housing Revenue Account	930,629	786,432
Collection Fund	(2,379)	1,297
	900,652	835,193

21. PROVISIONS

	BALANCE 01/04/05	NET MOVEMENT IN YEAR	BALANCE 31/03/06
	£000s	£000s	£000s
Insurance	(3,189)	159	(3,030)
Section 117	(2,432)	1,534	(898)
Stamford House Closure Costs	(453)	-	(453)
TOTAL	(6,074)	1,693	(4,381)

The Authority maintains an Insurance Provision (£3.030m) 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 established a provision to meet the liabilities for repayment of these charges and £1.534m was repaid in 2005/06. 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 31st March 2004. Consequently, the Council had no option but to close the facility at the earliest practicable date which was 30th June 2004. The provision of £0.453 million relates to ongoing severance costs.

22. EVENTS AFTER THE BALANCE SHEET DATE

The 2005/06 Statement of Accounts was authorised for issue on 21st June 2006. The Director of Finance signed the accounts on this date for submission to the Audit Committee meeting on 27th June 2006. There are no material events after the balance sheet date to report.

STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	31 MARCH 2005 £000s	31 MARCH 2006 £000s
Revenue Surplus / (Deficit) for the Year		
General Fund	2,968	(1,686)
Housing Revenue Account	(2,181)	373
Collection Fund	(1,134)	3,676
Education Establishments Account	3,249	764
Net Revenue Movement on Earmarked Reserves	3,225	(3,047)
Net Other Movements on Earmarked Reserves	1,281	(1,762)
Appropriation from Pensions Reserve	(21,523)	(15,301)
Actuarial gains and losses relating to pensions	(140,449)	(9,333)
Revisions to 2004/05 Actuary Report	0	5,483
Total Increase/(Decrease) in Revenue Resources (Note i)	(154,564)	(20,833)
Increase / (Decrease) in Useable Capital Receipts	(6,985)	(295)
Increase / (Decrease) in Unapplied Capital Grants & Contributions	1,264	13,545
Total Increase/(Decrease) in Realised Capital Resources (Note iii)	(5,721)	13,250
Revaluation of Fixed Assets	85,897	(48,317)
Accumulated Depreciation Written Off	12,389	21,969
Total increase/(decrease) in Unrealised Value of Fixed Assets (Note iv)	98,286	(26,348)
Total of Value of Capital Expenditure Written off not Enhancing Assets and Value of Assets Sold, Disposed of or Decommissioned (Note v)	(61,008)	(34,769)
Capital Receipts Set Aside	28,651	15,535
Revenue Resources Set Aside	(15,511)	(12,442)
Movement on Capital Grants & Contributions Deferred	13,224	15,802
Grants and Contributions Set Aside	20,867	6,640
Amounts Written off	(11,107)	(6,333)
Total Increase/(Decrease) in Amounts Set Aside to Finance Capital Investment (Note vi)	36,124	19,202
TOTAL RECOGNISED GAINS AND LOSSES	(86,883)	(49,498)

Notes to the Statement of Total Movement in Reserves:

(i) Movements in Revenue Resources

	General Fund	HRA	Coll'n Fund	Educ'n Estabs	Earmark- ed Reserves	Pensions Reserve
	£000s	£000s	£000s	£000s	£000s	£000s
Surplus/(deficit)	(1,686)	373	3,676	764	0	0
Revisions to 2004/05 Actuary Report	0	0	0	0	0	5,483
Approps to/from reserves	0	0	0	0	(4,809)	(15,301)
Actuarial gains/losses	0	0	0	0	0	(9,333)
	(1,686)	373	3,676	764	(4,809)	(19,151)
Balance b/fwd	15,939	4,175	(2,379)	9,205	30,582	(331,629)
Balance c/fwd	14,253	4,548	1,297	9,969	25,773	(350,780)

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

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

The actuarial gains identified as movements on the Pensions Reserve in 2005/06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006. In accordance with the SORP, actuarial gains and losses are shown for the years 2002/03 onwards.

	2002/03		2003/04		2004/05		2005/06	
	£000s	%	£000s	%	£000s	%	£000s	%
Difference between Expected and Actual Returns on Assets								
- LBHF	(102.03)	39.6	37,870	12.1	6,970	2.2	46,280	11.9
- LPFA	(312)	1.0	1,028	3.0	155	0.5	1,137	3.7
Difference between Actuarial Assumptions about Liability and Actual Experience								
- LBHF	(0.51)	0.1	1,060	0.2	(130,540)	20.3	(53,430)	(7.3)
- LPFA	(94)	0.3	(22)	(0.3)	(4,504)	12.6	(5)	0.01
Experienced Gains and Losses on Pension Liabilities								
- LBHF	(2.82)	0.7	(330)	0.1	(7,240)	1.1	650	0.1
- LPFA	0	0	0	0	0	0	0	0
Change in Financial Assumptions Underlying the Present Value of the Scheme Liabilities								
- LBHF	0	0	0	0	0	0	0	0
- LPFA	0	0	0	0	(5,289)	14.8	(3,965)	9.74

(iii) Movement in Realised Capital Resources

	Useable Capital Receipts	Unapplied Capital Grants & Contributions
	£000s	£000s
Amounts Received in 2005/06	26,097	37,413
Amount Pooled to Central Govt	(10,856)	0
Amounts Applied to Finance New Capital Expenditure in 2005/06	(15,536)	(23,868)
Total Increase/(Decrease) in Realised Capital Resources in 2005/06	(295)	13,545
Balance Brought Forward 1 April 2005	295	1,486
Balance Carried Forward at 31st March 2006	0	15,031

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).

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.

(iv) & (v) Movement in Unrealised Value of Fixed Assets

	Fixed Asset Restatement Account £000s
Revaluation of Fixed Assets in 2005/06	(48,317)
Accumulated Depreciation Written Off	21,969
Adjustments to Fixed Asset Values	0
Note (iv) Total Increase / (Decrease) in unrealised capital resources in 2005/06	(26,348)
Amounts Written off Fixed Asset Balances for Capital Expenditure which does not Enhance Asset Values in 2005/06	(11,528)
Amounts Written off for Disposals of Assets	(19,017)
Adjustments to Fixed Asset Values	(4,360)
Accumulated Depreciation Written Off	136
Note (v) Total Value of Assets Sold and Written Off	(34,769)
Total Movement in the Reserve in 2005/06	(61,117)
Balance Brought Forward at 1 April 2005	961,696
Balance Carried Forward at 31 March 2006	900,579

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

	Capital Finance Account	Capital Grants and Contributions Deferred
	£000s	£000s
Capital Receipts Set Aside in 2005/06:		
Useable Capital Receipts Applied	15,535	0
Total Capital Receipts Set Aside	15,535	0
Revenue Resources Set Aside in 2005/06:		
Revenue Funding of Capital Expenditure	2,100	0
Reserves used to Fund Capital expenditure	3,460	0
Reconciliation Amount for Provision for Loan Repayments (MRP less Depreciation)	(18,627)	0
Voluntary Repayment of Debt	625	0
Total Revenue Resources Set Aside in 2005/06	(12,442)	0
Grants and Contributions Applied in 2005/06		
Grants and Contributions Applied	5,796	0
Major Repairs Reserve Applied	844	0
Grants and Contributions Used for Financing in 2005/06	0	20,908
Movement on S106 balances	0	690
Amounts Credited to AMRA & via CFR in 2005/06	0	(5,796)
Total Movement on Grants and Contributions	6,640	15,802
Amounts Written Out in the Year	(6,344)	11
Total Increase / (Decrease) in Amounts Set Aside to Finance Capital Investment	3,389	15,813
Balance Brought Forward at 1 April 2005	211,284	55,894
Balance Carried Forward at 31 March 2006	214,673	71,707

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

	2004/05		2005/06		
	NOTES	£000s	£000s	£000s	£000s
REVENUE ACTIVITIES					
Cash Inflows					
Net Dwelling Rents (Housing)		(16,200)		(17,437)	
Council Tax Income	(1)	(69,654)		(73,798)	
NNDR Receipts from Pool		(48,418)		(58,052)	
Non-Domestic Rate Income		(101,566)		(92,541)	
Revenue Support Grant		(118,078)		(120,421)	
DSS Benefit Grant	(2)	(116,692)		(118,724)	
Other Government Grants	(2)	(93,714)		(99,666)	
Cash Received for Goods and Services		(74,674)		(85,642)	
Other Revenue Income/ Cash Payments		(29,732)	(668,728)	(53,441)	(719,722)
Cash Outflows					
Cash Paid to Employees		219,600		230,430	
Other Operating Expenses		206,343		233,792	
Housing Pooled Capital Receipts		17,547		13,112	
NNDR Payments to Pool		99,493		103,820	
Levies and Charges		2,147		1,603	
Precepts Paid		18,603		19,087	
Housing Benefit Paid Out		85,267	649,000	94,780	696,624
Revenue Activities Net Cash Flow	(3)		(19,728)		(23,098)
SERVICING OF FINANCE					
Cash Inflow					
Interest Received		(2,351)		(1,503)	
Cash Outflow					
Interest Paid		23,193		23,500	
Interest Paid for Finance Leases		72	20,914	42	22,039
NET CASH (INFLOW)/OUTFLOW			1,186		(1,059)

CASH FLOW STATEMENT (Continued)

	NOTES	2004/05		2005/06	
		£000s	£000s	£000s	£000s
NET CASH (INFLOW)/OUTFLOW			1,186		(1,059)
CAPITAL ACTIVITIES					
Cash inflow					
Sale of Assets		(42,303)		(26,608)	
Capital Grants Received		(13,151)		(18,120)	
Other Capital Receipts		(5,704)		(2,584)	
			(61,158)		(47,312)
Cash outflow					
Expenditure on Fixed Assets		42,745		51,426	
Other Capital Payments		13,352		23,841	
			56,097		75,267
NET CASH(INFLOW)/ OUTFLOW BEFORE FINANCING			(3,875)		26,896
MANAGEMENT OF LIQUID RESOURCES					
Liquid Resources	(5)		22,300		16,900
FINANCING					
Cash inflow					
New loans raised		(104,500)		(75,000)	
Cash Outflow					
Borrowing repayments		88,500		25,500	
Finance lease repayments			(16,000)	450	
					(49,050)
NET DECREASE IN CASH	(4)		2,425		(5,254)

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. GOVERNMENT GRANTS

	2004/05 £000s	2005/06 £000s
Aids and HIV	714	650
Supporting People	15,237	13,507
Education Standards Fund	16,179	17,495
Single Regeneration Budget, NRF	485	6,964
Mental Health Grants	1,500	1,520
Community Care Grant	3,993	3,608
Housing Subsidy	16,879	12,753
Mandatory Rent Allowances & Rent Rebates Outside HRA Subsidy	96,089	102,002
Council Tax Benefit Grant	17,039	16,722
Housing Benefit Administration	1,277	2,204
Asylum Seekers	7,559	4,755
Sure Start	2,151	3,024
Youth Offending Team	851	869
NNDR Collection Allowance	500	495
Transport Grants	1,164	1,725
Asset Management	192	208
Housing Grants	1,323	2,444
Minority Ethnic Pupils	1,239	1,621
Funding for Sixth Forms	6,638	6,978
Children's Trust	1,927	756
Other Education Grants	5,307	6,143
Other Social Services Grants	5,500	7,319
Capacity Building Grant	0	1,750
London Centre of Excellence	0	1,650
Performance Reward Grant	0	636
Other Grants	315	592
TOTAL GRANTS	204,058	218,390

2004/05 amounts are based on accrual transactions. 2005/06 amounts are based on cash transactions.

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.

	2004/05		2005/06	
	£000s	£000s	£000s	£000s
(Surplus) Deficit For Year				
General fund	(1,481)		1,686	
Housing Revenue Account	2,182		(373)	
Collection fund	1,134		(3,676)	
Education Funds	(3,249)		(765)	
		(1,414)		(3,128)
Non-Cash Transactions				
Gains & losses from early settlement of debt	(1,529)		(2,035)	
Minimum Revenue Provision	(1,574)		(2,046)	
Internal interest	(794)		(1,067)	
Revenue contributions to capital	(2,152)		(2,097)	
Long-term Debtors	(295)		(244)	
Provisions	1,078		1,163	
Earmarked Reserves	(4,008)		2,280	
Other transactions	15,920		789	
		6,646		(3,257)
Items On An Accruals Basis				
(Increase)/Decrease in Stocks/Work in Progress	(25)		(84)	
Increase/(Decrease) in Debtors	7,358		10,367	
(Increase)/Decrease in Creditors	(11,379)		(5,107)	
		(4,046)		5,176
Financing Items Shown Later In Cash Flow Statement		(20,914)		(21,889)
Net Cash Flow From Revenue Activities		(19,728)		(23,098)

4. MOVEMENTS IN CASH AND CASH EQUIVALENTS

The actual 2005/06 movements in cash and cash equivalent balances are shown in the following table.

	BALANCE 1 APRIL 2005 £000s	BALANCE 31 MARCH 2006 £000s	NET MOVEMENT IN THE YEAR £000s
Petty Cash Imprests	197	309	112
Cash Overdrawn	(11,415)	(7,633)	3,782
Education Establishments	8,145	9,505	1,360
	(3,073)	2,181	5,254

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

	BALANCE 1 APRIL 2005 £000s	BALANCE 31 MARCH 2006 £000s	NET MOVEMENT IN THE YEAR £000s
Short Term Investments	27,800	44,700	16,900
	27,800	44,700	16,900

GROUP ACCOUNTS

The 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.

The Council has to determine whether it has any interests in subsidiaries, associates or joint ventures. Entities are included in the Council's group accounts where it can be demonstrated that the Council has control or a significant or dominant influence over the operating and financial policies of the entities.

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).

HFHMS is a company limited by guarantee and does not have a share capital. The company was set up as an Arms Length Management Organisation (ALMO) to provide housing management services in relation to the Council's housing stock. There are nineteen Board Members, of which five are appointed by the Council. Board Members have equal voting rights.

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.

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 (£6.562 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 £12.14 million, HRA £43.31 million) have been written out of the Group Income and Expenditure Account.
- iii) The amortisation of deferred grants (£1.59 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.

HFHMS and WSCT have adopted the same accounting policies as that of the Council. These policies are set out in the Statement of Accounting Practices and Policies.

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

	2004/05 NET EXPENDITURE £000s	2005/06		
		GROSS EXPENDITURE £000s	INCOME £000s	NET EXPENDITURE £000s
Central Services to the Public	23,634	64,235	(45,133)	19,102
Cultural, Environmental & Planning Services	25,026	34,346	(12,054)	22,292
Education	86,792	132,268	(42,599)	89,669
Highways & Transport	(514)	30,088	(30,484)	(396)
Housing Services:				
Housing General Fund	15,246	156,932	(138,753)	18,179
Housing Revenue Account	(23,958)	69,614	(88,303)	(18,689)
Social Services	85,838	132,782	(43,747)	89,035
Non-Distributable Costs	7,383	3,275	(2,397)	878
Corporate and Democratic Core	7,232	8,079	(567)	7,512
NET COST OF SERVICES	226,679	631,619	(404,037)	227,582
Cost of Levies	2,147	1,603	0	1,603
(Surplus)/Deficit on Trading Services	(411)	51,216	(49,680)	1,536
Contribution to Housing Pooled Capital Receipts	19,140	10,856	0	10,856
Cost of Borrowing	24,004	23,817	0	23,817
Interest and Investment Income	(1,994)	0	(2,692)	(2,692)
Amortised Premiums and Discounts	1,529	1,778	0	1,778
Pensions Interest Costs	31,275	37,477	0	37,477
Pensions Expected Return on Assets	(20,755)	0	(25,494)	(25,494)
Taxation of Group Entities	96	16	0	16
NET OPERATING EXPENDITURE	281,710	758,382	(481,903)	276,479

GROUP INCOME AND EXPENDITURE ACCOUNT (Continued)

	2004/05 £000s	2005/06 £000s
NET OPERATING EXPENDITURE	281,710	276,479
Add:		
Transfer to/(from) HRA Balance	(2,181)	373
Transfers to/(from) Reserves	5,872	4,283
Transfers to/(from) Pensions Reserve	(21,523)	(15,301)
Minimum Revenue Provision Adjustment (GF)	(5,420)	(6,716)
Capital Financing Adjustment	(8,343)	(4,754)
Transfer from Useable Capital Receipts re contribution to Housing Pooled Capital Receipts	(19,140)	(10,856)
Contribution to Capital Expenditure (HRA)	375	89
Contribution to Capital Expenditure (GF)	1,777	2,282
Transfer to Wormwood Scrubs Trust Fund	(142)	(50)
Transfer to Profit and Loss Reserve	(845)	88
AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAX PAYERS	232,140	245,917
Less:		
Collection Fund Precept	(68,613)	(67,725)
Collection Fund Transfer of Surplus	0	1,967
Revenue Support Grant	(118,078)	(120,421)
Contribution from NNDR Pool	(48,417)	(58,052)
	(235,108)	(244,231)
(SURPLUS)/ DEFICIT FOR YEAR	(2,968)	1,686
General Fund Balance		
Balance at Beginning of Year	(12,971)	(15,939)
Add Surplus for Year	(2,968)	1,686
BALANCE AT END OF YEAR	(15,939)	(14,253)

GROUP BALANCE SHEET

	31 MARCH 2005		31 MARCH 2006	
	£000s	£000s	£000s	£000s
LONG TERM ASSETS				
Intangible Fixed Assets	1,567		1,065	
Tangible Fixed Assets	1,570,060		1,557,301	
Long-term Debtors	1,617		1,373	
		1,573,244		1,559,739
CURRENT ASSETS				
Stock and Work in Progress	470		386	
Debtors	68,808		83,351	
Short-term Investments	27,800		44,800	
Cash In Hand	14,400		15,060	
		111,478		143,597
		1,684,722		1,703,336
CURRENT LIABILITIES				
Creditors	(74,341)		(78,829)	
Short term Borrowing	(10,500)		(5,000)	
Cash Balances Overdrawn	(11,415)		(7,633)	
		(96,256)		(91,462)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,588,466		1,611,874
LONG TERM LIABILITIES				
Long-term Borrowing	(298,520)		(353,520)	
Debt Redemption Premiums	12,929		11,078	
Provisions	(6,074)		(4,381)	
Deferred Liabilities	(1,242)		(722)	
Deferred Credits	(1,768)		(889)	
Government Grants and Contributions Deferred	(55,894)		(71,707)	
Pensions Liability	(346,819)		(351,942)	
		(697,388)		(772,083)
TOTAL ASSETS LESS LIABILITIES		891,078		839,791
EQUITY				
Fixed Asset Restatement Account		(961,696)		(900,579)
Capital Financing Account		(211,284)		(214,673)
Capital Reserves		(1,546)		(4,093)
Pensions Reserve		345,649		351,781
Major Repairs Reserve		(234)		(10,788)
Earmarked Reserves		(30,582)		(25,773)
Revenue Balances		(26,939)		(30,067)
Wormwood Scrubs Trust Fund		(5,291)		(5,235)
Profit and Loss Reserve		845		(364)
GROUP BALANCES AND RESERVES		(891,078)		(839,791)

GROUP CASH FLOW STATEMENT

	Notes	2004/05		2005/06	
		£000s	£000s	£000s	£000s
Net Cash Inflow from Revenue Activities			(25,012)		(22,047)
Returns on Investments and Servicing of Finance					
- Cash Inflow					
Interest Received		(2,780)		(1,760)	
- Cash Outflow					
Interest Paid		23,193		23,500	
Interest Paid for Finance Leases		72	20,485	42	21,782
NET CASH (INFLOW)/OUTFLOW			(4,527)		(265)
Taxation			96		16
Capital Expenditure and Financial Investment					
- Cash Inflow					
Sale of fixed assets		42,303		(26,608)	
Capital grants received		13,151		(18,120)	
Other capital cash receipts		5,704	(61,158)	(2,584)	(47,312)
- Cash Outflow					
Purchase of Fixed Assets		42,745		51,426	
Other capital cash payments		13,352	56,097	23,841	75,267
NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING			(9,492)		27,706
MANAGEMENT OF LIQUID RESOURCES			22,300		16,900
FINANCING					
Cash inflow					
New loans raised		(104,500)		(75,000)	
Cash Outflow					
Repayments of amounts borrowed		88,500		25,500	
Capital element of finance lease rental payment			(16,000)	450	(49,050)
NET (INCREASE) IN CASH			3,192		(4,444)

NOTES TO THE GROUP CASH FLOW STATEMENT

1. MOVEMENTS IN CASH

The actual 2005/06 movements in cash balances are shown in the following table.

	BALANCE 1 APRIL 2005 £000s	BALANCE 31 MARCH 2006 £000s	NET MOVEMENT IN THE YEAR £000s
Cash Balances	2,984	7,428	4,444

2. RECONCILIATION OF SURPLUS TO NET CASH FLOW

	2004/05		2005/06	
	£000s	£000s	£000s	£000s
Net surplus for the year on General Fund, Housing Revenue Account, Collection Fund, WSCT and HFHMS		(427)		(2,627)
Items on accruals basis				
(Increase)/Decrease in Stocks/Work in Progress	(25)		(84)	
Increase/(Decrease) in Debtors	8,362		12,788	
(Increase)/Decrease in Creditors	(17,834)	(9,497)	(3,639)	9,065
Items classified elsewhere on Cash Flow Statement				
Financing items	(20,482)		(21,632)	
Taxation	96	(20,386)	(16)	(21,648)
Non-cash transactions				
Gains & losses from early settlement of debt	(1,529)		(2,035)	
Minimum Revenue Provision	(1,574)		(2,046)	
Internal interest	(794)		(1,067)	
Revenue contributions to capital	(2,152)		(2,097)	
Long-term Debtors	(295)		(244)	
Provisions	1,078		1,163	
Earmarked Reserves	(4,008)		2,280	
Other transactions	14,572		(2,791)	
		5,291		(6,837)
NET CASH FLOW FROM REVENUE		(25,012)		(22,047)

ACTIVITIES				
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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
Balance Brought Forward	(961,696)	(1,546)	(211,284)	(234)	345,649	(15,939)	845	(46,873)	(891,078)
Revisions to 2004/05 Actuary Report					(17,830)				(17,830)
Adjustment to 2004/05 b/fwds							(1,086)	6	(1,080)
Net Surplus/Deficit for year	15,752	5,614	23,502	(11,398)	23,962	1,686	(123)	45	59,040
Unrealised Gains/Losses on Revaluation of Fixed Assets	26,348								26,348
Effects of Disposal of Fixed Assets	19,017	(19,017)							0
Effects of Amounts Payable to the Housing Capital Receipts Pool		10,856							10,856
Financing of Fixed Assets			(26,891)	844					(26,047)
Balance Carried Forward	(900,579)	(4,093)	(214,673)	(10,788)	351,781	(14,253)	(364)	(46,822)	(839,791)

PENSION FUND ACCOUNTS

FUND ACCOUNT

	2004/05		2005/06	
	£000s	£000s	£000s	£000s
Contributions & Benefits				
Contributions Receivable				
From Employers	12,799		16,839	
From Members	6,339	19,138	6,718	23,557
Transfers In		5,838		5,814
Other Income		103		29
Benefits Payable				
Pensions	(10,690)		(11,236)	
Pension Increases	(4,217)		(4,521)	
Lump Sum Retirement Benefits	(1,717)		(2,306)	
Lump Sum Death Benefits	(301)	(16,925)	(167)	(18,230)
Payments to and on account of leavers				
Transfers Out		(4,672)		(7,472)
Refund of Contributions		(149)		(56)
State Scheme Premiums		(126)		(75)
Administration Expenses		(816)		(826)
Net Additions (Withdrawals) from dealings with members, employers and others directly involved in the scheme		2,391		2,741
Returns on Investments				
Investment Income		7,612		7,989
Taxation (Irrecoverable Withholding Tax)		(364)		(389)
Change in Market Value of Investments				
Realised		2,670		17,643
Unrealised		18,497		56,997
Investment Management Expenses		(807)		(880)
Net Returns on Investments		27,608		81,360
Net Increase (Decrease) in the Fund during the Year		29,999		84,101
Opening Net Assets of the Scheme		317,150		347,149
Closing Net Assets of the Scheme		347,149		431,250

NET ASSETS STATEMENT

	31st March 2005 £000s	31 st March 2006 £000s
Investment Assets		
Fixed Interest Securities – Public Sector	5,790	16,682
Fixed Interest Securities – Private Sector	34,308	38,084
Fixed Interest Securities – Overseas	6,133	1,844
Index Linked Securities	32,433	34,580
Equities – UK	112,467	76,485
Equities – Overseas	32,170	115,908
Pooled Investment Vehicles		
Managed Funds – UK Fixed Interest	17,869	26,425
Managed Funds – UK Equities	12,231	76,349
Managed Funds – Overseas Equities	86,474	37,389
Managed Funds – Private Equity	1,509	2,268
Cash Deposits	3,260	4,117
Other Investment Balances		
Amounts outstanding on Sale of Investments	161	1,013
Amounts outstanding on Purchase of Investments	(227)	(1,531)
Investment Income Due	2,357	1,783
Total Investment Assets	346,935*	431,396*
Net current assets and liabilities		
Contributions due from Employer	30	47
Unpaid Benefits	(351)	(221)
Cash Balances	696	186
Other		
Investment Management Expenses	(207)	(172)
Administration Expenses	0	(4)
Combined Benefits	46	29
Tax due to HMRC	0	(11)
Total net assets	347,149	431,250

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

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, the Council and from interest and dividends on the fund's investments. The benefits payable are based on an employee's 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 fund's accounts is to provide information about the financial position of the fund. The accounts summarise the transactions of the fund and show the net assets of the fund at the end of the financial year. They do not take account of liabilities to pay pensions and benefits which fall due after the financial year. The actuarial position of the fund, which does take account of such obligations, is set out in paragraph 3 below.

The Council has delegated the investment arrangement of the scheme to the Pensions Fund Investment Panel ("The Panel") who decide on the investment policy most suitable to meet the liabilities of the fund and the ultimate responsibility for the investment policy lies with it. The Panel is made up of five elected representatives of the Council, including one opposition party representative, who each has voting rights.

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 fund's appointed actuary, investment managers and advisor.

The Panel has delegated the management of the fund's investments to professional investment managers, appointed in accordance with regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

At the 31st March 2006 there was 4,700 employees (4,442 at 31st March 2005) contributing to the scheme, 3,694 pensioners (3,590 at 31st March 2005) receiving benefits and 3,410 deferred pensioners (3,260 at 31st March 2005). There are currently thirteen external bodies who have been admitted to the Fund by admission agreements. Details of these scheduled and admitted bodies are shown in notes 10 and 11 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 in the UK issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA"). The 2005 SORP has required some changes to the format of the accounts; consequently changes have needed to be made to the comparative figures for 2004/2005. The changes have no effect on the overall values. The accounts have been prepared on an accrual basis in accordance with the Code, apart from Transfer Values which have been accounted for on a cash basis.

(b) Valuation of Investment Assets

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. Pooled Investment Vehicles 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. One manager is also paid a fee based on performance.

(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 31st 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
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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 equity and fixed interest portfolios in order to give diversification and specialisation of investments. The Fund's investments are split 70% in equities and 30% in fixed interest securities.

Up to December 2004 the active manager was Goldman Sachs Asset Management and the passive manager was Legal and General Investment Management. Both managers invested globally in both equities and fixed interest securities. In December 2004 the Panel decided to replace Goldman Sachs Asset Management for the investment of equities with two new active specialist managers, one for UK equities and the other for Global (ex UK) equities. Goldman Sachs Asset Management continued to manage an active fixed interest portfolio.

Goldman Sachs Asset Management's equity assets were transferred to Legal and General in January 2005 to manage on a temporary basis whilst the new managers were appointed. Tenders for the new managers were advertised in February 2005 and in July 2005 Majedie Asset Management Ltd were appointed for an active specialist UK equity portfolio and MFS International for an active Global (ex UK) equity portfolio. Consequently, Legal and General Investment Management transferred approximately £65 million in assets and cash to each of the two new managers on 1st September 2005.

Additionally, the Panel has 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 31st March is as follows:

	31 st March 2005		31 st March 2006	
	MARKET VALUE £000s	TOTAL %	MARKET VALUE £000s	TOTAL %
Legal and General	296,144	85.3	215,430	49.9
Goldman Sachs	49,282	14.2	57,714	13.4
Majedie Asset Management	0	0.0	78,157	18.1
MFS International	0	0.0	77,827	18.0
Barings English Growth Fund	273	0.1	379	0.1
Invesco Private Equity	268	0.1	659	0.2
Unigestion Private Equity	968	0.3	1,230	0.3
	346,935	100.0	431,396	100.0

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 ASSETS - TOTAL MOVEMENT IN YEAR

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

	2004/05 £000s	2005/06 £000s
Market Value of Investment Assets at 1st April	317,341	346,935
Movements in Year		
Purchase of Investments	267,564	156,566
Sale of Investments	(261,189)	(146,575)
Realised Profit/(Loss) on Sales	2,670	17,643
Unrealised Profit/(Loss) in Market Value	18,497	56,997
Change in Cash Deposits	1,906	857
Change in Debtors and Creditors	146	(1,027)
Market Value of Investment Assets At 31st March	346,935	431,396

6. ANALYSIS OF INVESTMENT ASSETS

	31 st March 2005 Market Value		31 st March 2006 Market Value	
	£000s	£000s	£000s	£000s
United Kingdom				
Fixed Interest – Public Sector		5,790		16,682
Fixed Interest – Private Sector		34,308		38,084
Index Linked		32,433		34,580
Equities		112,467		76,485
Pooled Investment Vehicles (Indexed)				
UK Equity	7,961		76,349	
UK Smaller Companies	4,270		0	
Corporate Bonds – Over 10 years	8,676		10,706	
Over 15 years Gilt	8,525		10,698	
Over 5 years Index Linked Gilt	668	30,100	5,021	102,774
Managed Funds – Private Equity (Unlisted)		1,509		2,268
Total United Kingdom		216,607		270,873
Overseas				
Fixed Interest		6,133		1,844
Equities				
North America	32,170		73,454	
Japan	0		8,612	
Europe (ex UK)	0		28,827	
Pacific Basin	0	32,170	5,015	115,908
Pooled Investment Vehicles (Indexed)				
North America	38,871		3,855	
Japan	11,446		8,953	
Europe (ex UK)	25,584		16,765	
World Advanced Emerging Index	2,543		2,173	
Asia Pacific ex Japan	8,030	86,474	5,643	37,389
Total Overseas		124,777		155,141
Cash Deposits		3,260		4,117
Other Investment Balances				
Amounts outstanding on Sale of Investments		161		1,013
Amounts outstanding on Purchase of Investments		(227)		(1,531)
Investment Income Due		2,357		1,783
Total Value of Investments		346,935		431,396

7. INVESTMENT INCOME

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

	2004/05 £000s	2005/06 £000s
Interest from Fixed Interest Securities	2,350	2,843
Dividends from Equities	4,592	4,067
Income from Index-Linked Securities	755	762
Interest on Cash Deposits	160	150
Currency profit/(loss)	(315)	152
Other	70	15
Total	7,612	7,989

8. FUND PERFORMANCE

An organisation independent of the fund managers is employed to monitor the investment performance of the Fund. Performance is measured on a financial year basis against a customised benchmark. The benchmark is calculated based on the split between equities, UK Gilts, UK Index-Linked gilts and UK Corporate Bonds. The performance compared to the benchmark is as follows:

	2004/05 %	2005/06 %	3 Years % pa	5 Years % pa
Fund	9.0	23.9	18.0	4.5
Benchmark	9.9	23.2	18.3	4.0

9. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2006, the Fund had a commitment to invest a further £8.1million in the two private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next five years.

10. CONTRIBUTIONS RECEIVABLE

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, scheduled and admitted bodies are required to make balancing contributions determined by the fund's actuary (Hewitt) to maintain the solvency of the fund.

The table below shows a breakdown of the total amount of employers' and employees' contributions made during the year.

	Employers' 2004/05 £000s	Employers' 2005/06 £000s	Employees' 2004/05 £000s	Employees' 2005/06 £000s
Scheduled Bodies				
LB Hammersmith and Fulham	11,607	14,841	5,758	5,956
Hammersmith and Fulham Housing Management Services	964	1,662	463	626
Mortlake Crematorium Board	20	32	9	11
London Oratory School	40	52	19	21
Admitted Bodies				
Peter Pan Trust	13	18	7	7
Urban Partnership Group	17	24	9	9
H&F Community Law Centre	27	29	14	12
Family Housing Association	44	68	27	39
Disabilities Trust	8	6	4	2
Greenwich Leisure Ltd	23	5	12	2
Medequip Assistive Technology	9	7	3	4
Blythe Neighbourhood Council	22	30	12	12
Glencross Cleaning Ltd	5	3	2	2
Inspace Partnerships Ltd		62		15
GRAND TOTALS	12,799	16,839	6,339	6,718

11. BENEFITS PAYABLE

The table below shows a breakdown of the total amount of benefits payable for 2005/2006.

	Pensions £000s	Pension Increases £000s	Lump Sum Retirement Benefits £000s	Lump Sum Death Benefits £000s
Scheduled Bodies				
LB Hammersmith and Fulham	11,161	4,521	2,222	167
Hammersmith and Fulham Housing Management Services	18		84	
Mortlake Crematorium Board	20			
London Oratory School				
Admitted Bodies				
Peter Pan Trust				
Urban Partnership Group				
H&F Community Law Centre	10			
H&F Police Consultative Group	6			
ROOM the National Council	5			
Family Housing Association	15			
Disabilities Trust				
Greenwich Leisure Ltd				
Medequip Assistive Technology				
Blythe Neighbourhood Council	1			
Glencross Cleaning Ltd				
Inspace Partnerships Ltd				
GRAND TOTALS	11,236	4,521	2,306	167

Comparable figures of the amount of benefits payable for 2004/2005 can not be provided.

12. 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. During 2005/2006, surplus pension fund monies were invested internally with the Council as a result of the day to day administration of the fund. The pension fund received £25,623 in interest from the Council during 2005/2006 on the internally invested cash. No other material transactions with related parties of the fund during 2005/2006 were identified

13. 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.

14. 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.

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

The pension fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society, although no employees are currently contributing to the Equitable Life scheme except for death-in-service cover.

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

16. POST BALANCE SHEET EVENTS

At 13th June 2006 the market value of the investments of the Fund had fallen to approximately £407 million. This was entirely due to the considerable falls in global stock markets since the date of the balance sheet.

GLOSSARY OF FINANCIAL TERMS

ACCOUNTING PERIOD

The timescale during which accounts are prepared. Local authority accounts have an overall accounting period of one year from 1st April to 31st March.

ACCOUNTING STANDARDS

A set of rules explaining how accounts are to be kept. By law, local authorities must follow ‘proper accounting practices’, which are set out in Act of Parliament and in professional codes and statements of recommended practice.

ACCRUALS

An accounting principle where income and expenditure are taken into account in the year in which they are earned or incurred, rather than when monies are received and/or invoices are actually paid.

ACQUISITIONS

The Council spends funds from the capital programme to buy assets such as land and buildings.

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.

AGENCY SERVICES

Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

ARMS LENGTH MANAGEMENT ORGANISATIONS (ALMOs)

An ALMO is a not-for-profit housing management company that is wholly owned and controlled by a local authority. The aim of an ALMO is to ensure that Councils invest their housing resources efficiently, economically and strategically to provide ‘Decent Homes’ for tenants.

APPROPRIATION

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

ASSET REGISTER

A record of Council assets including land and buildings, housing, infrastructure, vehicles equipment etc. This is maintained for the purpose of calculating capital charges that are made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals, revaluations and depreciation.

AUDIT COMMISSION

The body responsible for the appointment of external auditors to local authorities, co-ordinating audits throughout the country, setting standards and carrying out Comprehensive Performance Assessments (CPAs).

BALANCES

The amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves.

BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)

BVACOP sets the financial reporting guidelines for local authorities. It supplements the principles and practice set out in the Code of Practice on Local authority Accounting (known as the SORP), by establishing practice for consistent reporting. It provides guidance in three key areas

- The definition of total cost
- Trading accounts
- Service expenditure analysis

CAPITAL EXPENDITURE

Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

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 FINANCING REQUIREMENT

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

CAPITALISATION

Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

CAPITAL RECEIPTS

Monies received from the sale of the Council's assets such as land and buildings. These receipts are used to pay for additional capital expenditure.

COLLECTION FUND

The Collection Fund is a separate account kept by every billing authority into which Council Tax and Business rates are paid.

CONTINGENT LIABILITIES

Possible losses that arise from past events which will only be confirmed by one or more uncertain future events not wholly within the council's control.

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 and represents capital income still to be received. 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 represent expenditure which would otherwise be classified as revenue, but which is classified as capital expenditure for control purposes. Types of deferred charges include items such as improvement grants, works on properties not owned by the authority and any amounts directed by central government such as redundancy costs.

DEFERRED LIABILITIES

Liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time. The main example of this is outstanding finance lease obligations.

DEPRECIATION

A provision made in the accounts to reflect the value of assets used during the year. Depreciation forms part of the capital charge made to service revenue accounts.

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

GENERAL FUND

The council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

GROUP ACCOUNTS

There is now a requirement for local authorities to prepare group accounts which include information about their interest in subsidiaries, associates and joint ventures. This should provide a complete picture of the authority's control over other entities.

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 REVENUE ACCOUNT

A statutory account that contains all expenditure and income on the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local authorities are not allowed to make up any deficit on the HRA from the General Fund.

HOUSING SUBSIDY

The grant payable by central government to local authorities to subsidise the cost of providing Council housing and the management and maintenance of that housing. The grant is paid into the Housing Revenue Account.

LEVIES

Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by local authorities in the area concerned, based on their Council Tax base and is met from the General Fund

MINIMUM REVENUE PROVISION (MRP)

The minimum amount that the Council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes. In the accounts the MRP is included within capital financing charges.

NATIONAL NON-DOMESTIC RATE (NNDR)

The rates paid by businesses. The amount paid is based on the rateable value set by the Inland Revenue multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of relevant 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.

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)

Since the 1st April 2004, 75% of 'Right to Buy' capital receipts have to be paid to the ODPM (now known as DCLG); the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects.

POST BALANCE SHEET EVENTS

Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

PRECEPT

A precept is a charge raised by another Authority to meet its net expenditure. The precepting Authority for this Council is the Greater London Authority (GLA). The GLA calculates its total spending needs for the year and sets its own council tax in the same way as a London Borough. Each Billing authority then collects the tax for them.

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.

RESERVES

The amounts held by way of balances and funds that are free from specific liabilities or commitments. The council is able to earmark some of its reserves towards specific projects, whilst leaving some free to act as a working balance.

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)

The use of revenue monies to pay for capital expenditure – also known as Direct Revenue Financing (DRF).

REVENUE EXPENDITURE

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, RSG, NNDR and Council Tax. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

REVENUE SUPPORT GRANT (RSG)

The main grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from the NNDR pool and Council Tax. Revenue Support Grant is distributed as part of Formula Grant.

RIGHT TO BUY

The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the ODPM (now known as DCLG) under pooling arrangements.

SUPPORTED CAPITAL EXPENDITURE

This is capital expenditure funded by government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

TRANSFER PAYMENTS

A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

WRITE-OFFS

Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income is already showing in the accounts and has to be reduced or written off.