

LONDON BOROUGH OF
HAMMERSMITH AND FULHAM

STATEMENT OF ACCOUNTS

2006/07

Certification by Chairman of the Audit Committee

I confirm that these accounts were approved by the Audit Committee on 27th September 2007.

Councillor William Bethell
27th September 2007

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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 five financial statements:

- Group Income and Expenditure Account
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- Group Balance Sheet
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FURTHER INFORMATION

Further information about the 2006/07 Statement of Accounts is available from the Corporate Accountancy Services Manager by telephoning (020) 8753 1589, or by writing to the address below;

Assistant Director of Finance
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 performance and position.

INTRODUCTION

The new 2006 Statement of Recommended Practice (SORP) introduced a number of substantive changes to the Statement of Accounts. These changes can be summarised as follows:

- The removal of the requirement to make a capital financing charge.
- Replacing the Consolidated Revenue Account and Statement of Total Movement on Reserves with a new single entity format that comprises an Income and Expenditure Account, Statement of Movement on the General Fund Balance and a Statement of Total Recognised Gains and Losses (STRGL).
- The format of the Housing Revenue Account is brought into line with the new single entity format.
- A requirement to group the "core" single entity financial statements together (i.e. Income and Expenditure Account, Statement of Movement on the General Fund Balance, STRGL, Balance Sheet and Cash Flow Statement). These core statements are then followed by a series of notes to explain the movements in the year.
- There are separate statements for the Housing Revenue Account and the Collection Fund and these also have a series of notes to explain the main movements in the year.
- The format of the Group accounts is also changed to remove any unnecessary differences between the format of the single entity accounts and the separate legal entities.

The 2006 SORP also re-emphasises that the overriding requirement remains that the Statement of Accounts "presents fairly" the financial position and transactions of the authority. As a result of all of the changes required to comply with the 2006 SORP, the published 2005/06 accounts have been restated to show the comparable position for the previous financial year. The detail of the conversion process and how this has affected the individual published statements is included in Note 1 to the Core Financial Statements.

In the 2006/07 Statement of Accounts, the council has adopted three significant new accounting policies that impact also on the comparative figures for 2005/06 in the Income and Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item

- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

REVENUE EXPENDITURE 2006/07

General Fund Services

The Council started the year with a General Reserve of £14.253m. It had budgeted originally to use £3.755m during the year, leaving a projected balance, therefore, of £10.498m at 31 March 2007. During the year, an in year savings target of £2.824m was implemented. Consequently, the budgeted transfer from the General Reserve was reduced from the original budget of £3.755m to £0.931m. This reduction is shown in the Revised Budget column in the following table. Against the Revised Budget, departmental expenditure was overspent by £1.048m. The required transfer, therefore, from the General Reserve was £1.979m. This was £1.776m better than originally budgeted. Consequently the General Reserve at 31 March 2007 is £12.274m.

Details of outturn are shown in the table below;

Department	Original Budget	Revised Budget	Actual	Over/Under Spend	Carry Forwards/ Transfers to Reserves	Net Outturn
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Children's Services	56,465	56,936	56,863	(73)	0	(73)
Community Services	79,512	76,946	75,613	(1,333)	816	(517)
Environment Services	43,190	41,338	39,129	(2,209)	852	(1,357)
Central Services	8,039	13,739	14,356	617	0	617
Centrally Managed Budgets	3,709	3,264	3,912	648	1,179	1,827
Use of Earmarked Balances	(10,602)	(14,896)	(11,498)	3,398	(2,847)	551
TOTAL	180,313	177,327	178,375	1,048	0	1,048
FUNDED BY						
Revenue Support Grant	(17,335)	(17,173)	(17,173)			
National Non Domestic Rate	(89,800)	(89,800)	(89,800)			
Council Tax	(69,423)	(69,423)	(69,423)			
Use Of Balances	(3,755)	(931)	(1,979)			

Reasons for significant outturn variances are given as follows:

Children's Services

A system of robust financial monitoring has been introduced within the Children's Services department which has allowed budget holders to closely monitor projected outturns throughout the year. As a result of this, there were no significant outturn variances within the department.

Community Services

The department achieved a gross under-spend of £1.3m, of which £816,000 has been carried forward to the new year. The largest favourable variance was in Housing and Community Support (£1.03m), where an under-spend on Temporary Accommodation was partially offset by overspends on Home Care (due to increased hours provided) and services to people with no recourse to public funds.

The Adult Social Care Division posted a small overspend of £40,000 on a budget of £44m; a very favourable position compared with the national trend in this service area, particularly as the outturn would have been a small under-spend were it not for provision for some historic exceptional items.

The Department's remaining four divisions each posted small under-spends.

The resources carried forward into 2007/08 totalling £816,000 are to be used to contribute towards funding the 24/7 Neighbourhood policing pilot, work on Anti-Social Behaviour and CCTV, and meeting ongoing short-term pressures in areas where there were overspends in 2006/07 while mitigating actions are put in place.

Environment Services

There were a number of services that produced under-spends or additional income in 2006/07. Borough Construction made a trading surplus of £900,000 but due to the loss of the repairs contract an earmarked reserve of £638,000 has been established to fund potential exceptional costs in 2007/08. Staff vacancies across the department contributed to the under-spend as did new ways of working in Waste, Street and Grounds Maintenance and there was an under-spend on highways maintenance as the programme was inconvenienced by the utility companies.

The carry forwards relate to delays in progressing some IT projects and funding for the early stages of the Fulham Palace way forward strategy.

Central Services

The overspending in Central Services is mainly due to an overspending in Housing Benefits in respect of correcting an under-estimate of caseload and an over-estimate of subsidy receivable.

Centrally Managed Budgets

The Council has implemented a number of re-organisations in 2006/07 that will deliver significant efficiencies over the longer term. As part of the actions required to deliver such re-organisations, the Council has been required to make appropriate redundancy payments. The increase in redundancy payments is shown against centrally managed budgets and largely accounts for the net overspend.

Use of Earmarked Balances

During the financial year, budgets in respect of departmental savings of £2.824m were removed from departmental budgets and netted off against the use of earmarked reserves. A contribution of £510,000 was made to the bad debt provision in respect of sundry debtors.

The Housing Revenue Account (HRA) 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 income in 2006/07 for the HRA was £3.588m, which represents an under-spend of £3.588m. The balance carried forward into 2006/07 is £8.136m.

The main variances for the HRA are as follows:-

The budget for 2006/7 assumed that the Department for Communities and Local Government (DCLG) would not make good an error that was included in a previous audited Base Data Subsidy return. However the error was corrected and additional subsidy of £2m was received.

The amount of repairs work that was properly chargeable to capital was £1.5m greater than the budgeted amount; in addition savings on repairs produced a further £0.5m.

Against these savings, it was necessary to provide a provision for a deficit grant that is potentially payable to a third party in respect of 20 year leasing deals completed in the late 1980's.

CARRY FORWARDS AND TRANSFERS

Cabinet, on 19 March 2007, approved the carry forward of certain under-spending into 2007/8, subject to final outturn. The table below confirms the final carry forward amounts.

	Carry Forwards
	£000s
Community Services Cost Pressures	616
Anti Social Behaviour Unit	100
24/7 Policing	100
Environment Services IT Projects	120
Fulham Palace Strategy	95
Total	1,031

Cabinet also agreed that delegated authority be granted to the Director of Finance, in consultation with the Leader, to approve virements and transfers to and from reserves, as required for the preparation of the 2006/7 Accounts. These adjustments are shown below:

	Transfers and other adjustments
	£'000s
Borough Construction Funded from Environment Services under-spend to offset potential costs from not winning housing contracts	638
Planned Maintenance Year end unallocated balance carried forward in accordance with Financial Regulations	92
DSO Contract – Price indexation contingency Unused 2006/07 budget provision carried forward	300
Civic Accommodation Fees Funding is set aside to meet the preliminary costs that are emerging in connection with the council's Civic Accommodation project.	325
Cedar Financials Information System. These funds are provided for the reimplementation of the Cedar Financials Information System. The under-spending in 2006/7 is carried forward to 2007/8.	462
Total	1,817

CAPITAL OUTTURN 2006/07

The Capital Programme for 2006/07, approved at Budget Council in February 2006, was £96.3m. During the financial year, the Cabinet approved variations mainly arising from additional resources from grants and other external funding sources, and on certain projects expenditure has slipped to future years. The Capital expenditure outturn was £70.3m. The table below summarises capital expenditure by department:

	2006/07 £000s
Children's Services	8,124
Environment Services	15,394
Housing Revenue Account	31,221
Community Services	7,140
Other	8,389
Total	70,268

The financing of the capital expenditure incurred in 2006/07 is summarised in the table below:

	2006/07 £000s
Loans	34,621
Direct Revenue Funding	2,329
Grants and Contributions	21,233
Capital Receipts	12,085
Total	70,268

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Fixed assets have increased by £161 million, mainly due to asset revaluations during the year of £144m. Long-term borrowing has increased by £25 million net, in respect of borrowing to fund the capital programme.

GROUP ACCOUNTS

These accounts show the activities of the council, the Hammersmith and Fulham Bridge Partnership, Hammersmith and Fulham Homes and Wormwood Scrubs Trust.

The Hammersmith and Fulham Bridge Partnership accounts, prepared by the company, include the benefit of unbilled income of £1.9m in respect of works provided to the council. With regard to long term contracts, private sector accounting statements allow companies to take credit for ascertainable turnover and profit while contracts are in progress. This is in accordance with the guidance given in SSAP 9 (Statement of Standard Accounting Practice). Owing to the length of time taken to complete such contracts, to defer recording turnover and taking profit into account until completion may result in the profit and loss account (income statement) reflecting not so much a fair view of the results of the activity of the company during the period but rather the results relating to contracts that have been completed in the period.

However, in line with local authority SORP requirements, the council has not adopted SSAP 9 as its accounting policy and it has derecognised the unbilled income. Consequently for group accounting purposes the council's accounts show a deficit of approximately £375,000. (19.9% share of the £1.9m).

PENSION LIABILITY

In accordance with FRS 17 a total liability of £377.252m has been included in the 2006/07 Balance Sheet.

This consists of the funded liabilities of £368.230m relating to the Hammersmith and Fulham Pension Fund and £9.022m relating to the London Pensions Fund Authority Pensions Fund.

COLLECTION FUND

The Council has reported a surplus of £3.129m for 2006/07. This surplus will be taken into account in the council tax setting process for 2008/09.

CURRENT BORROWING AND CAPITAL RESOURCES

The borrowings disclosed in Note 28 to the Core Financial Statements relate to the financing of capital expenditure incurred in 2006/07 and earlier years. All of the Council's borrowing (£379m) 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.

OUTLOOK

The Local Government Finance Settlement for 2007/08 contained an increase in grant for Hammersmith and Fulham of 3.2%. This was slightly less than the national increase of 3.3%, and above the London average increase of 2.9%.

It is expected that notification of Government Grant for 2008/09 and the two subsequent years will be announced in December of this year, upon the conclusion of the Government's Comprehensive Spending Review. Whilst details are awaited, the council has expressed concerns in respect of the use and accuracy of some of the base data and assumptions that may be used to allocate grant to individual local authorities. For example, representations have been made in respect of population and migration numbers and in respect of potential revisions to the weightings currently applied for the proportion of the Area Cost Adjustment that is accounted for by labour costs. These factors could have significant implications on the eventual grant settlement for the Council.

In February 2007, Hammersmith and Fulham delivered the largest Council Tax reduction in the country when it lowered the council tax for 2007/08 by 3%. At the same time the Council set out its strategy to repeat this reduction in each of the next two financial years.

The Council recognises that this strategy is challenging given that it continues to operate in a tight financial context, especially with regard to the uncertainty surrounding next year's grant settlement and within the context that, each year, public expectations for services exceed resources available.

The Council has embedded the Medium Term Financial Strategy (MTFS) within its business planning framework. MTFS will continue to be the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a robust 3-year financial plan and a forum for challenging budget and service proposals, identifying and developing savings and efficiencies; and dealing with significant financial risks.

Since 2003, Hammersmith and Fulham has used the MTFS to move from a short-term budgeting process to a robust 3-year medium term financial plan. Consequently, the Council identifies challenges and opportunities in advance, rather than reacting to them.

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

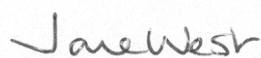
- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Code of Practice.

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 18 to 75 present fairly the financial position of the London Borough of Hammersmith and Fulham as at 31 March 2007 and its income and expenditure for the year then ended and that the Accounts set out on pages 76 to 86 present fairly the net assets of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2007 and its income and expenditure for the year then ended.



Jane West

Director of Finance

27th September 2007

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

The London Borough of Hammersmith and 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 the London Borough of Hammersmith and 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 and Fulham's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and then manage them efficiently, effectively and economically.

The system of internal control outlined in this statement has been in place at the London Borough of Hammersmith and Fulham for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

3. The Internal Control Environment

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 Department for Communities and Local Government (DCLG) and the 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 over £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 Performance Indicator 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. From 2006/07 year the Internal Audit Service is subject to an independent review annually.

- 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 and the Audit Committee. Risk registers have been produced for all its departments and divisions 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 to appropriate Member Committees for review.
 - A programme of change management has been under way since 2004/05 and continued through 2006/07 year that has involved restructuring the authority, helping to improve overall efficiency and effectiveness.
- The financial management of the authority and the reporting of financial management
- There is a framework of regular financial management information and reporting to all levels of management and to Members.
 - There are Financial Regulations and financial procedures in place, including the Contracts Standing Orders 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.
- The Council's Group Accounts include two other organisations that have a material impact on the accounts. These are H and F Homes Ltd and H and F Bridge partnership Ltd. Their governance arrangements are outlined below.
- For H and F Homes the Board of Directors acknowledges its responsibility to establish and maintain systems of internal financial control. These include having formal policies and procedures in place relating to financial systems and letting of contracts, plus formal delegation of authorities. The Company has experienced and suitably qualified staff to take responsibility for important business functions supported by annual development review procedures. There is a risk management framework that is reviewed by the Chief Executive and the Executive team, plus internal audit and external audit services who report to the Company's Finance, Audit and Risk Committee which has the responsibilities of an audit committee. Forecasts and budgets are prepared that are then monitored by the Board of Directors and management, plus regular management accounts are prepared. All significant new initiatives, major commitments, and investment projects are subject to formal authorisation by the Board of Directors and officers of the Company. A full range of insurance including Fidelity Guarantee has been put in place to safeguard assets.
- For H and F Bridge Partnership the Board is responsible for the effectiveness of the system of internal control and has established a continuous process for identifying, evaluating, and managing significant risks. Key business issues and risks are reviewed weekly by the Operations Executive and monthly by the Board. The Company is currently introducing an annual formal review of the full internal control environment in accordance with "Internal Control: Guidance for Directors on the Combined Code". Where areas of improvement are brought to the Board's attention, steps are taken to embed internal control and risk management into the operations of the business. Objectives are captured in regular reviews of corporate strategy carried out by the executive directors with the involvement of senior managers and reported to the Board. The reviews of corporate strategy form the basis for establishing business objectives which are then fully reflected in business strategies and financial objectives. Key policies, processes and control procedures are communicated throughout the organisation. Non-compliance is reviewed and any weaknesses identified and addressed promptly by the Board. Continuing actions are taken throughout the year to embed risk management and internal control in day to day operations. Authorisations and approvals are a key area of focus and significant investments in work flow systems were made in 2006. Third party spend is significant. To minimise fraud risk and ensure necessary approvals are obtained all third party spend is controlled through the Agilisys

Procurement Tool (APT) which is a web-based tool routing procurement requests automatically to appropriate managers and directors using a centrally set matrix of approved limits. It is policy to continue to strengthen the effectiveness of the system of internal control by recruiting, developing and managing employees of the highest calibre and matching their skills to the appropriate disciplines.

4. Review of Effectiveness

London Borough of Hammersmith and 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 2006/07 year.

5.1 Financial Reconciliations

The previous year's statement identified control weaknesses relating to the regularity and timeliness of the bank reconciliation and other feeder systems into the OLAS Accounting system. The bank reconciliation has been regularly undertaken throughout the 2006/07 year. The existing process for the bank reconciliation is recognised as being difficult and unwieldy. One of the expected outcomes, associated with the reimplementation of the financial information system, is to ensure that the processes are more automated. The reconciliations of other main feeder systems into the OLAS Accounting system should be taking place monthly with a monthly report being provided to the Financial Strategy Board (FSB) on whether the reconciliations have taken place and the levels of un-reconciled balances. However, reporting to FSB needs to be properly embedded.

5.2 Reconciliations to the OLAS Accounting System

The reconciliation between the OLAS Accounting System and the Academy system in respect of the Collection Fund was not finalised prior to 31 March 2007. Further review and analysis is being undertaken. The council has made provision in the 2006/07 Accounts, should any write off be required in 2007/08, following the conclusion of current investigations.

5.3 Business Continuity Plans

The council has made good progress on business continuity throughout the 2006/07 financial year. Progress has been sustained and monitored by the Corporate Management Team. Contingency arrangements for all of its services through service interruption plans have been identified and plans tested by the Emergency Services Section. During the year the transfer of IT staff from the Council to the Bridge Partnership was completed with the responsibility for IT Service Continuity provision also part of that project. A budget has been allocated to develop IT service resilience through the Bridge Partnership. A list of critical IT services is being prepared that will add to the Council's knowledge base in this area. As formal plans for resurrection of IT services were in development in the last financial year the area remains a control weakness for consideration.

5.4 Weaknesses in accounts compilation and evidencing

The Annual Audit and Inspection letter and the department's own risk register recognise that compliance with accounting practices has been made more difficult due to the movement of reporting timescales over the past three years. Problems remain with the control of errors in

the preparation and presentation of accounts. The finance department has worked to resolve these issues by initiating a project that will review the business processes and accounting and coding structure across the Council. A review of the year end closing procedures has been undertaken and additional support has been allocated to ensure that compliance with accounting recommended practice is secured.

5.5 Certification of Grant Claims

The standard of preparation of grant claims and their timely submission remains an area where controls require improvement. It is recognised that the Council has good liaison arrangements in place and a robust protocol. However issues with data quality remain particularly in supporting working papers. Measures already in place to resolve the quality of work underpinning grant submissions include the nomination of a specific officer in Corporate Finance responsible for the central co-ordination of grant work. The finance department recognises that more work is required to reduce the number of late submissions, amendments and qualifications.

5.6 Project Management

This was identified in last year's Statement as an area of control weakness. Since then the new project management toolkit procedures have been put in place which addresses all the major control weaknesses.

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 2006/07 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.

Councillor Stephen Greenhalgh
Leader of the Council
27 September 2007

Geoff Alltimes
Chief Executive
27 September 2007

STATEMENT OF ACCOUNTING PRACTICES AND POLICIES

1. STATEMENT OF ACCOUNTING PRACTICE

The 2006/07 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 2006 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. As outlined in the Foreword, there are significant changes in the 2006 SORP and there will be further changes in the 2007 SORP designed to achieve by 2007/08 full compliance of local authority published accounts with UK Generally Accepted Accounting Practices (UKGAAP).

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.

From 2006/07 parking debt has been accounted for on a full accruals basis. This is a change to the previous accounting policy where parking income was accounted for on a cash basis.

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 Balance Sheet and entries in the Income and Expenditure Account for movements in the asset/liability. More details are provided in Note 5 to the Core Financial Statements.

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 and 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 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 costs of employer's contributions are therefore recognised in the accounts.

4. RESERVES

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

Amounts set aside for purposes outside the definition of provisions, defined in section 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 32(i) to the Core Financial Statements). 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 re-classified 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 re-valued 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 re-valued under the five-year revaluation cycle unless the total cost is over £750,000, in which case the asset will be re-valued 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 the FARA) will be carried at cost in the year of expenditure, as all dwellings are re-valued 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 35 to the Core Financial Statements 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 re-valued on a five year rolling programme, based on departments. The asset portfolio of the Environment Department was re-valued in 2006/07.

The HRA stock has been valued in 2006/07 using the Beacon approach. The value of HRA stock disposals is shown in the Note 20(i) to the Core Financial Statements which shows the movement in assets between 1st April 2006 and 31st March 2007 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 (note: the useful lives stated below cover the majority of assets):

- a) Assets (including Council dwellings) are depreciated in accordance with the 2006 Code of Practice on Local Authority Accounting. Depreciation is charged on the value of all operational assets, excluding land.
- b) Vehicles and moveable plant are depreciated over periods ranging from 3 to 25 years.
- c) Infrastructure is depreciated over periods ranging from 5 to 40 years.
- d) Community Assets are generally depreciated over a 10 to 20 year period.
- e) Intangible Assets are depreciated over periods ranging from 3 to 10 years.
- f) Non-Operational Assets (Assets under Construction, Surplus Assets and 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 either to repay debt or to finance further capital expenditure. All capital receipts from General Fund assets are kept and used by the Council.

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. DEFERRED GOVERNMENT GRANTS

As a result of changes to the 2006 SORP Deferred Government Grants are now written back to the relevant service revenue account instead of the (defunct) Asset Management Revenue Account.

13. BASIS OF PROVISION FOR DEBT REDEMPTION

Gains and losses on the repurchase or early settlement of borrowing are accounted for in the Income and Expenditure 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% of its Capital Financing Requirement for repayment of debt from the General Fund. This Minimum Revenue Provision is charged to the Statement of Movement on the General Fund Balance. 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 2006/07 the average rate of interest paid by the Council was 6.28%.

15. VALUATION OF INVESTMENTS

All investments included in the 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 un-apportionable central overheads (Non Distributed Costs) are allocated to a separate objective expenditure head in both the 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 10 to the Core Financial Statements sets out the total leasing charges included in the 2006/07 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 relevant service 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 2006/07.

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 has been carried out in accordance with FRS 5. As a result, the PFI project is not included on the Council's Balance Sheet.

CORE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

BALANCE SHEET

CASH FLOW STATEMENT

INCOME AND EXPENDITURE ACCOUNT

	Note	2005/06	2006/07		
		Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Central Services to the Public		6,663	33,885	(29,334)	4,551
Cultural, Environmental and Planning Services		31,206	68,017	(30,069)	37,948
Education Services	2+6	93,289	158,497	(143,900)	14,597
Highways and Transport Services		(1,952)	27,118	(28,825)	(1,707)
Housing Services					
Housing General Fund		16,392	159,468	(146,640)	12,828
Housing Revenue Account		(14,621)	57,287	(77,156)	(19,869)
Social Services		87,558	138,340	(46,851)	91,489
Non-distributed Costs		878	4,428	(3,358)	1,070
Corporate & Democratic Core		8,929	14,744	(4,885)	9,859
Net Cost of Services		228,342	661,784	(511,018)	150,766
(Gain)/loss on Disposal of Fixed Assets		474	404	0	404
Cost of Levies	3	6,438	6,618	0	6,618
(Surpluses)/Deficits on Trading Services	4	1,133	37,410	(37,075)	335
Interest payable and similar charges		25,595	26,184	0	26,184
Contribution to Housing pooled Capital Receipts		10,856	5,447	0	5,447
Interest and Investment Income		(2,435)	0	(4,137)	(4,137)
Pensions Interest Cost	5	35,837	37,799	0	37,799
Pensions expected Return on Assets	5	(23,544)	0	(26,464)	(26,464)
Net Operating Expenditure		282,696	775,646	(578,694)	196,952
Demand on the Collection Fund		(65,758)	0	(69,423)	(69,423)
General Government Grants	6	(120,421)	0	(17,173)	(17,173)
Contribution from NNDR Pool		(58,052)	0	(89,800)	(89,800)
Deficit/Surplus for the Year		38,465	775,646	(755,090)	20,556

STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

	Note	2005/06 £000s	2006/07 £000s
(Surplus)/Deficit for year on the Income and Expenditure Account		38,465	20,556
Net additional amount required by Statute and Non-statutory Proper Practices to be debited or credited to the General Fund Balance for the year	7	(37,544)	(19,186)
(Increase)/Decrease in General Fund Balance for year		921	1,370
General Fund Balance brought forward		(25,143)	(24,222)
General Fund Balance carried forward		(24,222)	(22,852)
Amount of General Fund Balance held by Governors under Schemes to finance Schools	2	9,969	10,578
Amount of General Fund Balance generally available for new expenditure		14,253	12,274
		24,222	22,852

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather when fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the useable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to Pension Funds and pensioners, rather than as future benefits are earned.

The above reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance. Further detail is contained in Note 7 to the Core Financial Statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005/06 £000s	2006/07 £000s
Deficit for year on the Income and Expenditure Account	38,465	20,556
Government Grants credited directly to Reserves	(7,597)	(5,552)
(Surplus)/Deficit arising on the Revaluation of Fixed Assets	34,658	(134,511)
Actuarial (gains)/losses on Pension Fund Assets and Liabilities	9,333	12,200
Revisions to 2004/05 Actuary Report	(5,483)	0
(Surplus)/Deficit on LBHF proportion of Collection Fund	(3,676)	(1,832)
Total Recognised (Gains)/Losses for the year	65,700	(109,139)

BALANCE SHEET

	NOTES	At 31 March 2006		At 31 March 2007	
		£000s	£000s	£000s	£000s
Fixed Assets					
Intangible Fixed Assets	20	1,065		674	
Tangible Fixed Assets:-	20				
Operational Assets		1,475,437		1,634,210	
Non Operational Assets		76,864		79,676	
Total fixed assets			1,553,366		1,714,560
Long term Investments			100		100
Long Term Debtors	22		1,373		1,200
Deferred Premiums			11,625		9,451
Total long-term assets			1,566,464		1,725,311
Current Assets					
Stock and Work in Progress	23	386		313	
Debtors	24	83,181		56,156	
Short Term Investments		44,700		91,000	
Cash in Hand	25	9,814	138,081	9,997	157,466
Total Assets			1,704,545		1,882,777
Current Liabilities					
Creditors	26	(74,173)		(81,237)	
Short Term Borrowing	27	(5,000)		0	
Cash Balances Overdrawn		(7,633)	(86,806)	(7,823)	(89,060)
Total Assets less Current Liabilities			1,617,739		1,793,717
Long-term liabilities					
Long Term Borrowing	28		(353,520)		(378,520)
Provisions	29		(4,381)		(5,470)
Deferred Liabilities	30		(722)		(251)
Government Grants Deferred and Deferred Discounts			(71,707)		(85,862)
			(547)		(1,141)
Pensions Liability-LBHF	5(i)		(340,520)		(368,230)
Pensions Liability - LPFA	5(ii)		(10,260)		(9,022)
Total Assets less Liabilities			836,082		945,221
Financed by:					
Fixed Asset Restat. Acct.	32(ii)		(900,579)		(1,020,117)
Capital Financing Account	32(iii)		(214,673)		(213,564)
Capital Reserves	32(iv)		(4,093)		(4,864)
Deferred Credits	31		(889)		(757)
Pensions Reserve - LBHF	5(i)		340,520		368,230
Pensions Reserve - LPFA	5(ii)		10,260		9,022
Major Repairs Reserve			(10,788)		(19,595)
Earmarked Reserves	32(i)		(25,773)		(29,459)
Revenue Balances	33		(30,067)		(34,117)
Total Net Worth			(836,082)		(945,221)

CASH FLOW STATEMENT

	NOTES	2005/06		2006/07	
		£000s	£000s	£000s	£000s
REVENUE ACTIVITIES					
Cash Inflows					
Net Dwelling Rents (Housing)		(17,437)		(19,437)	
Council Tax Income		(90,270)		(91,212)	
NNDR Receipts from Pool		(58,052)		(89,800)	
Non-Domestic Rate Income		(92,541)		(109,885)	
Revenue Support Grant		(120,421)		(17,173)	
DSS Benefit Grant	41	(118,724)		(132,500)	
Other Government Grants	41	(99,666)		(181,474)	
Cash Received for Goods and Services		(85,642)		(93,108)	
Other Revenue Income/					
Cash Payments		(53,441)	(736,194)	(54,545)	(789,134)
Cash Outflows					
Cash Paid to Employees		230,430		233,622	
Other Operating Expenses		245,429		253,563	
Housing Pooled Capital Receipts		13,112		6,196	
NNDR Payments to Pool		103,820		98,598	
Levies and Charges		6,438		6,618	
Precepts Paid		19,087		21,850	
Housing Benefit Paid Out		94,780	713,096	96,792	717,239
Revenue Activities Net Cash Flow	42		(23,098)		(71,895)
SERVICING OF FINANCE					
Cash Inflow					
Interest Received		(1,503)		(3,557)	
Cash Outflow					
Interest Paid		23,500		20,941	
Interest Paid for Finance Leases		42	22,039	25	17,409
NET CASH (INFLOW)/OUTFLOW			(1,059)		(54,486)

CASH FLOW STATEMENT (cont)

	NOTES	2005/06		2006/07	
		£000s	£000s	£000s	£000s
NET CASH (INFLOW)/OUTFLOW			(1,059)		(54,486)
CAPITAL ACTIVITIES					
Cash Inflow					
Sale of Fixed Assets		(26,608)		(18,087)	
Capital Grants Received		(18,120)		(17,124)	
Other Capital Receipts		(2,584)		(6,302)	
			(47,312)		(41,513)
Cash Outflow					
Expenditure on Fixed assets		51,426		51,890	
Other Capital Payments		23,841		17,349	
			75,267		69,239
NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING			26,896		(26,760)
MANAGEMENT OF LIQUID RESOURCES					
Liquid Resources	44		16,900		46,300
FINANCING					
Cash Inflow					
New Loans Raised		(75,000)		(80,000)	
Cash Outflow					
Borrowing Repayments		25,500		60,000	
Finance Lease Repayments		450		467	
			(49,050)		(19,533)
NET (INCREASE)/DECREASE IN CASH	43		(5,254)		7

NOTES TO THE CORE FINANCIAL STATEMENTS

1. RESTATEMENT OF 2005/06 COMPARATIVE FIGURES

The changes outlined in the Introduction to the Foreword have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts.

There are also other prior period adjustments to the 2005/06 comparative figures as a result of improved compliance with the Best Value Accounting Code of Practice which are summarised in the "Other adjs" column in the table below.

	CRA in 2005/06 Statement of Accounts	Removal of capital financing charges	Relocation of government grants deferred credits	Recognition of gains & losses on disposal of fixed assets	Other adjs.	2005/06 comparatives in Income & Expenditure Account
	£000s	£000s	£000s	£000s	£000s	£000s
Central Services to the Public	20,566	(299)	(26)		(13,578)	6,663
Cultural, Environmental & Planning	29,976	(167)	(148)		1,545	31,206
Education	94,713	(4,955)	(257)		3,788	93,289
Highways & Transport	(396)	(5,358)	(913)		4,715	(1,952)
Housing Services						
Housing General Fund	18,407	(181)	(9)		(1,825)	16,392
Housing Revenue Account	28,741	(43,313)	(48)		(1)	(14,621)
Social Services	90,805	(1,182)	(189)		(1,876)	87,558
Non-distributable Costs	878					878
Corporate and Democratic Core	7,512				1,417	8,929
Impact on Net Cost of Services	291,202	(55,455)	(1,590)	0	(5,815)	228,342
(Gain)/Loss on disposal of fixed assets				474		474
Cost of levies	1,603				4,835	6,438
Trading Services	1,286				(153)	1,133
Amortised Premiums & Discounts	1,778			(1,778)		
AMRA - General Fund	(3,294)	3,294				0
AMRA - Housing Revenue Account	(29,934)	29,934				0
Contribution to Housing Pooled Capital Receipts	10,856					10,856
Interest and Investment Income	(2,435)					(2,435)
Pensions interest costs	35,837					35,837
Pensions expected return on assets	(23,544)					(23,544)
Interest payable & similar charges		23,817		1,778		25,595
Impact on Net Operating Expenditure	283,355	1,590	(1,590)	474	(1,133)	282,696

2. DEDICATED SCHOOLS GRANT

There was a change in the funding of the Education Service in 2006/07 in that Council

expenditure on schools was funded by grant monies provided by the Department for Education and Skills, the new Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools budget. The Schools budget includes elements for a restricted range of services provided on an authority-wide basis (Central Expenditure) and for the individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under-spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2006/07 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Original Grant allocation to Schools Budget for the current year in the Authority's Budget	8,030	70,795	78,825
Adjustment to finalised Grant allocation	207	0	207
DSG receivable for the year	8,237	70,795	79,032
Actual expenditure for the year	8,415	70,007	78,422
Over/(Under-spend) for the year	178	(788)	(610)
Planned top up funding of ISB from Council Resources	0	0	0
Use of School balances brought forward	0	0	0
Over/(Under-spend) for the year c/fwd to 2007/08	178	(788)	(610)

3. COST OF LEVIES

Levies paid by the Council are listed below.

	2005/06 £000s	2006/07 £000s
Environment Agency	139	88
Lee Valley Regional Park	218	225
London Pensions Fund Authority	1,246	1,191
Western Riverside Waste Authority	4,773	4,885
Association of London Government	5	10
Transport For London - surface transport (traffic signals and lorry ban)	57	219
	6,438	6,618

4. TRADING SERVICES

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

	2005/06	2006/07		
	(Surplus) / Deficit £000s	Expenditure £000s	Income £000s	(Surplus) / Deficit £000s
Construction & Property Related Services: Surplus	(347)	17,136	(17,784)	(648)
Charge made to HRA under BVACoP	568	0	0	0
<i>Adjusted surplus</i>	221	17,136	(17,784)	(648)
Highways Division	0	8,360	(8,654)	(294)
Building Cleaning	309	2,797	(2,465)	332
Catering	450	5,244	(4,744)	500
Home to School Transport	26	2,038	(2,014)	24
Industrial Estates and Misc. Properties	47	931	(819)	112
Other	80	904	(595)	309
Total: (surplus)/deficit	1,133	37,410	(37,075)	335

5. 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 disclose payments that need to be made at the time that employees earn their future entitlement.

The Council participates in three pension schemes:

- The Local Government Pension Scheme for Council employees, administered by Hammersmith and Fulham Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pensions' liabilities with investments' assets.
- The London Pensions Fund Authority Scheme; this is also a Local Government Pension Scheme. It is a funded scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pensions' liabilities with investments' assets.
- Teachers employed by the Council are members of the Teachers' Pensions Scheme, administered by the Teachers' Pensions Agency. The Scheme 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.

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

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 as a movement on the pension reserve in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during the year:

	2005/06 £000s	2006/07 £000s
Income and Expenditure Account		
Net Cost of Services		
Current Service Costs	19,310	21,280
Past Service Costs	770	1,820
Settlements and Curtailments	0	0
	20,080	23,100
Net Operating Expenditure		
Interest cost	33,930	35,830
Expected return on assets	(22,060)	(25,090)
	31,950	33,840
Movement on pensions reserve	(14,760)	(13,550)
Net Charge to the Income and Expenditure Account	17,190	20,290

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 £368.23m net liability represents the difference between the value of the Pension Fund assets at 31 March 2007 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 2007 would have an impact on the capital value of the pension fund assets.

	31 March 2006 £m	31 March 2007 £m
Assets and liabilities in relation to Retirement Benefits		
Estimated Liability	(696.56)	(746.39)
Estimated Liability (Unfunded)	(31.83)	(33.75)
Estimated Assets	387.87	411.91
Net Liability	(340.52)	(368.23)

Basis for Estimating Assets and Liabilities

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 and Woodrow, an independent firm of actuaries. The main assumptions used in their calculation are summarised in the following table:

Assumptions	31 March 2006 %	31 March 2007 %
Rate of Inflation	3.0	3.2
Rate of Increase in Salaries	4.5	4.7
Rate of Increase in Pensions	3.0	3.2
Rate of Increase to Deferred Pensions	3.0	3.2
Discount Rate	4.9	5.3

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

Assets Held	31 March 2006 %	31 March 2007 %	Long Term Return %
Equity	71.7	72.9	7.7
Bonds	27.3	25.7	5.0
Cash	1.0	1.4	5.6

The movement in the net pension liability for the year to 31st March 2007 is as follows:

Net Movement in Pensions Liability for Year	Funded £m	Unfunded £m	Total £m
Net Pensions Deficit as at 1 st April 2006	(308.69)	(31.83)	(340.52)
Movements in Year			
Current Service Costs	(21.28)	0	(21.28)
Employers Contributions	17.66	2.63	20.29
Past Service Costs	0	(1.82)	(1.82)
Other Finance Income	(9.56)	(1.18)	(10.74)
Actuarial Gains/ (Losses)	(12.61)	(1.55)	(14.16)
Net Pensions Deficit at 31st March 2007	(334.48)	(33.75)	(368.23)

The actuarial gains and losses can be analysed into the following categories, measured in absolute amounts and as percentages of assets at 31st March 2007.

Actuarial Gains /(Losses)	£m	% Assets/ Liabilities
Difference between Expected and Actual Returns on Assets	(3.93)	(1.0)
Difference between Actuarial Assumptions about Liability and Actual Experience	(8.54)	(1.1)
Experienced Gains and Losses on Pension Liabilities	(1.69)	(0.2)
	(14.16)	(1.8)

The actuarial gains identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007. 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		2006/07	
	£000s	%	£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	(3.93)	(1.0)
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)	(8.54)	(1.1)
Experienced Gains and Losses on Pension Liabilities										
LBHF	(2.82)	(0.7)	(330)	(0.1)	(7,240)	(1.1)	650	0.1	(1.69)	(0.2)
Total amount Recognised in STRGL										
LBHF	0	0	0	0	0	0	0	0	(14.16)	(1.8)

5 (ii) London Pensions Fund Authority Pension Fund

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 as a movement on the pension reserve in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during the year:

	2005/06 £000s	2006/07 £000s
Income and Expenditure Account		
Net Cost of Services		
Current Service Costs	582	562
Past Service Costs	86	0
Settlements and Curtailments	37	18
	705	580
Net Operating Expenditure		
Interest cost	1,907	1,969
Expected return on assets	(1,484)	(1,374)
	1,128	1,175
Movement on pensions reserve	(541)	(722)
Net Charge to the Income and Expenditure Account	587	453

	31 March 2006 £000s	31 March 2007 £000s
Assets and Liabilities in relation to Retirement Benefits		
Estimated Liability	(40,700)	(39,670)
Estimated Assets	30,440	30,648
Net Liability	(10,260)	(9,022)

Basis for Estimating Assets and Liabilities

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 2006 %	31 March 2007 %
Rate of Inflation	3.1	3.2
Rate of Increase in Salaries	4.6	4.7
Rate of Increase in Pensions	3.1	3.2
Rate of Discounting Scheme	4.9	5.4

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

Assets Held	31 March 2006 %	31 March 2007 %	Long Term Return %
Equity	13.9	14.5	7.8
Bonds	83.0	83.8	4.5
Cash	3.1	1.7	4.9

The movement in the net pension liability for the year to 31st March 2007 is as follows:

Net Movement in Pensions Liability for Year	£000s
Net Pensions Deficit as at 1st April 2006	(10,260)
Movements in Year	
Current Service Costs	(562)
Employers Contribution Payable to Scheme	453
Past Service Costs	0
Contributions re Unfunded Benefits	0
Impact of Settlement & Curtailments	(18)
Expected Return on Assets	(595)
Actuarial Gains / (Losses)	1,960
Net Pensions Deficit at 31st March 2007	(9,022)

The actuarial gains and losses can be analysed into the following categories, measured in absolute amounts and as percentages of assets at 31st March 2007:

Actuarial Gains /(Losses)	£000s	%
Difference between Expected and Actual Returns on Assets	1	0
Difference between Actuarial Assumptions about Liability and Actual Experience	499	1.3
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	1,460	4.9
	1,960	

The actuarial gains identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007. 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	2006/07
	£000s	£000s	£000s	£000s	£000s
Difference Between the Expected and Actual Return on Assets	(312)	1,028	155	1,137	1
Percentage of Assets	(1.0%)	3.0%	0.5%	3.7%	0.0%
Experience Gains/(Losses) on Liabilities	(94)	(22)	(4,504)	(5)	499
Percentage of the Total Value of Liabilities	(0.3%)	(0.3%)	(12.6%)	(0.1%)	1.3%
Actuarial Gains/(Losses) Recognised in STRGL	-	1,006	(9,638)	(2,833)	1,960
Percentage of the Total Present Value of Liabilities	-	3.2%	(27.0%)	(7.0)	4.9%

5 (iii) Teachers' Pension Scheme

In 2006/07, the Council paid £5.2m to the Pensions Agency in respect of teachers' retirement benefits, representing 13.65% of pensionable pay. The figures for 2005/06 were £5.1m and 13.5% respectively. There were no contributions remaining payable at the year end.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. During 2006/07 the costs arising from additional benefits amounted to £315,404.

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 its 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.

6. GENERAL GOVERNMENT GRANTS

For 2006/07, the arrangements for government support for the funding of schools changed. Previously, funds were provided as part of the Council's overall Revenue Support Grant. In 2006/07, the Council has received a specific grant – The Dedicated Schools Grant. £79m has been credited against the Education Services' outturn in the Income and Expenditure Account that would previously have been treated as part of the Revenue Support Grant in corporate income. The difference between 2006/07 figures and

comparative figures for 2005/06 for these two lines is substantially explained by this change.

7. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	2005/06 £000s	2006/07 £000s
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
Depreciation and Impairment of Fixed Assets	(8,762)	(12,935)
Government Grants Deferred amortisation	1,590	2,624
Write down of Deferred Charges to be financed from capital resources	(6,344)	(4,954)
Transfer of MRA in respect of HRA Depreciation adjustment	(313)	828
Net Gain/(Loss) on Sales of Fixed Assets	(474)	(404)
Net Charges made for Retirement Benefits in accordance with FRS17	(33,078)	(35,015)
	(47,381)	(49,856)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
Minimum Revenue Provision for capital financing	2,046	2,505
Capital Expenditure charged in-year to General Fund Balance	2,096	3,921
Transfer from Useable Capital Receipts re contribution to Housing Pooled Capital Receipts	(10,856)	(5,447)
Employer's Contributions payable to the LBHF and LPFA Pension Funds and Retirement Benefits payable direct to Pensioners	17,777	20,743
	11,063	21,722
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Voluntary Repayment of Debt	625	1,114
Housing Revenue Account Balance	373	3,588
Net transfer to/from Reserves	(2,224)	4,246
	(1,226)	8,948
Net additional amount required to be credited to the General Fund Balance for the year	(37,544)	(19,186)

8. STAFF REMUNERATION

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

	2005/06	2006/07*
£50,000 - £59,999	85	85
£60,000 - £69,999	37	53
£70,000 - £79,999	17	19
£80,000 - £89,999	8	8
£90,000 - £99,999	3	6
£100,000 - £109,999	3	1
£110,000 - £119,999	4	1
£120,000 - £129,999	1	5
£130,000 - £139,999	0	0
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	1	0
£170,000 - £179,999	0	1
*figures for 2006/07 include payments in relation to redundancy and early retirement	159	179

Of the 179 employees listed above, 72 (40%) were employees where pay decisions rest with the School Governing Body and not the local authority.

9. 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 involved is contained in the table below.

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

	2005/06 Net Expenditure £000s	2006/07		Net Expenditure £000s
		Income £000s	Expenditure £000s	
London Centre of Excellence - Procurement and Efficiency Projects	0	(2,617)	2,617	0
Thames Water - Collection from Tenants	(133)	(3,573)	3,737	164
Eagle Star - Tenants Insurance	(16)	(43)	43	0
	(149)	(6,233)	6,397	164

10. 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 2006/07 was £0.917m (2005/06 - £1.583m). The authority is committed to making payments of £0.761m under these leases in the years 2007/08 to 2011/12.

	£000s
Operating Lease payments in 2006/07	917
Operating Leases expiring in 2007/08	497
Operating Leases expiring in 2008/09 to 2009/10	256
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 2006/07 were £0.401m, charged to the Income and Expenditure Account as £0.020m finance costs and £0.381m relating to the write down of obligations to the lessor.

	£000s
Finance Lease payments in 2006/07	401
Finance Lease expiring in 2007/08	207

11. 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:

	2005/06 £000s	2006/07 £000s
Recruitment Advertising	661	310
Other Advertising	255	179
Other Publicity	114	180
	1,030	669

12. 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:

	2005/06 Net Expenditure £000s	Gross Expenditure £000s	2006/07 Income £000s	Net Expenditure £000s
Public Mortuary	131	157	(157)	0
Western District Coroner	57	694	(683)	11
	188	851	(840)	11

13. MATERIAL TRANSACTIONS WITH RELATED PARTIES

In 2006/07 the Council engaged in the following material transactions with related parties:

- a) Government grants were received as scheduled in Note 41 to the Core Financial Statements.
- b) Transactions with associated companies and other entities took place as summarised in Note 34.

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. 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 £
Active Learning (Councillor Botterill)	1,785,000
Bishop Creighton House Settlement (Councillor Alford)	273,368
Eaton Square Primary Schools Ltd (Councillor Botterill)	2,165
Greater London Enterprise (Councillor Powell)	20,000
Groundwork West London (Councillors Vaughan and Andrew Johnson)	483,210
Fulham Citizens Advice Bureau (Councillor Harcourt)	355,323
Hammersmith and Fulham Volunteer Centre (Councillor Ford)	134,775
Hammersmith and Fulham Law Centre (Councillor Phibbs)	269,927
Hammersmith United Charities (Councillor White and Councillor Phibbs)	322,819
London Development Agency (Councillor Powell)	5,940
London Councils (Councillor Karmel)	56,632
Lyric Theatre (Councillor Lillis, Councillor Brocklebank-Fowler)	389,272
Old Oak Housing Association (Councillors Harcourt and Botterill)	61,963
Reed Business Information Ltd (Councillor Ford)	2,027
Riverside Trust (Councillor Cowan)	5,195
Shepherds Bush Housing Association (Councillor Phibbs)	48,754
Sulgrave Youth Club (Councillor Phibbs)	26,148
Townmead Youth Group (Councillor Hamilton)	1,688
Urban Partnership Group (Councillor Phibbs)	156,622
West London Mental Health NHS Trust (Councillor Umeh)	1,218,932

In addition to the above, thirteen Councillors are School Governors within the borough.

Two Councillors act as the Council's representatives on the board of H and F Homes. The Council has delegated responsibility for overseeing the management and maintenance of its residential stock by H and F Homes. This is in accordance with the five year management agreement that was signed on 27 May 2004 and was effective from 1 June 2004. The Council pays H and F Homes a monthly management fee and in 2006/07 the annual fee amounted to £19.9 million.

H and F Homes 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.

14. MEMBERS' ALLOWANCES

The total allowances paid to members in 2006/07, including travel and subsistence allowances, amounted to £828,459 (£835,654 in 2005/06).

15. 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 2006/07 all main programme voluntary sector grants expenditure across all departments were covered under the Local Government Act 2000.

16. 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:

	2005/06 Total £000s	2006/07		
		Chargeable £000s	Non-chargeable £000s	Total £000s
EXPENDITURE				
Employee Costs	1,303	990	330	1,320
Transport	20	15	5	20
Supplies and Services	36	35	12	47
Support Costs	326	297	99	396
Total Expenditure	1,685	1,337	446	1,783
INCOME				
Building Regulation Charged	(1,318)	(1,346)	0	(1,346)
Other Income	(44)	(31)	(13)	(44)
Total Income	(1,362)	(1,377)	(13)	(1,390)

(Surplus)/Deficit	323	(40)	433	393
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17. FEES PAYABLE TO THE AUDIT COMMISSION

The following fees were payable to the Audit Commission:

	2005/06 £000s	2006/07 £000s
External audit services	352	377
Statutory inspection	14	26
Certification of grant claims and returns	169	183
TOTAL	535	586

18. JOINT ARRANGEMENTS

Under Section 31 of the Health Act 1999, NHS bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services and pooled budgets. A Community Equipment Service and a Learning Disabilities Service are provided under partnership agreements with Hammersmith and Fulham Primary Care Trust. In addition, Hammersmith Hospital Trust became a partner for the Community Equipment Service in 2006/07. The Council acts as the accountable body. The budget memorandum accounts are summarised in the table below:

	2005/06		2006/07	
	Community Equipment £000s	Learning Disabilities £000s	Community Equipment £000s	Learning Disabilities £000s
Original Contributions				
London Borough of Hammersmith and Fulham	(560)	(8,281)	(423)	(8,814)
Hammersmith and Fulham Primary Care Trust	(133)	(7,274)	(137)	(8,577)
Hammersmith Hospital Trust	0	0	(30)	0
Total Original Contributions	(693)	(15,555)	(590)	(17,391)
Total Expenditure	801	16,143	806	17,260
Net Overspend/(Under-spend)	108	588	216	(131)
(Additional)/Reduced Contributions Required				
London Borough of Hammersmith and Fulham	(54)	(368)	1	235
Hammersmith and Fulham Primary Care Trust	(54)	(220)	(217)	(104)

Hammersmith Hospital Trust	0	0	0	0
Revised Contributions				
London Borough of Hammersmith and Fulham	(614)	(8,649)	(422)	(8,579)
Hammersmith and Fulham Primary Care Trust	(187)	(7,494)	(354)	(8,681)
Hammersmith Hospital Trust	0	0	(30)	0
Total Revised Contributions	(801)	(16,143)	(806)	(17,260)

The 2005/06 figures have been re-stated by the inclusion of "Ringed-Fenced Budgets" in order to ensure comparability with the figures now reported for 2006/07.

19. PRIVATE FINANCE INITIATIVE

In 2004/05 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 a PFI 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 has been 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 £215m, of which £208m was remaining as at the end of 2006/07. This cost is shared between the Council and the Hammersmith and Fulham Primary Care Trust. In 2006/07, the Council's full unitary payment was £5.133m.

20 (i) FIXED ASSETS MOVEMENTS

	Operational Assets					Non Operational Assets					TOTAL £000s
	HRA Dwellings £000s	Other Land & Buildings £000s	Infrastruct ure £000s	Vehicles Plant & Equipment £000s	Communit y Assets £000s	HRA Other Assets £000s	Assets Under Construction £000s	Surplus Assets for Disposal £000s	Investment Properties £000s	Intangible Assets £000s	
Gross Value at 01/4/2006	1,037,140	335,061	111,931	13,661	1,723	38,259	7,243	15,599	16,523	1,729	1,578,869
Additions	28,767	9,953	10,111	1,964	2,755	275	3,158	0	0	42	57,025
Adjustments and Reclassifications	(119)	(479)	0	(150)	2,368	0	(2,368)	(669)	(434)	0	(1,851)
Revaluations	109,312	14,678	0	0	0	0	0	1,800	5,757	0	131,547
Disposals	(6,841)	(3,964)	0	0	0	0	0	(4,166)	0	0	(14,971)
Gross Value at 31/03/2007	1,168,259	355,249	122,042	15,475	6,846	38,534	8,033	12,564	21,846	1,771	1,750,619
Depreciation at 01/04/2006	0	(2,792)	(16,982)	(4,025)	(280)	(760)	0	0	0	(664)	(25,503)
Adjustments	0	31	0	0	0	0	0	0	0	0	31
Revaluation	9,763	2,884	0	0	0	0	0	0	0	0	12,647
Disposals	0	4	0	0	0	0	0	0	0	0	4
Depreciation for year	(9,763)	(4,420)	(5,411)	(2,528)	(142)	(541)	0	0	0	(433)	(23,238)
Depreciation at 31/03/2007	0	(4,293)	(22,393)	(6,553)	(422)	(1,301)	0	0	0	(1,097)	(36,059)
Net Book Value at 31/3/2007	1,168,259	350,956	99,649	8,922	6,424	37,233	8,033	12,564	21,846	674	1,714,560

20 (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 table above summarises 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 Environment Services' portfolio took place with effect from 1st April 2006. These assets were re-valued to £42.891m (Land & Buildings) + £10.778m (Investment Properties)

The annual revaluation of the Housing stock in 2006/07 gave a new gross value of £1,143m. These values took effect from 1st April 2006.

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

	HRA Stock and Other Assets £000s	Other Land and Buildings £000s	Vehicles, Plant and Equipment £000s	Non- Operational Assets £000s	Total £000s
Valued at Historical Cost	0	0	15,475	0	15,475
Valued at Current Value in:					
2006/07	1,204,542	355,985	0	42,443	1,602,970
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

20 (iii) Capital Commitments

Capital commitments on major schemes at 31st March 2007 totalled £48.4m, within the Children's Services, Community Services and Environment Services Departments.

- Children's Services - £1.7m has been approved for a three year scheme to expand Wendall Park Primary School by an additional 150 school places. The DFES have also approved £5.5m of funding for the Transforming Secondary Education project.
- Various housing stock refurbishment projects totalling £18.7m are currently underway. Decent Homes Partnering Contracts have commenced in 2006/07 – there are future commitments on these of £17m. A major adaptations and improvements project for the Council's hostel accommodation at 229, King Street of £1m is also on-going.

- There are commitments of £4.5m in the Environment Services Department –Annual capital budget for carriageways £1.4m; Phase 2 of Streetscape works King Street £1.0m; Refurbishment of Normand Park £2.1m.

20 (iv) Fixed Assets Held

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

	31 March 2006 (Numbers)	31 March 2007 (Numbers)
Operational Assets		
Council Dwellings	13,094	13,043
Town Halls	2	2
Offices	10	10
Cemeteries	4	4
Swimming Pools and Sports Centres	4	4
Libraries	6	6
Play Facilities	12	12
Social Service Establishments	37	36
Depots	5	5
Secondary Schools	5	5
Primary and Nursery Schools	26	26
Special Schools	6	6
Other Education Premises	23	20
Other Land and Buildings	46	45
Infrastructure Assets		
Bridges	1	1
Community Assets		
Parks and Open Spaces (hectares)	191	191
Non-operational Assets		
Shops	126	122
Industrial Units	9	9
Other	74	70

20 (v) Capital Expenditure and Funding

	2005/06 £000s	2006/07 £000s
Opening Capital Financing Requirement	352,689	382,046
Capital Investment		
Operational Assets	51,426	52,919
Non Operational Assets	5,576	3,158
Non Enhancing Expenditure	11,528	9,237
Deferred Charges	6,344	4,954
Sources of finance		
Useable Capital Receipts	(15,535)	(12,085)
Government Grants	(19,135)	(16,167)
Major Repairs Reserve	(844)	(2,325)
Planning Agreement Funds	(1,753)	(1,643)
Other Capital Contributions	(3,479)	(1,098)
Sums set aside from Revenue	(4,771)	(5,949)
Closing Capital Financing Requirement	382,046	413,047
Explanation of movements in year		
Increase in underlying need for Supported Borrowing	28,190	30,360
Increase in underlying need for Unsupported Borrowing	1,167	641
Increase in Capital Financing Requirement	29,357	31,001

20 (vi) Intangible Assets

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

21. 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 at 1/4/2006	0	0	0
Expenditure In Year	3,796	1,158	4,954
Less: Written off in Year	(3,796)	(1,158)	(4,954)
Balance at 31/3/2007	0	0	0

22. LONG-TERM DEBTORS

	2005/06 £000s	2006/07 £000s
House Purchase	265	226
Sale of Council Dwellings	1,059	966
Car Loans	49	8
TOTAL	1,373	1,200

23. STOCK

	2005/06 £000s	2006/07 £000s
Stocks-Trading	333	267
Stocks-Other	53	46
TOTAL	386	313

24. DEBTORS

	2005/06 £000s	2006/07 £000s
Government Departments	35,573	19,386
Other Public Bodies	5,966	5,174
Housing Rents	4,267	3,799
Business Rates	11,600	9,466
Council Tax	10,287	9,863
Sundry Debtors	40,270	79,782
Car and Other Employee Loans	141	114
Payments in Advance	4,474	4,255
	112,578	131,839
Less:		
Provision for Doubtful Debts	(29,397)	(75,683)
TOTAL	83,181	56,156

Following a change in accounting policy, the 2006/07 Sundry Debtors figure now includes £46.2m for parking debt. This is partially offset by an increase of £44.6m in the provision for doubtful debts.

25. CASH BALANCES

	2005/06 £000s	2006/07 £000s
Bank/Petty Cash Balances	309	204
School Bank Accounts	9,505	9,793
Sub-total	9,814	9,997
Cash Balances Overdrawn	(7,633)	(7,823)
TOTAL	2,181	2,174

26. CREDITORS

	2005/06 £000s	2006/07 £000s
Government Departments	(17,996)	(20,700)
Other Public Bodies	(5,090)	(2,728)
Housing Rents	(1,470)	(1,547)
Business Rates	(7,213)	(6,530)
Council Tax	(4,910)	(4,049)
Sundry Creditors	(37,494)	(45,683)
TOTAL	(74,173)	(81,237)

27. OTHER LOANS REPAYABLE

	2005/06 £000s	2006/07 £000s
Other loans repayable (less than one year)	(5,000)	0
TOTAL	(5,000)	0

28. LONG-TERM BORROWING

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

	2005/06 £000s	2006/07 £000s
PWLB	(353,520)	(378,520)
TOTAL	(353,520)	(378,520)

The maturity profile for these loans is shown below:

	31 March 2006 £000s	31 March 2007 £000s
One to two years	0	0
Between two and five years	0	16,000
Between five and ten years	84,056	65,456
More than ten years	269,464	297,064
TOTAL	353,520	378,520

29. PROVISIONS

	2005/06 £000s	Movement in Year £000s	2006/07 £000s
Insurance	(3,030)	(1,101)	(4,131)
Section 117	(898)	129	(769)
Stamford House Closure Costs	(453)	453	0
Notting Hill Lease	0	(570)	(570)
TOTAL	(4,381)	(1,089)	(5,470)

The Authority maintains an Insurance Provision (balance at 31 March 2007 £4.131m) 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. 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 Community Services Department to monitor repayments made.

The Stamford House Closure Costs provision has been written back in 2006/07 as this is no longer required.

The Council established a provision of £570k in 2006/07 to meet a claim by Notting Hill Housing Trust in respect of a deficit arising from 20 year leasing arrangements made with the Trust for a number of properties commencing in December 1987.

30. DEFERRED LIABILITIES

	2005/06 £000s	2006/07 £000s
Finance Leases	(588)	(207)
Property Lease	(86)	0
Frozen Holiday Pay	(48)	(44)
TOTAL	(722)	(251)

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 2006/07 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.

31. 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.

32 (i) EARMARKED RESERVES

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

	Balance 1 April 2006 £000s	Net Movement in Year £000s	Balance 31 March 2007 £000s
Insurance Funds	(1,829)	857	(972)
Controlled Parking Fund	(212)	(622)	(834)
Computer and IT Funds	(871)	(15)	(886)
Invest to Save and Modernisation	(4,618)	(1,825)	(6,443)
Debtors and Creditors Review	(208)	(89)	(297)

Prudential System Transition	(8,970)	8,970	0
Housing Benefit Reserve	(1,550)	(1,712)	(3,262)
Trading Services Contingency	(1,830)	500	(1,330)
General Contingency Reserve	(719)	0	(719)
Planning Inquiries Reserve	(139)	0	(139)
Departmental Carry Forwards	(1,554)	747	(807)
Single Status Reserve	(720)	(720)	(1,440)
LPSA1 Reward Grant Reserve	(636)	97	(539)
Other Funds	(1,917)	(547)	(2,464)
NNDR Academy Reserve	0	(2,300)	(2,300)
Borough Construction Reserve	0	(638)	(638)
Zero Tolerance Policing Reserve	0	(3,720)	(3,720)
Market Testing Reserve	0	(500)	(500)
Corporate Finance Business System	0	(144)	(144)
Community Services Contingency	0	(616)	(616)
LPFA Top-up Reserve	0	(22)	(22)
Safeguarding of Children in Foster Care	0	(200)	(200)
No Recourse to Public Funds	0	(200)	(200)
CEDAR Financial	0	(462)	(462)
Civic Accommodation Reserve	0	(325)	(325)
S 117 Reserve	0	(200)	(200)
TOTAL	(25,773)	(3,686)	(29,459)

32 (ii) FIXED ASSET RESTATEMENT ACCOUNT

	Balance 1 April 2006 £000s	Net movement in year £000s	Balance 31 March 2007 £000s
Fixed Asset Restatement Account	(900,579)	(119,538)	(1,020,117)
TOTAL	(900,579)	(119,538)	(1,020,117)

32 (iii) CAPITAL FINANCING ACCOUNT

	Balance 1 April 2006 £000s	Net Movement in year £000s	Balance 31 March 2007 £000s
Capital Financing Account	(214,673)	1,109	(213,564)
TOTAL	(214,673)	1,109	(213,564)

32 (iv) CAPITAL RESERVES

	Balance 1 April 2006 £000s	Net Movement in year £000s	Balance 31 March 2007 £000s
Capital Reserves	(4,093)	(771)	(4,864)
TOTAL	(4,093)	(771)	(4,864)

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 were provided to smooth the transition to the Prudential System of capital finance. The fund was closed in 2006/07.
- (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.
- (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.
- (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.
- (xv) **NNDR Academy Reserve** – this reserve has been established to provide funding in respect of a reconciliation difference between the Council's general ledger and the Academy system. Work is currently in progress to identify the reasons for the discrepancy.
- (xvi) **Borough Construction Reserve** – this reserve has been created to offset exit

costs that will arise from the loss of contracts by Borough Construction.

- (xvii) **Zero Tolerance Policing Reserve** – these funds are set aside with regard to a pilot project on zero tolerance policing.
- (xviii) **Market Testing Reserve** – this reserve is established to enable the Council’s Direct Services Organisation to obtain external support so that it can prepare and deliver efficient, competitive and economically sustainable bids as part of the market testing of waste collection, street cleansing and grounds maintenance services.
- (xix) **Corporate Finance Business Systems** – this reserve consists of the 2006/07 budget provision that has slipped into 2007/08 to support the ongoing development and maintenance of business systems to secure best accounting balance.
- (xx) **Community Services Contingency** – these funds are provided to meet projected cost pressures, mainly from demand led services, for Community Services. Further action is being taken to contain future pressures within budget.
- (xxi) **LPFA Top-Up Reserve** – this has been set up to cover past service adjustments.
- (xxii) **JAR Implementation Reserve** – these funds are set aside to address issues arising from the Joint Area Review of Children’s Services, particularly regarding the safeguarding of children who are in Foster Care.
- (xxiii) **No Recourse to Public funds** – this reserve is established to provide services to people who have no recourse to public funds.
- (xxiv) **Cedar Financial** – these funds are provided for the re-implementation of the Cedar Financials Information System.
- (xxv) **Civic Accommodation Reserve** – this money is set aside to meet the preliminary costs that are emerging in connection with the Council’s Civic Accommodation project.
- (xxvi) **S 117 Reserve** – this money has been set aside to meet the costs of any new cases arising in 2007/08.

33. REVENUE RESERVES AND BALANCES

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

	2005/06 £000s	2006/07 £000s
General Fund	(14,253)	(12,274)
Housing Revenue Account	(4,548)	(8,136)
Collection Fund	(1,297)	(3,129)
Education Establishment Account	(9,969)	(10,578)
TOTAL	(30,067)	(34,117)

- (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.

34. 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 (£351,459 in 2006/07 and £344,568 in 2005/06). The latest audited accounts available, those relating to 2005/06, show net assets of £3,198,115 (£3,356,579 in 2004/05) and a surplus on its activities in the year of £158,464 (a surplus £286,698 in 2004/05). 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. The Council guaranteed a loan amounting to £6.1m and interest thereon to the Company which is secured on the property. This property was leased to the council in 1987, as office accommodation for a period of twenty years, at an annual rent of £711,000. The Council had an option to purchase the Company's property, exercisable at any time during the period of tenancy. This option was exercised by a deed of release dated November 2006. The latest available audited accounts, those relating to the year ended 31 December 2005, show net current assets of £1,113 (£6,100,909 in 2004) and a profit of £204 (£641 in 2004). The company ceased to be, for the purposes of this disclosure note, an associated company of the council from December 2006. Copies of the accounts may be obtained from the Company Secretary, Hunchbuy Limited, 1 Finsbury Avenue, London EC2M 2PP.

(iii) **Hammersmith and 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 and Fulham. The Council is the main source of grant funding for the charity. The charity's latest audited accounts available, those relating to 2005/06 show net assets worth £46,722 (£43,074 in 2004/05). A surplus of £3,648 has been reported for 2005/06 (£4,357 in 2004/05). Copies of the accounts may be obtained from the Company Secretary, Hammersmith and Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

35. 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 an 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 the 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 £1.4m. Legal Services and Corporate Property Services are currently in negotiations with the freeholder through his solicitor.

(iv) **Single Status**

In accordance with the National Single status agreement on local government conditions of service and pay scales, the Council has undertaken an equal pay audit. The Council is in negotiation with the Trade Unions regarding the implementation of Single Status and the Union's assertion that the Council has an equal pay risk.

The Council has established an earmarked reserve of £1.4m to fund potential equal pay claims and has a base 2007/08 budget allocation of £1.1m to finance the ongoing costs of the re-gradings necessary under single status.

36. 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. The table below shows the operating costs and income of the Trust.

	31 March 2006 £000s	31 March 2007 £000s
Balance at 1 April	(295)	(244)
Income	(611)	(591)
	(906)	(835)
Less:		
Expenditure and Transfers	662	370
Balance at 31 March	(244)	(465)

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.

The Trust's accounts are incorporated into the consolidated Group Accounts which are reported on elsewhere in this statement.

37. COSTS ASSOCIATED WITH THE EURO

Costs incurred in 2006/07 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.

38. ANALYSIS OF NET ASSETS EMPLOYED

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

	2005/06 £000s	2006/07 £000s
General Fund	47,464	46,666
Housing Revenue Account	787,321	895,426
Collection Fund	1,297	3,129
	836,082	945,221

39. EVENTS AFTER THE BALANCE SHEET DATE

There are no material events after the balance sheet date to report.

40. BUSINESS IMPROVEMENT DISTRICT SCHEMES

Greater Hammersmith is the name of the organisation formed in 2006/07 to deliver a Business Improvement District Scheme (BIDS) to Central Hammersmith. The aim of the BID is to make the area a better place to work, live, shop and socialize.

The Council is the billing authority and collects a levy from business rate payers on behalf of the BID organisation. A total of £3m is expected to be raised and spent exclusively in the Central Hammersmith BID area over the next 5 years. The amounts collected and paid over in 2006/07 are as follows:

	2005/06 £000s	2006/07 £000s
Income		
BID Levy Income	0	(534)
Cost of collection paid by Greater Hammersmith	0	(17)
Total Income	0	(551)
Expenditure		
Payments to Greater Hammersmith to provide improved services	0	492
Cost of collecting levy	0	17
Total Expenditure	0	509
Surplus carried forward	0	(42)

41. GOVERNMENT GRANTS

An analysis of grants shown in the Cash Flow Statement is shown below:

	2005/06 £000s	2006/07 £000s
Aids and HIV	650	310
Supporting People	13,507	12,819
Education Standards Fund	17,495	18,068
New Deal for Communities and Single Regeneration Budget	6,964	7,696
Mental Health Grants	1,520	911
Community Care Grant	3,608	2,492
Dedicated Schools Grant	0	79,033
Housing Subsidy	12,753	16,002
Mandatory Rent Allowances	102,002	114,969
Council Tax Benefit Grant	16,722	17,531
Housing Benefit Administration	2,204	3,157
Asylum Seekers	4,755	2,885
Sure Start	3,024	2,297
Youth Offending Team	869	787
NNDR Collection Allowance	495	499
Transport Grants	1,725	1,104
Asset Management	208	246
Housing Grants	2,444	589
Minority Ethnic Pupils	1,621	1,752
Funding for Sixth Forms	6,978	7,139
Children's Trust	756	117
Other Education Grants	6,143	8,112
Other Social Services Grants	7,319	7,683
Capacity Building Grant	1,750	3,283

London Centre of Excellence	1,650	1,239
Performance Reward Grant	636	471
Other Grants	592	2,783
TOTAL GRANTS	218,390	313,974

42. RECONCILIATION OF REVENUE MOVEMENTS TO NET CASHFLOW

The 2005/06 comparatives in the Cash Flow Statement have been adjusted to reflect the accounting treatment in the 2006/07 accounts of the GLA precept and the levies.

	2005/06		2006/07	
	£000s	£000s	£000s	£000s
Net Deficit on Income and Expenditure Account		38,465		20,556
Remove non cash transactions				
Pensions	(15,263)		(14,269)	
Depreciation	(20,473)		(24,067)	
Government Grants Deferred	1,590		2,624	
Deferred Charges	(6,344)		(4,954)	
Transfer to MRA	(313)		828	
Provisions	1,163		(1,089)	
Other Adjustments	(5,210)	(44,850)	(258)	(41,185)
Items on an accruals basis				
Increase/(decrease) in debtors	10,367		(26,736)	
(Increase)/decrease in creditors	(5,107)		(6,401)	
Increase/(Decrease) in Stocks	(84)	5,176	(73)	(33,210)
Financing Items Shown Later In Cash Flow Statement		(21,889)		(18,056)
Net Cash Inflow From Revenue Activities		(23,098)		(71,895)

43. MOVEMENTS IN CASH AND CASH EQUIVALENTS

The actual 2006/07 movements in cash and cash equivalent balances are shown in the following table:

	Balance 1 April 2006 £000s	Balance 31 March 2007 £000s	Net Movement in Year £000s
Petty Cash Imprests	309	204	(105)
Cash Overdrawn	(7,633)	(7,823)	(190)
Education Establishments	9,505	9,793	288
	2,181	2,174	(7)

44. RECONCILIATION OF ITEMS UNDER FINANCING AND MANAGEMENT OF LIQUID RESOURCES TO THE OPENING AND CLOSING BALANCE SHEETS

	Balance 1 April 2006 £000s	Balance 31 March 2007 £000s	Net Movement in Year £000s
Short Term Investments	44,700	91,000	46,300
	44,700	91,000	46,300

SUPPLEMENTARY FINANCIAL STATEMENTS

COLLECTION FUND ACCOUNT

HRA INCOME AND EXPENDITURE ACCOUNT

STATEMENT OF MOVEMENT ON HRA BALANCE

GROUP ACCOUNTS

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	2005/06 £000s	2006/07 £000s
INCOME			
Income from Council Tax	1	(73,036)	(76,629)
Transfers from General Fund:			
- Council Tax Benefits		(16,472)	(17,221)
Non-Domestic Rate Income		(92,136)	(107,180)
Contributions towards previous year's Collection Fund Deficit		(2,499)	0
TOTAL INCOME		(184,143)	(201,030)
EXPENDITURE			
Precepts and Demands	3	86,812	91,273
Non-Domestic Rates			
- Payment to National Pool	2	91,641	106,681
- Costs of Collection		495	499
Bad and Doubtful Debts/Appeals			
- Write offs		970	1,473
- Provisions		549	(728)
TOTAL EXPENDITURE		180,467	199,198
Change in Fund Balance in year		(3,676)	(1,832)
(Surplus)/Deficit as at 1 April		2,379	(1,297)
(Surplus)/Deficit as at 31 March		(1,297)	(3,129)

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 2006/07 it was calculated as follows:

Band	Estimated Number of Taxable Properties after Discounts and Exemptions	Ratio to Band D	Band D Equivalent Dwellings
A	2,135	6/9	1,423
B	4,177	7/9	3,249
C	10,453	8/9	9,291
D	18,405	1	18,405
E	12,170	11/9	14,874
F	7,748	13/9	11,192
G	9,485	15/9	15,808
H	1,704	18/9	3,408
	66,277		77,650

2. NATIONAL NON-DOMESTIC RATES

NNDR is organised and administered on a national basis. The government specifies an amount (43.3p in 2006/07) 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 £107.180m for 2006/07 (£92.136m for 2005/06). The rateable value at 31st March 2007 was £296.4m (£305.1m at 31st March 2006.)

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.

	2005/06 £000s	2006/07 £000s
London Borough of Hammersmith & Fulham	67,725	69,423
Greater London Authority	19,087	21,850
	86,812	91,273

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.

2005/06			2006/07
Net Expenditure £000s		Note	Net Expenditure £000s
	INCOME		
(48,019)	Dwellings Rents (Gross)		(50,189)
(2,250)	Non-dwelling Rents (Gross)		(2,280)
(9,325)	Charges for Services and Facilities		(8,663)
(511)	Contributions towards Expenditure		(594)
(12,600)	HRA Subsidy Receivable (including MRA)	7	(15,430)
(72,705)	Total Income		(77,156)
	EXPENDITURE		
	Repairs, Maintenance and Management		
13,352	Repairs and Maintenance		14,081
22,957	General Management		20,815
7,054	Special Services		9,172
1,842	Rent, Rates, Taxes and Other Charges		2,387
534	Provision for Doubtful Debts		503
11,662	Depreciation of Fixed Assets	6	10,220
116	Debt Management Costs		109
(15,188)	Net Cost of HRA Services included in the whole authority Income and Expenditure Account		(19,869)
567	HRA Services Share of Corporate and Democratic Core		497
(14,621)	Net Cost of HRA Services		(19,372)
	HRA Share of the Operating Income and Expenditure included in the whole authority Income and Expenditure Account		
274	(Gain)/Loss on Disposal of HRA Fixed Assets		132
13,379	Interest payable and similar charges		14,308
1,778	Amortisation of Premiums and Discounts		1,860
(603)	Investment Income		(1,319)
309	Pensions Interest Costs and Expected Return on Pension Assets		164
516	Surplus for the year		(4,227)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

	2005/06 £000s	2006/07 £000s
(Surplus)/Deficit for year on HRA Income and Expenditure Account	516	(4,227)
Government Grants Deferred Amortisation	49	85
Gain/(Loss) on Sale on HRA Fixed Assets	(274)	(132)
HRA share of Contributions to/from Pensions Reserve	(440)	(231)
Capital Expenditure funded by HRA	89	89
Transfer to/from Major Repairs Reserve	(313)	828
Increase/(decrease) in Housing Revenue Account Balance for year	(373)	(3,588)
HRA Balance brought forward	(4,175)	(4,548)
HRA Balance carried forward	(4,548)	(8,136)

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 2006/07 was 13,262. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents (three bed spaces equals one dwelling).

	Dwellings	Hostels	Equity Share	Total
Number at 1 April 2006	13,094	175	18	13,287
Audit Adjustments	(8)	0	0	(8)
Voids for Demolition (included above)	0	0	0	0
	13,086	175	18	13,279
Right to Buy Sales	(40)	0	0	(40)
Rent to Mortgage sales	(3)	0	0	(3)
Other Changes	0	0	0	0
Voids for Demolition	0	0	0	0
Number at 31 March 2007	13,043	175	18	13,236

2. STOCK VALUATION

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

	1 April 2006 £000s	31 March 2007 £000s
Operational Assets		
Housing Stock	1,037,140	1,168,259
Non Operational Assets		
Other Land and Building	13,781	13,781
Other Properties	22,208	22,208
Other Assets	1,509	1,244
TOTAL	1,074,638	1,205,492

The open market, vacant possession value of hostels, houses and flats within the HRA as at 1 April 2006 was £3,090m. This compares to the balance sheet value of £1,037m for the hostels, houses and flats as at 1 April 2006. This 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.

	2005/06 £000s	2006/07 £000s
Balance as at 1 April	(234)	(10,788)
Depreciation Charges to HRA	(11,711)	(10,305)
Adjusting Transfer from HRA:		
Depreciation on Non-Dwellings	512	542
Excess / (Shortfall) of Depreciation on Dwellings over MRA	(199)	(1,369)
Funding of Expenditure	844	2,325
Balance as at 31 March	(10,788)	(19,595)

4. CAPITAL EXPENDITURE FINANCING

Capital expenditure, mainly on dwellings, amounted to £31.2m (£29.1m in 2005/06) in the year. The following summary shows how this was funded:

	2005/06 £000s	2006/07 £000s
Borrowing	27,380	28,707
Major Repairs Reserve	844	2,325
Other Grants and Contributions	2,173	189
Capital Accrual	(1,281)	0
TOTAL	29,116	31,221

5. CAPITAL RECEIPTS

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

	2005/06 £000s	2006/07 £000s
Land	1,640	0
Dwellings	14,942	7,531
TOTAL	16,582	7,531

6. DEPRECIATION

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

	2005/06 £000s	2006/07 £000s
Dwellings	11,198	9,763
Other Housing Assets	513	542
Government Grants Deferred	(49)	(85)
TOTAL	11,662	10,220

7. HRA SUBSIDY

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

	2005/06 £000s	2006/07 £000s
Allowance for Management	12,885	13,345
Allowance for Maintenance	19,743	20,458
Allowance for Major Repairs	11,398	11,132
Charges for Capital	15,487	19,360
Admissible Allowance	162	81
Other Items	1,141	1,161
Rent	(47,941)	(51,105)
Interest on Receipts	(120)	(100)
Anti Social Behaviour Allowance	0	874
Housing Element	12,755	15,206
Adjustment for Previous Year	(3)	224
	12,752	15,430
Rent Rebate Element	(152)	0
TOTAL	12,600	15,430

8. RENT ARREARS AND BAD DEBT PROVISIONS

Gross rent arrears were as follows:

	31 March 2006 £000s	31 March 2007 £000s	Change £000s
Main Council Stock	3,917	3,596	(321)
Hostels	350	203	(147)
TOTAL	4,267	3,799	(468)

Bad debt provisions at 31 March 2007 were:

	Total 2005/06 £000s	Pre-Ringfenced (HGF) £000s	Ringfenced (HRA) £000s	Total 2006/07 £000s
Main Council Stock	2,867	1,842	615	2,457
Hostels	181	209	0	209
TOTAL	3,048	2,051	615	2,666

9. 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 5 to the Core Financial Statements provides further details.

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.

Three entities have been identified for consolidation into the Group Accounts. These are H and F Homes (HFH), Wormwood Scrubs Charitable Trust (WSCT) and The Bridge Partnership (HFBP).

HFH 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.

The Bridge Partnership (HFBP) is a joint venture between Agilisys (80.1%) and the Council (19.9%). The contract between HFBP and the Council is for ten years and commenced on the 1st November 2006. During this period, HFBP will provide IT services to the Council and provide significant capital investment in a range of projects. As the Council is deemed to have a significant influence over HFBP, the relationship is recognised for Group accounting purposes as an Associate member. The profit for the year has been adjusted to bring the accounting policies in line with the rest of the Group.

HFH 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 five financial statements;

- Group Income and Expenditure Account
- Reconciliation of the single entity surplus or deficit to the group surplus or deficit
- Group Statement of Total Recognised Gains and Losses
- Group Balance Sheet
- Group Cash Flow Statement

GROUP INCOME AND EXPENDITURE ACCOUNT

	2005/06	2006/07		
	Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Central Services to the Public	7,846	33,885	(28,563)	5,322
Cultural, Environmental and Planning	31,009	68,382	(30,487)	37,895
Education	93,289	158,497	(143,900)	14,597
Highways and Transport	(1,952)	27,118	(28,825)	(1,707)
Housing Services				
Housing General Fund	16,392	159,468	(146,640)	12,828
Housing Revenue Account	(15,343)	56,563	(77,156)	(20,593)
Social Services	87,558	138,340	(46,851)	91,489
Non-distributable Costs	878	4,428	(3,358)	1,070
Share of Operating Results of Associates	0	375	0	375
Corporate and Democratic Core	8,929	14,744	(4,885)	9,859
Net Cost of Services	228,606	661,800	(510,665)	151,135
(Gain)/Loss on Disposal of Fixed Assets	474	404	0	404
Cost of Levies	6,438	6,618	0	6,618
Surpluses/Deficits on Trading Services	1,383	37,410	(37,075)	335
Interest Payable and similar Charges	25,595	26,184	(2)	26,182
Contribution to Housing Pooled Capital				
Receipts	10,856	5,447	0	5,447
Interest and Investment Income	(2,693)	0	(4,361)	(4,361)
Pensions Interest Cost	37,477	39,699	0	39,699
Pensions expected Return on Assets	(25,494)	0	(28,834)	(28,834)
Taxation of Group Entities	50	110	0	110
Net Operating Expenditure	282,692	777,672	(580,937)	196,735
Demand on the Collection Fund	(65,758)	0	(69,423)	(69,423)
General Government Grants	(120,421)	0	(17,173)	(17,173)
Contribution from NNDR Pool	(58,052)	0	(89,800)	(89,800)
Deficit for the year	38,461	777,672	(757,333)	20,339

RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT TO THE GROUP SURPLUS OR DEFICIT

	2005/06	2006/07		
	Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
(Surplus)/Deficit on Council's single entity Income and Expenditure Account	38,465	775,646	(755,090)	20,556
(Surplus)/Deficit arising from Subsidiaries				
Hand F Homes	(54)	1,286	(1,650)	(364)
Wormwood Scrubs Charitable Trust	50	365	(591)	(226)
IT Bridge Partnership	0	375	(2)	373
Group Account (Surplus)/Deficit	38,461	777,672	(757,333)	20,339

GROUP STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

	2005/06 £000s	2006/07 £000s
Deficit for year on Group Income and Expenditure Account	38,377	20,192
Government Grants credited directly to Reserves	(7,597)	(5,552)
(Surplus)/Deficit arising on the Revaluation of Fixed Assets	34,658	(134,511)
Actuarial (gains)/losses on Pension Fund Assets and Liabilities	8,343	12,910
Deferred tax arising on (loss)/gain on the Pension Scheme	297	(213)
Revisions to 2004/05 Actuary Report	(5,483)	0
Prior year adjustment on full adoption of FRS 17	1,743	0
(Surplus)/Deficit on LBHF proportion of Collection Fund	(3,676)	(1,832)
Total Recognised (Gains)/Losses for the year	66,662	(109,006)

GROUP BALANCE SHEET

	At 31 March 2006		At 31 March 2007	
	£000s	£000s	£000s	£000s
FIXED ASSETS				
Intangible Fixed Assets	1,065		674	
Tangible Fixed Assets	1,557,301		1,718,886	
		1,558,366		1,719,560
Long Term Investments		100		100
Long Term Debtors		1,373		1,200
Deferred Premiums		11,625		9,451
		1,571,464		1,730,311
Current Assets				
Stock and Work in Progress	386		313	
Debtors	83,351		54,551	
Short Term Investments	44,700		91,000	
Cash in Hand	15,060		14,652	
		143,497		160,516
Total Long-Term Assets		1,714,961		1,890,827
Current Liabilities				
Creditors	(78,829)		(83,038)	
Short Term Borrowing	(5,000)		0	
Cash Balances Overdrawn	(7,633)		(7,823)	
		(91,462)		(90,861)
Total Assets less Current Liabilities		1,623,499		1,799,966
Long Term Liabilities				
Long Term Borrowing	(353,520)		(378,520)	
Provisions	(4,381)		(5,470)	
Deferred Liabilities	(722)		(624)	
Government Grants Deferred and	(71,707)		(85,862)	
Deferred Discounts	(547)		(1,141)	
Pensions Liability-LBHF	(341,682)		(369,784)	
Pensions Liability - LPFA	(10,260)		(9,022)	
		(782,819)		(850,423)
Total Assets less Liabilities		840,680		949,543
Financed by:				
Fixed Asset Restatement Account		(900,579)		(1,020,117)
Capital Financing Account		(214,673)		(213,564)
Capital Reserves		(4,093)		(4,864)
Deferred Credits		(889)		(757)
Pensions Reserve - LBHF		341,521		369,728
Pensions Reserve - LPFA		10,260		9,022
Major Repairs Reserve		(10,788)		(19,595)
Earmarked Reserves		(25,773)		(29,459)
Revenue Balances		(30,067)		(34,117)
Wormwood Scrubs Trust		(5,235)		(5,465)
HFH Profit and Loss Reserve		(364)		(728)
HFBP Profit and Loss Reserve		0		373
Net Asset Worth		(840,680)		(949,543)

GROUP CASH FLOW STATEMENT

	2005/06		2006/07	
	£000s	£000s	£000s	£000s
Net Cash Inflow from Revenue Activities		(22,047)		(71,145)
Returns on Investments and Servicing of Finance				
Cash Inflow				
Interest Received	(1,760)		(3,780)	
Cash Outflow				
Interest Paid	23,500		20,941	
Interest Paid for Finance Leases	42		25	
		21,782		17,186
Net Cash (Inflow)/Outflow		(265)		(53,959)
Taxation		16		65
Capital Expenditure and Financial Investment				
Cash inflow				
Sale of Fixed Assets	(26,608)		(18,087)	
Capital Grants Received	(18,120)		(17,124)	
Other Capital Receipts	(2,584)		(6,302)	
		(47,312)		(41,513)
Cash outflow				
Purchase of Fixed Assets	51,426		51,890	
Other Capital Payments	23,841		17,349	
		75,267		69,239
Net Cash (Inflow)/Outflow before Financing		27,706		(26,168)
Management of Liquid Resources		16,900		46,300
Financing				
Cash inflow				
New Loans Raised	(75,000)		(80,000)	
Cash Outflow				
Repayment of Amounts Borrowed	25,500		60,000	
Capital Element of Finance Lease Rental Payment	450		467	
		(49,050)		(19,533)
Net (Increase)/Decrease in Cash		(4,444)		599

NOTES TO THE GROUP CASH FLOW STATEMENT

1. MOVEMENTS IN CASH

The actual 2006/07 movements in cash balances are shown in the following table:

	Balance 1 April 2006 £000s	Balance 31 March 2007 £000s	Net Movement in Year £000s
Cash Balances	7,428	6,829	599

2. RECONCILIATION OF SURPLUS TO NET CASH FLOW

	2005/06		2006/07	
	£000s	£000s	£000s	£000s
Deficit of Group		38,461		20,339
Items on accruals basis				
(Increase)/Decrease in Stocks/ Work in Progress	(84)		(73)	
Increase/(Decrease) in Debtors	12,788		(24,950)	
(Increase)/Decrease in Creditors	(3,639)	9,065	(7,112)	(32,135)
Items classified elsewhere on Cash Flow Statement				
Financing items	(21,632)		(18,279)	
Taxation	(16)	(21,648)	129	(18,150)
Non-cash transactions				
Pensions	(15,623)		(14,589)	
Depreciation	(20,473)		(24,067)	
Government Grants Deferred	(1,590)		2,624	
Deferred Charges	(6,344)		(4,954)	
Transfer to MRA	(313)		828	
Provisions	1,163		(1,089)	
Other transactions	(4,745)		48	
		(47,925)		(41,199)
NET CASH FLOW FROM REVENUE ACTIVITIES		(22,047)		(71,145)

PENSION FUND ACCOUNTS 2006/2007

FUND ACCOUNT

	2005/06		2006/07	
	£000s	£000s		£000s
<u>Contributions & Benefits</u>				
Contributions Receivable				
From Employers	16,839		21,127	
From Members	6,718	23,557	6,875	28,002
Transfers In		5,814		3,064
Other Income		29		30
Benefits Payable				
Pensions	(11,236)		(12,125)	
Pension Increases	(4,521)		(4,893)	
Lump Sum Retirement Benefits	(2,306)		(5,043)	
Lump Sum Death Benefits	(167)	(18,230)	(153)	(22,214)
Payments to and on account of leavers				
Transfers Out		(7,472)		(3,936)
Refund of Contributions		(56)		(25)
State Scheme Premiums		(75)		10
Tax paid to HMRC		0		(159)
Administration Expenses		(826)		(824)
Net Additions (Withdrawals) from dealings with members, employers and others directly involved in the scheme		2,741		3,948
<u>Returns on Investments</u>				
Investment Income		7,989		9,347
Taxation (Irrecoverable Withholding Tax)		(389)		(130)
Change in Market Value of Investments				
Realised		17,643		8,436
Unrealised		56,997		5,697
Investment Management Expenses		(880)		(1,478)
Net Returns on Investments		81,360		21,872
Net Increase (Decrease) in the Fund during the Year		84,101		25,820
Opening Net Assets of the Scheme		347,149		431,250
Closing Net Assets of the Scheme		431,250		457,070

NET ASSETS STATEMENT

	31st March 2006 £000s	31st March 2007 £000s
Investment Assets		
Fixed Interest Securities – Public Sector	16,682	17,639
Fixed Interest Securities – Private Sector	38,084	20,834
Fixed Interest Securities – Overseas	1,844	16,381
Index Linked Securities	34,580	35,146
Equities – UK	76,485	75,538
Equities – Overseas	115,908	119,309
Pooled Investment Vehicles		
Managed Funds – UK Fixed Interest	26,425	27,298
Managed Funds – UK Equities	76,349	94,141
Managed Funds – Overseas Equities	37,389	39,501
Managed Funds – Private Equity	2,268	3,956
Cash Deposits	4,117	5,383
Other Investment Balances		
Amounts Outstanding on Sale of Investments	1,013	1,433
Amounts Outstanding on Purchase of Investments	(1,531)	(943)
Investment Income Due	1,783	2,062
Total Investment Assets	431,396*	457,678*
Net current assets and liabilities		
Contributions due from Employer	47	164
Unpaid Benefits	(221)	(723)
Cash Balances	186	176
Other		
Investment Management Expenses	(172)	(242)
Administration Expenses	(4)	(8)
Combined Benefits	29	30
Tax due to HMRC	(11)	(5)
Total Assets	431,250	457,070

* A detailed breakdown of the investment assets is shown on page 82. The method of valuation is shown on page 79 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 employees and former employees of Hammersmith and Fulham Council and the admitted bodies in the fund. 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, the admitted bodies 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 regulations governing the administration of the pension scheme and those regarding scheme benefits, membership and contributions are updated on a regular basis by central government. A revised scheme is planned to be in place in April 2008.

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, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions also attend the Panel meetings but have no 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 2007, there were 4,423 employees (4,700 at 31st March 2006) contributing to the scheme, 3,747 pensioners (3,694 at 31st March 2006) receiving benefits and 3,850 deferred pensioners (3,410 at 31st March 2006). There are currently 15 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 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) 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.

(d) 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 has been increased from 12.3% to 21.3% in three annual stages of 3.0% with effect from 1 April 2005.

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

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

The next actuarial valuation of the Fund takes place as at 31 March 2007 and the results of the valuation will come into effect from 1 April 2008. The result of this valuation will be known in early 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.

The fund’s assets are managed by four external managers, Legal and General Investment Management invest globally on a passive basis tracking various indices in both equities and fixed interest securities, Goldman Sachs Asset Management manage an active fixed interest portfolio, Majedie Asset Management Ltd manage an active specialist UK equity portfolio and MFS International manage an active Global (ex UK) equity portfolio. Majedie and MFS were appointed in July 2005.

Additionally, the Panel has agreed to invest up to £15 million in four private equity funds. Two managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two by Unigestion which is invested almost 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 2006		31 st March 2007	
	Market Value £000s	Total %	Market Value £000s	Total %
Legal and General	215,430	49.9	228,234	49.9
Goldman Sachs	57,714	13.4	57,840	12.6
Majedie Asset Management	78,157	18.1	86,648	18.9
MFS International	77,827	18.0	80,998	17.7
Barings English Growth Fund	379	0.1	343	0.1
Invesco Private Equity	659	0.2	1,665	0.4
Unigestion Private Equity	1,230	0.3	1,950	0.4
	431,396	100.0	457,678	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.

Northern Trust also provides a performance measurement service for the fund.

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.

	2005/2006 £000s	2006/2007 £000s
Market Value of Investment Assets at 1st April	346,935	431,396
Movements in Year		
Purchase of Investments	156,566	111,709
Sale of Investments	(146,575)	(102,113)
Realised Profit/(Loss) on Sales	17,643	8,436
Unrealised Profit/(Loss) in Market Value	56,997	5,697
Change in Cash Deposits	857	1,266
Change in Debtors and Creditors	(1,027)	1,287
Market Value of Investment Assets At 31st March	431,396	457,678

6. ANALYSIS OF INVESTMENT ASSETS

	31st March 2006		31st March 2007	
	Market Value		Market Value	
	£'000	£'000	£'000	£'000
United Kingdom				
Fixed Interest – Public Sector		16,682		17,639
Fixed Interest – Private Sector		38,084		20,834
Index Linked		34,580		35,146
Equities		76,485		75,538
Pooled Investment Vehicles (Indexed)				
UK Equity	76,349		84,868	
UK Smaller Companies	0		9,273	
Corporate Bonds – Over 10 years	10,706		10,743	
Over 15 years Gilt Index	10,698		10,575	
Over 5 years Index Linked Gilt	5,021		5,980	
		102,774		121,439
Managed Funds – Private Equity (Unlisted)		2,268		3,956
Total United Kingdom		270,873		274,552
Overseas				
Fixed Interest		1,844		16,381
Equities				
North America	73,454		73,928	
Japan	8,612		8,869	
Europe (ex UK)	28,827		33,069	
Pacific Basin	5,015		3,113	
Other	0		330	
		115,908		119,309
Pooled Investment Vehicles (Indexed)				
North America	3,855		3,360	
Japan	8,953		8,492	
Europe (ex UK)	16,765		18,605	
World Advanced Emerging Index	2,173		2,635	
Asia Pacific ex Japan	5,643		6,409	
		37,389		39,501
Total Overseas		155,141		175,191
Cash Deposits		4,117		5,383
Other Investment Balances				
Amounts outstanding on Sale of Investments		1,013		1,433
Amounts outstanding on Purchase of Investments		(1,531)		(943)
Investment Income Due		1,783		2,062
Total Value of Investments		431,396		457,678

7. INVESTMENT INCOME

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

	2005/2006 £000s	2006/2007 £000s
Interest from Fixed Interest Securities	2,843	2,925
Dividends from Equities	4,067	5,272
Income from Index-Linked Securities	762	766
Interest on Cash Deposits	150	287
Currency profit/(loss)	152	(79)
Other	15	176
Total	7,989	9,347

8. FUND PERFORMANCE

Northern Trust, the fund's custodian, is also 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:

	2005/2006 % pa	2006/2007 % pa	3 Years % pa	5 Years % pa
Fund	23.9	5.4	12.5	14.7
Benchmark	23.2	5.0	12.4	14.8

9. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2007, the fund had a commitment to invest a further £11.2million in the four private equity fund of funds managed by Invesco and Unigestion. It is anticipated that these commitments will be spread over the next seven 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.

	Employer 2005/06 £000s	Employer 2006/07 £000s	Employee 2005/06 £000s	Employee 2006/07 £000s
Scheduled Bodies				
LB Hammersmith and Fulham	14,841	17,753	5,956	5,985
H & F Homes	1,662	2077	626	633
Mortlake Crematorium Board	32	38	11	12
London Oratory School	52	69	21	23
ARK Burlington Danes Academy	0	51	0	16
Admitted Bodies				
Peter Pan Trust	18	22	7	7
Urban Partnership Group	24	24	9	7
H&F Community Law Centre	29	32	12	10
Family Mosaic	68	459	39	25
Disabilities Trust	6	3	2	1
Greenwich Leisure Ltd	5	5	2	2
Medequip Assistive Technology	7	8	4	2
Blythe Neighbourhood Council	30	37	12	12
Glencross Cleaning Ltd	3	3	2	2
Inspace Partnerships Ltd	62	160	15	38
H & F Bridge Partnership	0	386	0	100
TOTALS	16,839	21,127	6,718	6,875

11. BENEFITS PAYABLE

The tables below show a breakdown of the total amount of benefits payable for 2006/2007.

	2005/2006 Pensions £000s	2006/2007 Pensions £000s	2005/2006 Pension Increases £000s	2006/2007 Pension Increases £000s
Scheduled Bodies				
LBHammersmith and Fulham	11,161	11,923	4,521	4,882
H & F Homes	18	106	0	1
Mortlake Crematorium Board	20	19	0	2
Admitted Bodies				
H&F Community Law Centre	10	10	0	1
H&F Police Consultative Group	6	5	0	1
ROOM the National Council	5	5	0	1
Family Mosaic	15	44	0	5
Greenwich Leisure Ltd	0	1	0	0
Blythe Neighbourhood Council	1	1	0	0
Inspace Partnerships Ltd	0	7	0	0
H & F Bridge Partnership	0	4	0	0
TOTALS	11,236	12,125	4,521	4,893

	2005/2006 Lump Sum Retirement Benefits £000s	2006/2007 Lump Sum Retirement Benefits £000s	2005/2006 Lump Sum Death Benefits £000s	2006/2007 Lump Sum Death Benefits £000s
Scheduled Bodies				
LB Hammersmith & Fulham	2,222	4,303	167	153
H & F Homes	84	455	0	0
Admitted Bodies				
Family Mosaic	0	154	0	0
Inspace Partnerships Ltd	0	20	0	0
H & F Bridge Partnership	0	111	0	0
TOTALS	2,306	5,043	167	153

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 2006/2007, 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 £63,770 in interest from the Council during 2006/2007 on the internally invested cash. No other material transactions with related parties of the fund during 2006/2007 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 (ex UK) 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

Since 31 March 2007, the stock market has shown considerable volatility. Despite recent market falls, the market value of investments in the fund as at 31 August 2007 was £466m.

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 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 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.