

LONDON BOROUGH OF
HAMMERSMITH AND FULHAM

STATEMENT OF ACCOUNTS

2007/08

Certification by Chairman of the Audit Committee

I confirm that these accounts were approved by the Audit Committee on 23rd September 2008.

Councillor Robert Iggulden
23 September 2008

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INDEPENDENT AUDITOR'S REPORT (To follow after completion of audit)

This is a statement prepared by the Council's external auditors, the Audit Commission following the completion of their audit of the accounts herewith reported.

FOREWORD BY THE DIRECTOR OF FINANCE AND CORPORATE SERVICES (Pages 6 - 12)

This is an explanatory introduction to the financial statements.

STATEMENT OF RESPONSIBILITIES (Page 13)

This is a statement which sets out the financial responsibilities of the Council and of the Director of Finance and Corporate Services in relation to the Statement of Accounts.

STATEMENT OF ACCOUNTING POLICIES (Pages 14 - 23)

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

FINANCIAL STATEMENTS (Pages 24 - 30)

These statements summarise the overall financial performance of the Council in the financial year 2007/08 and its financial position at 31 March 2008. For comparison purposes, figures relating to 2006/07 have also been included. The financial statements have been produced to conform with the requirements of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice', often referred to as the 'SORP', and the Best Value Accounting Code of Practice 2007' (BVACOP), both published by the Chartered Institute of Public Finance and Accountancy.

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HOUSING REVENUE ACCOUNT (Pages 74 - 79)

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GROUP ACCOUNTS (Pages 80 - 86)

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

PENSION FUND ACCOUNTS (Pages 87 - 98)

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

- Fund Account
- Net Assets Statement

ANNUAL GOVERNANCE STATEMENT (Pages 99 - 106)

This is a statement by the Leader of the Council and the Chief Executive on the arrangements and systems for internal control across the Council and the governance arrangements of the group.

GLOSSARY OF FINANCIAL TERMS (Pages 107 - 112)

This comprises an explanation of the local government and financial terms used in this Statement.

FURTHER INFORMATION

Further information about the 2007/08 Statement of Accounts is available from the Corporate Accountancy Services Manager by telephoning (020) 8753 1862, or by writing to the address below;

Corporate Accountancy Services Manager
Finance Department
6th Floor
Hammersmith Town Hall Extension
King Street
London W6 9JU

EXPLANATORY 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

Following the significant accounting and presentational changes implemented in the 2006/07 accounts brought about by the Code of Practice on Local Authority Accounting in the United Kingdom – Statement of Recommended Practice 2006 (the SORP) which were summarised in the Foreword to the 2006/07 accounts, the changes brought about by the 2007 SORP are fewer and do not necessitate a restatement of the 2006/07 accounts. It is significant however that this year's changes now render local authority accounts fully UK GAAP compliant.

The three main changes to the 2007/08 accounts are:

- The accounting treatment of financial assets and financial liabilities. These are defined and the accounting treatment explained in Notes 16 and 17 of the Statement of Accounting Policies. The SORP provides that the restatement of transactions included in the 2006/07 accounts takes place within the 2007/08 accounts not by re-stating the 2006/07 accounts.
- The termination of the Fixed Asset Restatement Account and of the Capital Financing Account with the opening balances on those accounts transferred to a new Capital Adjustment Account. From 1 April 2007 a new Revaluation Reserve has been established to hold the balance of upward asset revaluations in excess of historic cost. There is further explanation of this in Note 10 of the Statement of Accounting Policies and Note 35 to the Core Financial Statements.
- The Statement on Internal Control has been replaced by a new Annual Governance Statement. This is in line with what is now deemed "proper practice" in relation to internal control, which is the CIPFA/SOLACE governance framework "Delivering Good Governance in Local Government" published in 2007 that brings together legislative requirements, governance principles and management processes as well as stating that good governance relates to the whole organisation.

REVENUE EXPENDITURE 2007/08

General Fund Services

The Council started the year with a General Reserve of £12.274 million. It had budgeted originally to apply £1.142 million of this during the year, leaving a projected balance of £11.132 million at 31 March 2008. The final Budget Monitor Report for the year, based on the position as at month 10, projected that a higher year end balance of £11.150 million

would be achieved due to a small underspend being delivered. At the end of the year departmental expenditure was underspent by £3.025 million compared to the revised budget. This resulted in a net contribution to the General Reserve of £1.883 million compared to the planned draw down of £1.142 million. Consequently the General Reserve increased rather than reduced during the year resulting in a balance at 31 March 2008 of £14.158 million.

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
Net Expenditure						
Children's Services	54,860	52,060	52,477	417	0	417
Community Services	74,550	75,837	73,788	(2,049)	624	(1,425)
Controlled Parking Account	(260)	(13,293)	(12,808)	485	0	485
Environment Services	39,130	40,317	37,877	(2,440)	1,500	(940)
Resident Services	0	19,060	19,060	0	0	0
Central Services	10,211	612	399	(213)	213	0
Centrally Managed Budgets	16,239	11,169	8,954	(2,215)	2,459	244
Use of Earmarked Balances	(13,407)	(4,439)	(1,449)	2,990	(4,796)	(1,806)
Total	181,323	181,323	178,298	(3,025)	0	(3,025)
Funded by:						
Revenue Support Grant	(15,891)	(15,891)	(15,891)			
National Non Domestic Rate	(94,688)	(94,688)	(94,688)			
Council Tax	(68,616)	(68,616)	(68,616)			
Prior Year Collection Fund Surplus	(986)	(986)	(986)			
Contribution (to) / from Balances	1,142	1,142	(1,883)	(3,025)		

Reasons for significant outturn variances are given as follows:

Children's Services

The main contributing factors to the variance within Children's Services department were the unavoidable additional expenditure incurred on secure remand during 2007/08 (£0.37 million) and the ongoing under funding of Unaccompanied Asylum Seekers and users of the Leaving Care Service currently being negotiated with Home Office representatives (£0.05 million).

Community Services

The department achieved a gross under spend of £2.049 million, a request to carry forward £0.624 million to the new year has been made, resulting in a net under spend of £1.425 million.

The largest favourable variance was in the Adult Social Care division of £1.200 million. Under spends on Placements, Packages and Direct Payments for Learning Disability (£0.789 million), Physical Disability (£0.196 million) and additional income from clients in

PFI Homes (£0.147 million) accounted for the majority of the under spends.

The Partnership and Procurement division under spent by £0.352 million mainly on staffing costs due to delay in recruiting to their new structure.

The department's remaining four divisions posted small over/under spends that netted off to £0.200 million.

Controlled Parking Account

The deficit on the Controlled Parking Account was largely due to a shortfall in Penalty Charge Notice (PCN) income. The volume of PCN's issued was lower than in previous years and increased compliance has also affected the number of Bus Lane PCN's issued. These shortfalls were partly offset by higher than expected pay and display income and moving traffic offences.

Environment Services

The significant under spend was largely due to variances in the Highways and Engineering and Public Protection and Safety divisions.

In the Highways and Engineering division engineering project fees and licensing income were in excess of expectations (£0.820 million). A one off trading account surplus of £1.192 million in Borough Highways also contributed to a better than expected net position. In addition, lighting and signs maintenance expenditure was lower than budgeted for.

A lower than forecast levy from Western Riverside Waste Authority was a contributing factor to the under spend of £0.857 million in the Public Protection and Safety division. Income from Pollution Control, Licensing, and Cemeteries was higher than budgeted while expenditure was contained in other sections.

Resident Services

There was an under spend of £0.165 million on Director's Office and Resources offsetting over spends on Residents Direct (£0.013 million) and Parks and Culture ((£0.152 million).

Central Services

The main contributors to the central departments' under spend were the Business Transformation Team (£0.145 million), where demand for its services exceeded that budgeted , and Electoral Registration due to vacancy management and lower staff costs of the annual canvass (£0.050 million).

Centrally Managed Budgets

Net capital financing costs, after allowance for investment income earned on cash balances, under spent the original budget by £1.305 million. This compares to a forecast under spend, as at month 10, of £1.500 million. The under spend is largely due to the Council achieving a better than expected rate of return on a higher than anticipated level of cash balances.

The remainder of the under spend mainly relates to contingency items allowed for but not required. Sums set aside for pay and price pressures, along with the unallocated contingency, have not been fully drawn down.

Housing Revenue Account Services

The Housing Revenue Account (HRA) accounts for the costs of housing people in Council-owned accommodation. The Local Government and Housing Act 1989 requires this income and expenditure to be ring-fenced. The HRA cannot be subsidised by the General Fund. The net outturn in 2007/08 for the HRA was a net surplus of £1.841 million compared with a budgeted contribution from the HRA balance of £0.400 million. The balance carried

forward into 2008/09 is £9.977 million.

The main variances for the HRA are as follows:-

- As the H and F Homes borrowings for the Decent Homes programme were £20 million lower than anticipated in 2006/07, this has reduced the cost of borrowing in 2007/08. However, this under spend has been partially offset by changes in the Subsidy Capital Financing Requirement determined by the Department for Communities and Local Government. The net impact of this is an under spend of £0.300 million.
- The interest earned on HRA balances has exceeded the budget by £1.2 million. This is mainly due to slippage on the Decent Homes programme resulting in an increase in the size of the average balance on the Major Repairs Reserve from £8.8 million to £25 million, together with a favourable increase in the short term investments interest rate from 4.8% to 5.86%.

CARRY FORWARDS AND TRANSFERS

Cabinet, on 28 April 2008, approved the carry forward of certain under-spending into 2008/9, subject to final outturn and Member approval. The table below confirms the final carry forward amounts. Any draw down from these sums will be subject to the production of a business case for the investment and sign off by the Leader.

	Carry Forwards
	£000s
Central Services	213
Community Services	624
Environment Services	1,500
Centrally Managed Budgets	559
Total	2,896

Cabinet also agreed that delegated authority be granted to the Director of Finance and Corporate Services, in consultation with the Leader, to approve virements and transfers to and from reserves, as required for the preparation of the 2007/8 Accounts. These adjustments are shown below:

	Transfers and other adjustments
	£'000s
Transfers to Reserves from Revenue	
Inflation To provide for emerging pay and price pressures given the current uplift in general inflation	862
Civic Accommodation Project Funding is set aside to meet the on-going costs that will arise in connection with the completion of the Council's Civic Accommodation project	653
Property Rationalisation To meet property costs, such as dilapidations, incurred as the Council vacates existing buildings	385
Total	1,900
Transfers between Reserves	
Efficiency Projects Reserve (Invest to Save)	2,049
Trading Services Reserve	(1,330)
Contingency Reserve	(719)
Note: No draw down was made against the Trading Services and Contingency Reserves in 2007/08 and none is forecast for 2008/09. Such balances are now transferred to the Efficiency Projects Reserve to help deliver the on going modernisation of services	
Total	0

CAPITAL OUTTURN 2007/08

Since the Capital programme of £104.756m was approved at Budget Council in February 2007 there have been amendments to the programme which were approved by Cabinet. The amendments relate to new additions, slippage brought forward from 2006/07 and slippage carried forward to 2008/09 resulting in the outturn figure of £78.548m. The most significant slippage (£39m) relates to the Decent Homes Programme and this is offset by other budget amendments within the overall programme. The table below summarises capital expenditure by department

	2007/08
	£000s
Children's Services	5,391
Environment Services	18,395
Housing Revenue Account	49,424
Community Services	5,063
Other	275
Total	78,548

The financing of the capital expenditure incurred in 2007/08 is summarised in the table below:

	2007/08 £000s
Loans	51,073
Direct Revenue Funding	2,322
Grants and Contributions	17,173
Capital Receipts	7,980
Total	78,548

Fixed assets have increased by £186 million, mainly due to asset revaluations during the year of £142 million. Long-term borrowing has increased by £10 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 and Hammersmith and Fulham Homes.

The inclusion of Wormwood Scrubs Trust accounts within the the Council's Group Accounts has been reviewed in 2007/08 and they are now excluded with the figures from 2006/07 appropriately restated. This exclusion is in compliance with the SORP which provides that where a charity operates under the provisions of a specific Act of Parliament there is a presumption that it cannot be regarded as part of the local authority group. The Trust's accounts are however summarised in Note 40 to the Core Financial Statements.

PENSION LIABILITY

In accordance with FRS 17 a total liability of £287.463 million has been included in the 2007/08 Balance Sheet.

This consists of the funded liabilities of £282.980 million relating to the Hammersmith and Fulham Pension Fund and £4.483 million relating to the London Pensions Fund Authority Pensions Fund.

COLLECTION FUND

The Council has reported a surplus of £2,298 million for 2007/08. This surplus will be taken into account in the council tax setting process for 2009/10. Only the Council's share of this balance is treated as a Council reserve.

CURRENT BORROWING AND CAPITAL RESOURCES

The borrowings disclosed in Note 30 to the Core Financial Statements relate to the financing of capital expenditure incurred in 2007/08 and earlier years. All of the Council's borrowing (£388.520 million) has been borrowed from the Public Works Loans Board. This figure differs from the figure reported in the Balance Sheet because of the new accounting arrangements for financial assets and liabilities mentioned in the Introduction and explained in more detail in the Statement of Accounting Policies. This means that Balance Sheet figure includes the balances of premiums and discounts yet to be written down to revenue plus accrued interest due.

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 2008/09 contained an increase, against the comparable 2007/08 allocation, in grant for Hammersmith and Fulham of 2%. This was significantly less than the national increase of 3.5%, and below the London average increase of 2.4%.

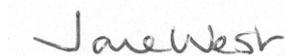
The Council has been notified of the probable grant increases for 2009/10 and 2010/11. The expected increases are 1.75% and 1.5% respectively. Such increases continue to be below the national average increase and represent a real terms cut in resourcing, after allowance for inflation.

In February 2008, Hammersmith and Fulham delivered a second successive council tax reduction of 3%. It is the only authority in the country to have lowered council tax for two years running. 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 climate, 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.



Jane West

Director of Finance and Corporate Services

23rd September 2008

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

Responsibilities of the Director of Finance and Corporate Services

The Director of Finance and Corporate Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice"), elsewhere referred to as the "SORP".

In preparing this Statement of Accounts, the Director of Finance and Corporate Services 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 and Corporate Services 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 AND CORPORATE SERVICES

I certify that the Accounts set out on pages 14 to 86 present fairly the financial position of the London Borough of Hammersmith and Fulham as at 31 March 2008 and its income and expenditure for the year then ended and that the Accounts set out on pages 87 to 98 present fairly the net assets of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2008 and its income and expenditure for the financial year 2007/08.



Jane West

Director of Finance and Corporate Services

23rd September 2008

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The 2007/08 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 2007 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 some changes in the 2007 SORP aimed at making local authority accounts for 2007/08 fully comply with UK Generally Accepted Accounting Principles (GAAP) compliant.

The basic accounting convention adopted is to express values at historic cost, but modified by the revaluation of certain tangible fixed assets.

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 in the Balance Sheet are impaired for doubtful debts and known uncollectible debts are written off. Details of debtors and creditors are to be found in Notes 26 and 28.

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 Retirement Benefits earned to be accounted for in accordance with FRS 17. This requires the recognition of the net asset or liability and the inclusion of a Pensions Reserve in the Balance Sheet and entries in the Income and Expenditure Account to reflect movements in the asset or liability. More details are provided in Note 6 to the Core Financial Statements.

The employees of the Council participate 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 both 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 Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families. The arrangements for the teachers' scheme are such that liabilities for benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contribution schemes, by recognising the contributions payable for the year and not accruing any underlying pensions' asset or liability. Only the costs of employer's

contributions are therefore recognised in the accounts.

The Local Government Pension Scheme is accounted for as follows:

- The liabilities of the Funds attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of future earnings for current employees.
- Liabilities have been discounted to their value at current prices using a discount rate (5.3% in 2007/08) based on the indicative rate of return on a high quality corporate bond of equivalent currency and term to the liabilities.
- The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – mid market value,
 - Unquoted securities – professional estimate,
 - Unlisted securities – the average of bid and offer rates, and
 - Property – market value.
- The change in the net Pensions Liability is analysed into seven components:
 - Current Service Cost, representing the increase in liabilities as a result of the years of service earned in 2007/08, has been charged in the Income and Expenditure Account to the service revenue accounts for which the employees worked.
 - Past Service Cost, representing the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, has been included in Non Distributed Costs in the Income and Expenditure Account.
 - Interest Cost, representing the expected increase in the present value of liabilities during 2007/08 as employees move one year closer to being paid their earned benefits, has been charged to Net Operating Expenditure in the Income and Expenditure Account.
 - Expected Return on Assets, representing the annual investment return on Funds' assets attributable to the Council based on an average of the expected long term return, has been credited to Net Operating Expenditure in the Income and Expenditure Account.
 - Gains/Losses on Settlements and Curtailments, comprising the result of actions to relieve the Council of liabilities and events that reduce the expected future service or accrual of benefits of employees, have been included in Non Distributed Costs in the Income and Expenditure Account.
 - Actuarial Gains/Losses, representing changes in the net Pensions Liability arising because events have not coincided with the assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, have been entered in the Statement of Total Recognised Gains and Losses.
 - Contributions paid to the Funds, representing the cash paid as employers' contributions to the Funds.

Statutory provisions limit the Council to raising council tax to cover only the amounts payable by the Council to the Pension Funds in the year. This means that in the Statement of Movement on the General Fund Balance there are appropriations to and from the

Pensions Reserves to remove the notional debits and credits for retirement benefits leaving only the cash payable to the Pension Funds.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of such awards to any employees (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

4. RESERVES

The Council has set aside money to cover future known or anticipated liabilities and each reserve is clearly identified as to its purpose and usage. The Notes to the Core Financial Statements identify Earmarked Reserves, Capital Accounts and Balances and Revenue Reserves and Balances and separate schedules are given of each – Notes 34 to 36.

Amounts set aside for purposes outside the definition of provisions, which are defined in Note 6 of this Statement, 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. Where expenditure to be financed from a revenue reserve is incurred, it is charged to the appropriate service revenue account and therefore included in the Council's Net Cost of Services in the Income and Expenditure Account. A matching appropriation from the reserve is then included in the Statement of Movement on the General Fund Balance.

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 also 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.

Certain reserves are kept to manage the accounting processes for tangible fixed assets, eg the Revaluation Reserve, and retirement benefits, eg the Pensions Reserve, and do not represent useable resources for the Council.

5. TREATMENT OF CAPITAL EXPENDITURE IN THE ACCOUNTS

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. In this context, enhancement means the carrying out of works to a fixed asset which are intended to increase substantially the life, value or use of the asset. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts. Details of additions to Fixed Assets are contained in Note 22.

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 an AUC from a previous year has been completed, it has been re-classified as an appropriate category of 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 financial year following completion. Otherwise, capital expenditure on new schemes has been added to fixed assets at cost on completion and will be carried at cost in the Balance Sheet until they are programmed to be re-valued under the five-year revaluation cycle.

All expenditure on Housing Revenue Account (HRA) stock (but not planned maintenance

and stock condition survey costs) are carried at cost in the year of expenditure, as all dwellings are re-valued on 1st April of each financial year.

6. PROVISIONS

Provisions are required, in accordance with FRS 12 to be set aside for known, certain or likely obligations arising from past events which are expected to result in future expenditure that can be reliably estimated but where the timing of the transfer of economic benefit is uncertain although the prospective liability can be reliably estimated.

Provisions are charged to the appropriate revenue account when identified and included in the Balance Sheet. Any payments made in respect of the identified obligation are subsequently charged directly to that provision. Any unused provision is credited back to the appropriate revenue account. Provisions are covered in Note 31 to the Core Financial statements.

7. CONTINGENT LIABILITIES

Contingent liabilities have been disclosed in Note 39 to the Core Financial Statements if 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.

8. STOCK AND WORK IN PROGRESS

Stock and work in progress is included in the Balance Sheet at a valuation which is the lower of cost or net realisable value.

9. INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (such as software development, software licences) is capitalised at cost when it is clear that it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue accounts over the economic life of the investment, usually 4 years but ranging between 3 to 10 years, to reflect the pattern of consumption of benefits. The SORP does not require revaluations, and such would normally only be required where there is a readily ascertainable market value. More detail on intangible fixed assets is to be found in Note 22 to the Core Financial Statements

10. TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council, and the services that it provides, for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of assets, such as repairs and maintenance, has been charged to service revenue accounts.

Fixed Assets are initially included in the accounts at cost, comprising all the expenditure that is directly attributable to bringing the asset into working condition for its intended use. Subsequently, 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. The valuations have been carried out by Valuation Contractors under

instructions from Mr B. G. Wilson FRICS, the Council's Head of Valuation and Property Services.

Fixed assets, other than those included in the Housing Revenue Account (HRA), are re-valued on a five year rolling programme, by department.

The HRA stock has been valued in 2007/08 using, as usual, the Beacon approach. The value of HRA stock disposals is shown in the Note 22 to the Core Financial Statements which shows the movement in assets between 1st April 2007 and 31st March 2008 under the heading "disposals". They are recorded at the net realisable value in existing use – social housing value.

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

- Buildings (other than schools used for operational purposes) have valuations which take into account market values and the present use of these assets.
- 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.
- Buildings held for investment or non-operational purposes and assets surplus to requirements have been valued at open market value.
- Roads and other infrastructure have been valued at historic cost.
- Vehicles, moveable plant and equipment have been valued at historic cost.
- Community and donated assets are valued at historic cost where appropriate; otherwise they are included at a nominal value.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes to the value, but as a minimum, every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains can be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains only gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated together with other accounting balances into the Capital Adjustment Account.

11 DEPRECIATION AND IMPAIRMENT

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 the determined finite life of the asset. The estimated life 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 the various categories of assets; the useful lives stated below cover the majority of assets in each category:

- All Buildings (including Council Dwellings), excluding land, are depreciated over periods ranging from 40 to 75 years.
- Vehicles and moveable plant are depreciated over periods ranging from 3 to 25 years.
- Infrastructure is depreciated over periods ranging from 5 to 40 years.
- Community Assets are generally depreciated over a 10 to 20 year period.

- 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.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Revaluation gains are also depreciated by an amount equal to the difference between the current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost. This amount is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Any reduction in asset values resulting from impairment has been accounted for in accordance with FRS11. All assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review it is accounted for as follows:

- If the impairment is attributable to the clear consumption of economic benefits it is charged to the relevant service revenue account.
- Otherwise, it is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there are accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to that value has been transferred from the Revaluation Reserve to the Capital Adjustment Account.

12. DISPOSALS OF FIXED ASSETS

Where an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the Gain/Loss on Disposal of Assets. However this is not a charge against council tax as a corresponding amount has been appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Capital receipts arising from the disposal of assets are credited to the Income and Expenditure Account on an accruals basis. The difference between the value of the capital receipt and the balance sheet carrying value written off to the Income and Expenditure Account is then reported as a gain or loss on the disposal of assets. Any associated revaluation gains in the Valuation Reserve are transferred to the Capital Adjustment Account. Only amounts in excess of £10,000 are categorised as capital receipts; lower amounts received in respect of asset disposals are credited to the service revenue accounts.

The proceeds arising from the sale of HRA assets are split between pooled and useable receipts. Pooled receipts (75% for dwellings and 50% for land and other assets net of allowable deductions) are transferred to central government.

All capital receipts from the disposal of General Fund assets, which are retained by the Council, together with useable housing receipt, are credited to a Useable Capital Receipts Reserve and used to finance new capital investment. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

13. GOVERNMENT GRANTS AND CONTRIBUTIONS DEFERRED

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, thereby offsetting the corresponding depreciation charge.

14. CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts, support services and trading accounts are debited with the following to reflect the real cost of holding fixed assets during the year:

- Depreciation attributable to the tangible fixed assets used during the year,
- Impairment attributable to the clear consumption of economic benefits on tangible fixed assets used where there are no accumulated gains in the Revaluation Reserve against which it can be written off,
- Amortisation of intangible fixed assets used.

The Council is not required to raise council tax to cover depreciation, impairment or amortisation. However it is required to make an annual provision from revenue (the Minimum Revenue Provision) to contribute towards the reduction in its overall borrowing requirement, generally equal to 4% of its adjusted Capital Financing Requirement, excluding amounts attributable to Housing Revenue Account activity. Depreciation, impairment and amortisation are therefore replaced in the Statement of Movement on the General Fund Balance by the Minimum Revenue Provision with the overall difference taken to the Capital Adjustment Account.

15. DEFERRED CHARGES

Deferred charges comprise capital expenditure incurred by the Council, which does not result in, or remain matched with, fixed assets owned or controlled by the Council, for example improvement grants which enhance non-Council housing properties. Deferred charges incurred in the year have been written off to the appropriate service revenue account. Where the Council has determined to meet the cost of deferred charges from capital resources, the charges to the service revenue accounts are reversed in the Statement of Movement on the General Fund Balance and transferred to the Capital Adjustment Account so that there is no impact on the level of council tax.

16. FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried in the Balance Sheet at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the financial instrument. For almost all of the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal payable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreements.

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 part of a refinancing or restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Income and Expenditure Account has been spread over the life of the replacement borrowing by an

adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, Capital Finance Regulations allow the impact on the General Fund Balance to be spread over future years. The Council's policy is to spread the gain or loss over the term that was remaining on the loan against which the premium was payable or the discount was receivable when the loan was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

As a transitional arrangement where premiums or discounts contained in the Council's Balance Sheet as at 1 April 2007 could not be matched to successor loans (because they too had been repaid or re-scheduled) such "overhanging" premiums and discounts have been written off to the Financial Instruments Adjustment Account through the Statement of Movement in the General Fund Balance. This is permitted in 2007/08 only under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2007.

The Council has been assisted by Sector Treasury Management Services Ltd in the review of its accounting for financial liabilities and assets.

17. FINANCIAL ASSETS

Financial assets are classified into two types; investments and receivables, which are assets that have fixed or determinable payments but are not quoted in an active market, and available for sale assets, which are assets that have a quoted market and/or do not have fixed or determinable payments.

Investments and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the investments that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and that the interest credited to the Income and Expenditure Account is the amount receivable for the year under the investment agreement. The Council has no available for sale financial assets.

The Council made a contribution, several years ago, of £100,000 to the Greater London Enterprise Board repayable only from the yield of its assets on the winding up of the company. This is classified in the Council's Balance Sheet as a Long Term Investment and, in the light of the SORP 2007 provisions on accounting for financial assets, constitutes a "soft loan". When "soft" loans are made, a loss should be recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a higher effective rate interest than the rate receivable from GLEB (which is nil), with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance. However, given that, the GLE is effectively established to continue its business in perpetuity and thus no timescale can be identified as a basis for the calculation of an effective interest rate; that there is ample asset cover in the GLE's 2007 accounts to cover this "loan"; and that the interest foregone is not material to the Council, the Council has

decided to use the de minimis provisions of the SORP not to account for this as a “soft” loan.

If any financial assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset would be written down and a charge made to the Income and Expenditure Account.

Any gains/losses that arise on the de-recognition of the asset would be credited/debited to the Income and Expenditure Account.

18. OVERHEADS AND SUPPORT SERVICES

Charges or apportionments covering all support service costs are made on a total absorption costing basis to all who benefit from that supply or service, including; services to the public, divisions of services, trading undertakings, direct service organisations, the Housing Revenue Account, 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 guidance in the Best Value Accounting Code of Practice 2007 published by the Chartered Institute of Public Finance and Accountancy.

The cost of service strategy and regulation of any service to the public is allocated to a separate objective expenditure head within the revenue account of that service.

The costs of the Corporate and Democratic Core (relating to the Council’s status as a multi functional democratic organisation) and of unapportionable central overheads (Non Distributed Costs) are allocated to separate objective expenditure heads in both the General Fund and the Housing Revenue Account and have not been apportioned to other expenditure heads.

19. LEASES

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. It has acquired some computer equipment by means of several finance leases. The leasing rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property recognised as a Deferred Liability matched by a Tangible Fixed Asset in the Balance Sheet. Both are written down as this element of the rental becomes payable.
- A finance charge that is debited to Net Operating Expenditure in the Income and Expenditure Account.

Fixed assets recognised under finance leases are accounted for using the accounting policies generally applicable to Tangible Fixed Assets, subject to depreciation being charged over the lease term rather than the estimated life of the asset.

Leases that do not meet the definition of finance leases are accounted for as operating leases. The Council also has various capital assets, mostly computer equipment, under operating leases. These assets are not included in the Council’s Balance Sheet because the Council does not own the assets acquired under such leases. Rental charges are made to service revenue accounts on a straight line basis over the term of these leases, even if the payments are not made on such a basis.

Where the Council acts as a lessor the leases involved are invariably operating leases. The

relevant assets are accounted for in accordance with accounting policies set out in Note 10 of this Statement and the rental income accounted for on the normal accruals basis.

Note 11 to the Core Financial Statements summarises out the total leasing charges included in the 2007/08 accounts.

20. GOVERNMENT GRANTS

Whatever their basis of payment, revenue specific grants, third party contributions and donations are matched with the expenditure to which they relate in the service revenue accounts.

Grants received to finance the general activities of the Council or to compensate for a loss of income are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure in the period in which they are payable.

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.

21. VALUE ADDED TAX

Value Added Tax is only included in the Income and Expenditure Account where it is irrecoverable.

22. INTERESTS IN COMPANIES AND OTHER ENTITIES

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 2007/08. The Group Accounts are published immediately following the Council's single entity accounts in this Statement of Accounts. Other companies in which the Council has an interest are detailed in Note 37 to the Core Financial Statements.

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

23. 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. PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services are held by the PFI contractor. Payments made by the Council under the contract are charged to the relevant service revenue account to reflect the value of the services received in each financial year.

FRS 5 and Application Note F 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 have been carried out in accordance with FRS 5. As a result, the PFI project is not included on the Council's Balance Sheet. Brief financial details of the Council's PFI are contained in Note 2 to the Core Financial Statements.

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	2006/07	2007/08		
		Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Central Services to the Public		4,419	27,703	(24,302)	3,401
Court Services		132	852	(724)	128
Cultural, Environmental and Planning Services		37,948	75,785	(39,011)	36,774
Children's and Education Services	1+3	48,745	187,548	(137,875)	49,673
Highways and Transport Services		(1,707)	35,076	(31,187)	3,889
Housing Services					
Housing General Fund		12,828	155,492	(141,739)	13,753
Housing Revenue Account		(19,869)	60,658	(78,577)	(17,919)
Adult Social Care		57,341	104,194	(49,135)	55,059
Non Distributed Costs		1,070	8,403	(2,459)	5,944
Corporate and Democratic Core		9,859	10,020	(497)	9,523
Net Cost of Services		150,766	665,731	(505,506)	160,225
(Gain)/Loss on Disposal of Fixed Assets		404	578	0	578
Levies	4	6,618	7,109	0	7,109
(Surpluses)/Deficits on Trading Services	5	335	35,307	(35,558)	(251)
Interest Payable and Similar Charges	21	26,184	22,836	0	22,836
Amount Payable to Housing Capital Receipts Pool		5,447	5,879	0	5,879
Interest and Investment Income	21	(4,137)	0	(5,607)	(5,607)
Other Operating Income		0	0	(1,191)	(1,191)
Pensions Interest Cost	6	37,799	43,355	0	43,355
Expected Return on Pensions Assets	6	(26,464)	0	(29,467)	(29,467)
Net Operating Expenditure		196,952	780,795	(577,329)	203,466
Demand on the Collection Fund		(69,423)	0	(69,603)	(69,603)
General Government Grants		(17,173)	0	(15,891)	(15,891)
Contribution from NNDR Pool		(89,800)	0	(94,688)	(94,688)
(Surplus)/Deficit for the Year		20,556	780,795	(757,511)	23,284

STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

	Note	2006/07 £000s	2007/08 £000s
(Surplus)/Deficit for year on the Income and Expenditure Account		20,556	23,284
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	(19,186)	(26,110)
(Increase)/Decrease in General Fund Balance for year		1,370	(2,826)
General Fund Balance brought forward		(24,222)	(22,852)
General Fund Balance carried forward		(22,852)	(25,678)
Amount of General Fund Balance held by Governors under Schemes to finance Schools	3	(10,578)	(11,520)
Amount of General Fund Balance generally available for new expenditure		(12,274)	(14,158)
General Fund Balance carried forward		(22,852)	(25,678)

The Income and Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Council during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

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

	2006/07	2007/08
	£000s	£000s
Deficit for year on the Income and Expenditure Account	20,556	23,284
Other Capital Transactions	(3,254)	247
(Surplus) arising on the Revaluation of Fixed Assets	(134,511)	(167,460)
Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	12,200	(107,463)
(Surplus)/Deficit on LBHF proportion of Collection Fund	(1,366)	666
Sub - total	(106,375)	(250,726)
Prior Year Adjustment relating to the re-measurement of financial instruments at 1 April 2007	0	6,001
Total Recognised (Gains)/Losses for the year	(106,375)	(244,725)

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

BALANCE SHEET

	Note	At 31 March 2007		At 31 March 2008	
		£000s	£000s	£000s	£000s
Fixed Assets					
Intangible Fixed Assets	22	884		710	
Tangible Fixed Assets:-	22				
Operational Assets		1,649,025		1,840,635	
Non Operational Assets		64,651		59,657	
Total Fixed Assets			1,714,560		1,901,002
Long term Investments		100		360	
Long Term Debtors	24	1,200		955	
Total Long-Term Assets			1,715,860		1,902,317
Current Assets					
Stock and Work in Progress	25	313		245	
Debtors	26	56,156		50,199	
Short Term Investments	29	91,000		113,373	
Cash in Hand	27	9,997		12,584	
Total Current Assets			157,466		176,401
Total Assets			1,873,326		2,078,718
Current Liabilities					
Creditors	28	(103,164)		(115,510)	
Short Term Borrowing		0		0	
Cash Balances Overdrawn	27	(7,823)		(11,816)	
Total Current Liabilities			(110,987)		(127,326)
Total Assets less Current Liabilities			1,762,339		1,951,392
Long Term Liabilities					
Long Term Borrowing	29	(370,210)		(392,027)	
Long term Creditor		(100)		(100)	
Provisions	31	(5,470)		(5,203)	
Deferred Liabilities	32	(251)		(260)	
Government Grants and Contributions Deferred		(66,882)		(79,440)	
Pensions Liability - LBHF	6(i)	(368,230)		(282,980)	
Pensions Liability - LPFA	6(ii)	(9,022)		(4,483)	
Total Long Term Liabilities			(820,165)		(764,493)
Total Assets less Liabilities			942,174		1,186,899
Financed by:					
Capital Adjustment Account	35	(1,233,681)		(1,235,189)	
Financial Instruments Adjustment Account	35	0		3,479	
Revaluation Reserve	35	0		(141,825)	
Capital Reserves	35	(2,566)		(3,050)	
Deferred Credits	33	(757)		(510)	
Pensions Reserve - LBHF	6(i)	368,230		282,980	
Pensions Reserve - LPFA	6(ii)	9,022		4,483	
Major Repairs Reserve		(19,595)		(30,862)	
Earmarked Reserves	34	(29,459)		(29,036)	
Revenue Balances	36	(33,368)		(37,369)	
Total Net Worth			(942,174)		(1,186,899)

CASH FLOW STATEMENT

	Note	2006/07		2007/08	
		£000s	£000s	£000s	£000s
Revenue Activities					
Cash Inflows					
Net Housing Dwelling Rents		(19,437)		(20,440)	
Council Tax Receipts		(91,212)		(93,997)	
NNDR Receipts from Pool		(89,800)		(94,688)	
Non-Domestic Rate Receipts		(109,885)		(111,321)	
Revenue Support Grant		(17,173)		(15,891)	
DWP Benefits Grants	42	(132,500)		(130,476)	
Other Government Grants	42	(181,474)		(190,866)	
Cash Received for Goods and Services		(93,108)		(80,914)	
Other Revenue Income/Cash Payments		(54,545)		(56,833)	
Total			(789,134)		(795,426)
Cash Outflows					
Cash Paid to Employees		233,622		229,105	
Other Operating Expenses		253,563		269,047	
Payments to Housing Capital Receipts Pool		6,196		6,534	
Payments to NNDR Pool		98,598		109,780	
Levies and Charges		6,618		7,109	
Precepts Paid		21,850		23,753	
Housing Benefit Paid Out		96,792		105,185	
Total			717,239		750,513
Revenue Activities Net Cash Flow	43		(71,895)		(44,913)
Returns on Investments and Servicing of Finance					
Cash Inflow					
Interest Received		(3,557)		(8,517)	
Cash Outflow					
Interest Paid		20,941		24,457	
Interest Paid on Finance Leases		25		27	
Net Total			17,409		15,967
Net Cash (Inflow)/Outflow			(54,486)		(28,946)

CASH FLOW STATEMENT (cont)

	Note	2006/07		2007/08	
		£000s	£000s	£000s	£000s
Net Cash (Inflow)/Outflow			(54,486)		(28,946)
Capital Activities					
Cash Inflow					
Sale of Fixed Assets		(18,087)		(30,022)	
Capital Grants Received		(17,124)		(12,403)	
Other Capital Cash Receipts		(6,302)		(13,215)	
Total			(41,513)		(55,640)
Cash Outflow					
Expenditure on Fixed Assets		51,890		67,990	
Other Capital Cash Payments		17,349		6,816	
Total			69,239		74,806
Net Cash (Inflow)/Outflow before Financing			(26,760)		(9,780)
Management of Liquid Resources					
Liquid Resources	45		46,300		20,861
Financing					
Cash Inflow					
New Loans Raised		(80,000)		(51,064)	
Cash Outflow					
Borrowing Repayments		60,000		41,064	
Finance Lease Repayments		467		325	
Total			(19,533)		(9,675)
Net (Increase)/Decrease in Cash	44		7		1,406

NOTES TO THE CORE FINANCIAL STATEMENTS

1. RESTATEMENT OF 2006/07 COMPARATIVE FIGURES

The published Income and Expenditure Account for 2006/07 has been re-stated in order to meet the requirements of BVACOP 2007. The Service Expenditure Analysis (SEA) has been modified, with the creation of a new SEA head for Children's Services and Education in response to legislative changes made in the Children Act 2004. All elements relating to Children's Social Services have been transferred to the new Children's and Education Services SEA. Social Services remains as a separate SEA, retaining coverage of social services for adults and older people. This has been re-named Adult Social Care. Opportunity has also been taken to disaggregate Court Services from Central Services to the Public.

The published Balance Sheet for 2006/07 has been re-stated in order to meet the requirements of SORP 2007. This means that the lines showing Deferred Premiums and Deferred Discounts have been merged into the total of Long Term Borrowing. In addition the lines showing the Fixed Asset Restatement Account and Capital Financing Account balances have been merged into the new Capital Adjustment Account balance. Opportunity has also been taken to amend the treatment of £2.298 million of unapplied capital grants which were included in Capital Reserves in 2006/07 but should more accurately be recognised as payments in advance and treated as Creditors. This amendment has also been reflected in the 2006/07 comparators in the Statement of Total Recognised Gains and Losses. In a similar way some £18.980 million of Section 106 and other contributions in advance of the funding of projects had been included as Government Grants and Other Contributions Deferred. These also have been more appropriately recognised as payments in advance and treated as Creditors.

2. 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.

The total unitary charge for the project was £214.683 million, of which £202.692 million was remaining as at the end of 2007/08. This cost is shared between the Council and the Hammersmith and Fulham Primary Care Trust. In 2007/08, the Council's full unitary payment was £5.583 million.

3. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, the 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 2007/08 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Original Grant Allocation to Schools Budget for 2007/08 in the Council's Budget	(7,520)	(74,655)	(82,175)
Adjustment to Finalised Grant Allocation	(380)	(0)	(380)
DSG receivable for year	(7,900)	(74,655)	(82,555)
Actual Expenditure for the year	7,820	73,793	81,613
Over/(Under spend) for the year	(80)	(862)	(942)
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 carried forward to 2008/09	(80)	(862)	(942)

4. COST OF LEVIES

Levies paid by the Council are listed below.

	2006/07 £000s	2007/08 £000s
Environment Agency	88	142
Lee Valley Regional Park	225	233
London Pensions Fund Authority	1,191	1,144
Western Riverside Waste Authority	4,885	5,350
London Councils	10	7
Transport For London - surface transport (traffic signals and lorry ban)	219	233
	6,618	7,109

5. TRADING SERVICES

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

	2006/07	2007/08		
	(Surplus) / Deficit £000s	Expenditure £000s	Income £000s	(Surplus) / Deficit £000s
Construction and Property Related Services	(648)	11,205	(11,409)	(204)
Highways Services	(294)	8,162	(9,354)	(1,192)
Building Cleaning	332	3,175	(2,923)	252
Catering	500	8,401	(7,958)	443
Home to School Transport	24	2,078	(2,026)	52
Industrial Estates and Miscellaneous Properties	112	1,504	(1,400)	104
Other	309	782	(488)	294
Total: (Surplus)/Deficit	335	35,307	(35,558)	(251)

6. 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 investment 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 investment assets.
- Teachers employed by the Council are members of the Teachers' Pensions Scheme, administered by Capital on behalf of 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.

6 (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:

	2006/07 £000s	2007/08 £000s
Income and Expenditure Account		
Net Cost of Services		
Current Service Costs	21,280	20,400
Past Service Costs	1,820	5,420
Settlements and Curtailments	0	0
Sub total	23,100	25,820
Net Operating Expenditure		
Interest Cost	35,830	41,270
Expected Return on Assets in the Scheme	(25,090)	(27,960)
Sub total	33,840	39,130
Movement on Pensions Reserve	(13,550)	(17,130)
Net Charge to the Income and Expenditure Account	20,290	22,000

The date of the most recent full actuarial valuation was 31st March 2007. 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 £282.98 million net liability represents the difference between the value of the Pension Fund assets at 31 March 2008 and the estimated present value of the future pension payments to which it was committed at that date attributable to the Council. 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. The net liability has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the Scheme Actuary.

	31 March 2007 £m	31 March 2008 £m
Assets and Liabilities in relation to Retirement Benefits		
Estimated Liabilities in the Scheme	(746.39)	(648.48)
Estimated Liability (Unfunded)	(33.75)	(31.96)
Estimated Assets in the Scheme	411.91	397.46
Net Liability	(368.23)	(282.98)

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 2007 %	31 March 2008 %
Rate of Inflation	3.2	3.7
Rate of Increase in Salaries	4.7	5.2
Rate of Increase in Pensions	3.2	3.7
Rate of Increase in Deferred Pensions	3.2	3.7
Discount Rate	5.3	6.8

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 2007 %	31 March 2008 %	Long Term Return %
Equities	72.9	71.0	7.6
Bonds	25.7	27.4	5.3
Cash	1.4	1.6	6.0

The movement in the net pension liability for the year to 31st March 2008 is as follows:

Net Movement in Pensions Liability for Year	Funded £m	Unfunded £m	Total £m
Net Pensions Deficit as at 1 st April 2007	(334.48)	(33.75)	(368.23)
Movements in Year			
Current Service Costs	(20.40)	0	(20.40)
Employers Contributions	19.56	2.44	22.00
Past Service Costs	(5.42)	0	(5.42)
Other Finance Income	(11.58)	(1.73)	(13.31)
Actuarial Gains/(Losses)	101.31	1.07	102.38
Net Pensions Deficit at 31st March 2008	(251.01)	(31.97)	(282.98)

The actuarial gains identified as movements on the Pensions Reserve in 2007/08 in the table above 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 over a five year period from 2003/04.

	2003/04 £000s	2004/05 £000s	2005/06 £000s	2006/07 £000s	2007/08 £000s
Difference between Expected and Actual Return on Assets	37,870	6,970	46,280	(3,930)	(40,940)
Percentage of Assets	12.1	2.2	11.9	(1.0)	(10.3)
Difference between Actuarial Assumptions about Liability and Actual Experience	1,060	(130,540)	(53,430)	(8,540)	146,800
Percentage of Liability	0.2	(20.3)	(7.3)	(1.1)	21.6
Experienced Gains and Losses on Pension Liabilities	(330)	(7,240)	650	(1,690)	(3,480)
Percentage of Liability	(0.1)	(1.1)	0.1	(0.2)	(0.5)
Amount included in the Statement of Total Recognised Gains and Losses	0	0	0	(14,160)	102,380

6 (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:

	2006/07 £000s	2007/08 £000s
Income and Expenditure Account		
Net Cost of Services		
Current Service Costs	562	429
Past Service Costs	0	0
Settlements and Curtailments	18	0
Sub total	580	429
Net Operating Expenditure		
Interest Cost	1,969	2,085
Expected Return on Assets	(1,374)	(1,507)
Sub total	1,175	1,007
Movement on Pensions Reserve	(722)	(544)
Net Charge to the Income and Expenditure Account	453	463

The date of the most recent full actuarial valuation was 31st March 2007. 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 £4.483 million net liability represents the difference between the value of the Pension Fund assets at 31 March 2008 and the estimated present value of the future pension payments to which it was committed at that date attributable to the Council. 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. The net liability has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the Scheme Actuary, Hymans Robertson LLP

	31 March 2007 £000s	31 March 2008 £000s
Assets and Liabilities in relation to Retirement Benefits		
Estimated Liabilities in the Scheme	(39,670)	(36,389)
Estimated Assets in the Scheme	30,648	31,906
Net Liability	(9,022)	(4,483)

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 2007 %	31 March 2008 %
Rate of Inflation	3.2	3.6
Rate of Increase in Salaries	4.7	5.1
Rate of Increase in Pensions	3.2	3.6
Discount Rate	5.4	6.6

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 2007 %	31 March 2008 %	Long Term Return %
Equities	14.5	12.4	7.6
Bonds	83.8	84.2	4.4
Cash	1.7	3.4	4.7

The movement in the net pension liability for the year to 31st March 2008 is as follows:

Net Movement in Pensions Liability for Year	£000s
Net Pensions Deficit as at 1st April 2007	(9,022)
Movements in Year:	
Current Service Costs	(429)
Employers Contribution Payable to Scheme	463
Past Service Costs	0
Contributions to Unfunded Benefits	0
Impact of Settlement and Curtailments	0
Expected Return on Assets	(578)
Actuarial Gains/(Losses)	5,083
Net Pensions Deficit at 31st March 2008	(4,483)

The actuarial gains identified as movements on the Pensions Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2008. In accordance with the SORP, actuarial gains and losses are shown for the years 2003/04 onwards:

	2003/04	2004/05	2005/06	2006/07	2007/08
	£000s	£000s	£000s	£000s	£000s
Difference Between the Expected and Actual Return on Assets	1,028	155	1,137	1	(204)
Percentage of Assets	(3.0)	0.5	3.7	0.0	(0.6)
Experienced Gains and Losses on Pension Liabilities	(22)	(4,504)	(5)	499	4,339
Percentage of Liabilities	(0.3)	(12.6)	(0.1)	1.3	11.9
Amount included in the Statement of Total Recognised Gains and Losses	1,006	(9,638)	(2,833)	1,960	5,083
Percentage of the Total Present Value of Liabilities	3.2	(27.0)	(7.0)	4.9	14.0

6 (iii) Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers Pension Scheme. The Scheme provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2007/08, the Council paid £5.4 million to the Teachers Pensions Agency (TPA) in respect of teachers' retirement benefits, representing 14.10% of pensionable pay. The figures for 2006/07 were £5.2 million and 13.65% 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 2007/08 the costs arising from additional benefits amounted to £327,512.

The Scheme is a defined benefit scheme, administered by the 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. 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.

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

	2006/07 £000s	2007/08 £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		
Amortisation of Intangible Fixed Assets	(433)	(313)
Depreciation and Impairment of Fixed Assets	(12,502)	(14,686)
Government Grants Deferred Amortisation	2,624	3,657
Write down of Deferred Charges financed from Capital Resources	(4,954)	(4,121)
Transfer of MRA in respect of HRA Depreciation Adjustment	828	269
Net Gain/(Loss) on Sales of Fixed Assets	(404)	(578)
Net Charges made for Retirement Benefits in accordance with FRS17	(35,015)	(40,137)
Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable relating to premiums and discounts on early repayment of debt	0	2,522
Sub Total	(49,856)	(53,387)
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	2,505	3,294
Capital Expenditure charged in-year to General Fund Balance	3,921	3,264
Transfer from Useable Capital Receipts to meet Payments to the Housing Capital Receipts Pool	(5,447)	(5,879)
Employer's Contributions payable to the LBHF and LPFA Pension Funds and Retirement Benefits payable direct to Pensioners	20,743	22,463
Sub Total	21,722	23,142
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	1,114	1,042
Housing Revenue Account Balance	3,588	1,841
Net Transfer to/(from) Earmarked Reserves	4,246	1,252
Sub Total	8,948	4,135
Net additional amount required to be credited to the General Fund Balance for the year	(19,186)	(26,110)

8. STAFF REMUNERATION

The numbers of staff receiving remuneration, excluding employer's pension contributions, of £50,000 and above in bands of £10,000 were as follows:

Pay Band	2006/07	2007/08
£50,000 - £59,999	85	97
£60,000 - £69,999	53	51
£70,000 - £79,999	19	19
£80,000 - £89,999	8	10
£90,000 - £99,999	6	4
£100,000 - £109,999	1	2
£110,000 - £119,999	1	1
£120,000 - £129,999	5	3
£130,000 - £139,999	0	4
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	0	0
£170,000 - £179,999	1	0
£180,000 - £190,000	0	1
Total	179	192

Of the 192 employees listed above, 100 (52%) 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 agency services is not included in the Income and Expenditure Account, since it is not incurred as part of the authority's normal responsibilities. However, a deficit of £93,000 has been incurred in relation to Thames Water, for whom collection from tenants is carried out. This deficit is included in the Housing Revenue Account Net Cost of Service.

The council is the accountable body for the London Centre of Excellence. 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.

Summary of expenditure incurred in respect of agency agreements

	2006/07	2007/08
	Expenditure £000s	Expenditure £000s
London Centre of Excellence - Procurement and Efficiency Projects	2,094	1,999
Capital Ambition	380	1,544
National Work Streams	143	9
Thames Water - Collection from Tenants	3,737	3,857
Eagle Star - Tenants Insurance	43	48
Total	6,397	7,457

10. 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 BIDS is to make the area a better place to work, live, shop and socialise.

The Council is the billing authority and collects a levy from business rate payers on behalf of the BIDS organisation. A total of £3 million is expected to be raised and spent exclusively in the Central Hammersmith BIDS area over the 5 years beginning 1 April 2006. The amounts collected and paid over in 2007/08 are as follows:

	2006/07 £000s	2007/08 £000s
Surplus brought forward	0	(42)
Income		
BID Levy Income	(534)	(533)
Cost of Collection paid by Greater Hammersmith	(17)	(18)
Total	(551)	(551)
Expenditure		
Payments to Greater Hammersmith to provide improved services	492	493
Cost of collecting levy	17	18
Total	509	511
Surplus carried forward	(42)	(82)

11. LEASING CHARGES

Operating Leases

Council as Lessee

Vehicles, Plant, Furniture and 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 2007/08 was £0.288 million (2006/07 - £0.917 million). The authority is committed to making payments of £0.068 million under these leases in the years 2008/09 to 2012/13.

	£000s
Operating Lease payments in 2007/08	288
Operating Leases expiring in 2008/09	51
Operating Leases expiring in 2009/10 to 2010/11	17
Operating Leases expiring in 2010/11 to 2012/13	0

Council as Lessor

The value of assets held for use in operating leases was as follows:

	Gross Book Value £000s	Accumulated Depreciation £000s	Net Book Value £000s
General Fund			
Non Operational Land and Buildings	21,300	0	21,300
Housing Revenue Account			
Non Operational – Non Residential	22,208	0	22,208
Total	43,508	0	43,508

Finance Leases

Council as Lessee

Vehicles, Plant, Furniture and Equipment – the Council uses IT equipment which are financed under the terms of finance leases. The rentals payable under these arrangements in 2007/08 were £0.352 million. Of these payments to the lessor, £0.027 million was charged to the Income and Expenditure Account and £0.325 million was applied to the write down of the Deferred Liability.

	£000s
Finance Lease payments in 2007/08	352
Finance Lease expiring in 2008/09	138
Finance Leases expiring 2009/10 to 2010/11	42
Finance Leases expiring 2010/11 to 2012/13	0

12. EXPENDITURE ON PUBLICITY

Under Section 5(1) of the Local Government Act 1986, the Council is required to keep a separate memorandum account of expenditure on publicity. The account is summarised as follows:

	2006/07 £000s	2007/08 £000s
Recruitment Advertising	310	503
Other Advertising	179	96
Other Publicity	180	237
Total	669	836

13. LOCAL AUTHORITIES (GOODS & SERVICES) ACT 1970

The services provided by the Council to other local authorities under the provisions of the Local Authorities (Goods and Services) Act 1970 are shown below:

	2006/07 Net Expenditure £000s	2007/08		
		Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Public Mortuary	0	202	(202)	0
Western District Coroner	11	719	(719)	0
Total	11	921	(921)	0

14. MATERIAL TRANSACTIONS WITH RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

In 2007/08 the Council engaged in the following material transactions with related parties:

- a) Government grants were received as scheduled in Note 42 to the Core Financial Statements. Central government has effective control over the operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties, eg housing benefits payments of £130 million per annum.
- b) Transactions with associated companies and other entities took place as summarised in Note 37.

Transactions with the Pension Fund are also required to be disclosed. During the financial year the Pension Fund had an average balance of £0.335 million of surplus cash deposited with the Council. The Council paid the Fund £18,291 for interest on these monies. The Council charged the Fund £0.875 million for expenses incurred in administering the Fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts on pages 87 to 98.

Members of the Council have direct control over the Council's financial and operating policies. Information regarding reportable transactions 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 many transactions with related parties as disclosed in the information provided by Councillors and Chief Officers to the value of £5.7 million. The most significant transactions being with charitable institutions of £1.1 million, legal support in the borough of £0.8 million, transactions with Housing Associations of £1.2 million, development and volunteering of £0.7 million, and transactions with cultural organisations, particularly the Lyric Theatre, Hammersmith, of £0.4 million.

In addition to the above, twenty four Councillors serve as School Governors on the borough's schools.

Two Councillors act as the Council's representatives on the boards of H and F Homes and the Bridge Partnership. 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 2007/08 the annual fee amounted to £20.4 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.

Two officers are jointly funded by Hammersmith and Fulham PCT and the council, their positions are Joint Director of Public Health and Health Programmes Director. In 2007/08 payments to the trust totalled £3m and income through the trust was £19m.

15. MEMBERS' ALLOWANCES

The total allowances paid to members in 2007/08, including travel and subsistence allowances, amounted to £857,653 (£828,459 in 2006/07).

16. DISCRETIONARY EXPENDITURE

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not for profit bodies providing a public service in the United Kingdom and mayoral appeals. In 2007/08 all main programme voluntary sector grants expenditure across all departments were undertaken under powers contained in the Local Government Act 2000.

17. BUILDING CONTROL STATEMENT

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. The Council sets charges for work carried out in relation to building regulations with the aim of covering all costs incurred. 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:

	2006/07 Total £000s	2007/08		
		Chargeable £000s	Non-chargeable £000s	Total £000s
EXPENDITURE				
Employee Costs	1,320	939	313	1,252
Transport	20	13	4	17
Supplies and Services	47	32	11	43
Support Costs	396	348	116	464
Total	1,783	1,332	444	1,776
INCOME				
Building Regulations Charges	(1,346)	(1,356)	0	(1,356)
Other Income	(44)	(3)	(13)	(16)
Total	(1,390)	(1,359)	(13)	(1,372)
(Surplus)/Deficit	393	(27)	431	404

18. FEES PAYABLE TO THE AUDIT COMMISSION

The following fees were payable to the Audit Commission:

	2006/07 £000s	2007/08 £000s
External Audit Services	377	415
Statutory Inspection	26	151
Certification of Grant Claims and Returns	183	172
Total	586	738

19. HEALTH ACT 1999 POOLED FUNDS AND SIMILAR 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 Learning Disabilities Service is provided under partnership agreements with Hammersmith and Fulham Primary Care Trust. The Community Equipment Service was wound up during 2006/07. The Council acts as the accountable body. The memorandum accounts are summarised in the table below:

	2006/07		2007/08	
	Community Equipment £000s	Learning Disabilities £000s	Community Equipment £000s	Learning Disabilities £000s
Original Contributions				
London Borough of Hammersmith and Fulham	(423)	(8,814)	0	(10,254)
Hammersmith and Fulham Primary Care Trust	(137)	(8,577)	0	(9,565)
Hammersmith Hospital Trust	(30)	0	0	0
Total Original Contributions	(590)	(17,391)	0	(19,819)
Total Expenditure	806	17,260	0	18,329
Net Overspend/(Under-spend)	216	(131)	0	(1,490)
(Additional)/Reduced Contributions Required				
London Borough of Hammersmith and Fulham	1	235	0	737
Hammersmith and Fulham Primary Care Trust	(217)	(104)	0	753
Hammersmith Hospital Trust	0	0	0	0
Revised Contributions				
London Borough of Hammersmith and Fulham	(422)	(8,579)	0	(9,517)
Hammersmith and Fulham Primary Care Trust	(354)	(8,681)	0	(8,812)
Hammersmith Hospital Trust	(30)	0	0	0
Total Revised Contributions	(806)	(17,260)	0	(18,329)

20. LOCAL AREA AGREEMENT (LAA) GRANT

The Council was a pioneer in developing LAAs – partnerships with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08 the Council completed the final year of its three year LAA agreement.

The purpose of the LAA is to encourage and develop partnership working to address key local priorities in Hammersmith and Fulham. The Community Strategy has been agreed by the Borough Partnership and is implemented by the Local Public Service Board. The Community Strategy identifies the key challenge as creating a borough of opportunity for all and its objectives are:

- Tackling crime and anti social behaviour
- Promoting home ownership and housing opportunities
- A cleaner, greener Borough
- A top quality education for all
- Delivering high quality, value for money public services
- Setting the framework for a healthy Borough
- Regenerating the most deprived parts of the Borough.

The LAA partners are:

- London Borough of Hammersmith and Fulham
- Hammersmith and Fulham Primary Care Trust
- Hammersmith and Fulham Police
- Jobcentre Plus
- London Fire Brigade
- North London New Deal for Communities
- West London Learning and Skills Council

The Council acts as the accountable body for the LAA. The Council has delegated responsibility to the Local Public Service Board to manage the distribution of LAA pooled grant paid by the Government Office. The total amount of LAA grant received by the partnership in 2007/08 was £11.255 million. All the £11.255m received was for expenditure incurred by the council in provision of its own services. There was no LAA grant received for service provision by partner agencies.

As accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems in place for distributing the grant are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

21. FINANCIAL INSTRUMENTS' CHARGES AND INCOME

Interest receivable and payable recognised in the Income and Expenditure Account are made up as follows:

	Financial Instruments £000s
Interest Expense	23,637
Premiums and Discounts applied	(801)
Interest Income	(5,607)
Interest and Investment Income in Income and Expenditure Account	17,229

A net total of £3.321 million of premiums have been written off to the Financial Instruments Adjustment Account and have been charged to the Statement of Total Recognised Gains and Losses. This is a new disclosure required from 2007/08 and reflects the accounting changes implemented in SORP 2007. The Statement of Accounting Policies gives details of how Financial Assets and Financial Liabilities have been accounted for.

22 (i) FIXED ASSETS MOVEMENTS

	Operational Assets					Non Operational Assets			Intangible	Total £000s
	HRA Dwellings £000s	Other Land & Buildings £000s	Infrastruct ure £000s	Vehicles Plant & Equipment £000s	Communit y Assets £000s	Assets Under Construction £000s	Surplus Assets for Disposal £000s	Investment Properties £000s	Fixed Assets £000s	
Gross Value at 01/4/2007	1,168,259	369,470	122,042	17,253	6,846	8,033	12,564	44,054	2,098	1,750,619
Additions	49,285	6,221	13,877	2,074	137	2,696	0	0	139	74,429
Adjustments and Reclassifications	(9)	4,251	0	2,707	0	(6,743)	(400)	(77)	0	(271)
Revaluations	150,466	5,280	0	0	0	0	0	350	0	156,096
Disposals	(15,798)	(12,214)	0	0	0	0	0	(820)	0	(28,832)
Gross Value at 31/03/2008	1,352,203	373,008	135,919	22,034	6,983	3,986	12,164	43,507	2,237	1,952,041
Depreciation at 01/04/2007	0	(5,091)	(22,393)	(6,939)	(422)	0	0	0	(1,214)	(36,059)
Adjustments	0	(11)	0	0	0	0	0	0	0	(11)
Revaluation	11,046	0	0	0	0	0	0	0	0	11,046
Disposals	0	29	0	0	0	0	0	0	0	29
Depreciation for year	(11,046)	(5,563)	(5,914)	(2,987)	(221)	0	0	0	(313)	(26,044)
Depreciation at 31/03/2008	0	(10,636)	(28,307)	(9,926)	(643)	0	0	0	(1,527)	(51,039)
Net Book Value at 31/3/2008	1,352,203	362,372	107,612	12,108	6,340	3,986	12,164	43,507	710	1,901,002

22 (ii) Valuation

The basis of valuing the individual classes of fixed assets owned by the Council is explained in Notes 9 and 10 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.

The annual revaluation of the Housing stock in 2007/08 gave a new gross value of £1,310 million. These values took effect from 1st April 2007.

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	22,033	0	22,033
Valued at Current Value in:					
2007/08	1,310,084	0	0	0	1,310,084
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

22 (iii) Capital Commitments

Capital commitments on major schemes at 31st March 2008 totalled £45 million, within the Children's Services, Community Services and Environment Services Departments. These include:-

- £1.5 million approved for new state of the art IT teaching facilities at Phoenix High School.
- £3.5 million approved for the provision of 6 Children Centres.
- £7.0 million approved for the development of a new railway station at Imperial Wharf.
- £3.5 million approved for Wood Lane streetscape improvements.
- Various housing stock refurbishment projects, part of an overall total of £98 million, are currently underway. Decent Homes partnering contracts are continuing and there are future commitments of £66 million planned.

22 (iv) Fixed Assets Held

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

	31 March 2007 (Numbers)	31 March 2008 (Numbers)
Operational Assets		
Council Dwellings	13,043	13,006
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	36	36
Depots	5	5
Secondary Schools	5	5
Primary and Nursery Schools	26	26
Special Schools	6	6
Other Education Premises	20	20
Other Land and Buildings	45	42
Infrastructure Assets		
Bridges	1	1
Community Assets		
Parks and Open Spaces (hectares)	191	191
Non-operational Assets		
Shops	122	121
Industrial Units	9	9
Other	70	69

22 (v) Capital Expenditure and Financing

	2006/07 £000s	2007/08 £000s
Opening Capital Financing Requirement	382,046	413,047
Capital Investment		
Operational Assets	52,919	72,080
Non Operational Assets	3,158	2,696
Non Enhancing Expenditure	9,237	0
Deferred Charges	4,954	4,121
Sources of Finance		
Useable Capital Receipts	(12,085)	(23,566)
Government Grants	(16,167)	(11,470)
Major Repairs Reserve	(2,325)	0
Planning Agreement Funds	(1,643)	(4,744)
Other Capital Contributions	(1,098)	(959)
Sums set aside from Revenue	(5,949)	(6,657)
Closing Capital Financing Requirement	413,047	444,548
Explanation of Movements in year		
Increase in underlying need for Supported Borrowing	30,360	32,242
Increase in underlying need for Unsupported Borrowing	641	(741)
Increase in Capital Financing Requirement	31,001	31,501

Capital Investment in Operational Assets includes the transfer of £0.348 million of vehicles, plant and equipment acquired under finance leases which were previously considered to be operational leases.

22 (vi) Intangible Assets

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

23. 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 April 2007	0	0	0
Expenditure In Year	2,091	2,030	4,121
Less: Written off in Year	(2,091)	(2,030)	(4,121)
Balance at 31 March 2008	0	0	0

24. LONG-TERM DEBTORS

	31 March 2007 £000s	31 March 2008 £000s
House Purchase	226	176
Sale of Council Dwellings	966	769
Car Loans	8	10
Total	1,200	955

25. STOCK

	31 March 2007 £000s	31 March 2008 £000s
Stocks - Trading	267	213
Stocks - Other	46	32
Total	313	245

26. DEBTORS

	31 March 2007 £000s	31 March 2008 £000s
Government Departments	19,386	11,512
Other Public Bodies	5,174	2,462
Housing Rents	3,799	3,957
Business Rates	9,466	7,513
Council Tax	9,863	10,066
Sundry Debtors	79,782	82,799
Car and Other Employee Loans	114	113
Payments in Advance	4,255	4,431
Sub total	131,839	122,853
Less:		
Provision for Doubtful Debts	(75,683)	(72,654)
Total	56,156	50,199

27. CASH BALANCES

	31 March 2007 £000s	31 March 2008 £000s
Bank/Petty Cash Balances	204	1,356
School Bank Accounts	9,793	11,228
Sub-total	9,997	12,584
Less:		
Cash Balances Overdrawn	(7,823)	(11,816)
Total	2,174	768

28. CREDITORS

	31 March 2007 £000s	31 March 2008 £000s
Government Departments	(22,998)	(20,492)
Other Public Bodies	(3,477)	(5,694)
Housing Rents	(1,547)	(1,168)
Business Rates	(6,530)	(3,592)
Council Tax	(4,049)	(4,274)
Sundry Creditors	(64,663)	(80,290)
Total	(103,264)	(115,510)

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

Financial liabilities and assets represented by loans and investments are carried in the Balance Sheet at amortised cost. Re-scheduled loans are matched with any consequential premiums and discounts with an effective interest rate applied. This results in an interest rate charge to the Income and Expenditure Account which is different from the cash actually payable. The following assumptions also apply:

- No early payment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount, with any provision for bad or doubtful debts assessed as disclosed in Note 26.

	31 March 2008	
	Carrying Amount £000s	Fair Value £000s
Financial Liabilities	392,027	433,992
Financial Assets	113,373	113,373

The carrying amount of financial liabilities includes the balance of premiums and discounts to be charged or credited to the Income and Expenditure Account in future years plus accrued interest payable. The carrying value of investments is their cash value plus accrued interest receivable. The fair values of the financial instruments above have been calculated on the basis of the interest rates applicable in the market on 31 March 2008 for an instrument of the same duration, ie valuation date to maturity by the Council's treasury management advisors.

No borrowings are carried at fair value.

30. FINANCIAL INSTRUMENTS' RISK EXPOSURE

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority.
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rate movements.

The authority has adopted the CIPFA "Treasury Management in the Public Services: Code of Practice" and sets treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code. The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the Council in accordance with the above Codes of Practice. There are documented principles for overall risk management, and written policies covering specific areas such as interest rate risk and investment of surplus cash risk.

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks and other financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks unless they are rated independently with a minimum score of AA-; and are not made with building societies unless they are rated with a minimum score of A2. Limits are also placed on the total amount deposited with any single institution.

Exposure to customers is assessed by reference to past experience, age of debt, and stage of the recovery process. Details of these debts are reported in Note 26 which also shows a prudent provision for their impairment. The authority does not normally allow credit for its customers. The age profile of the Council's debtors is summarised as follows:

Age Profile of Debtors	Amount at 31 March 2008 £000s
Less than 3 months	27,206
3 months to 6 months	3,347
6 months to 1 year	11,119
More than 1 year	69,297
Total	110,969

Payments in advance of £4,431,000 and accruals of £7,453,000 have been excluded from this analysis as they do not represent debt to be recovered.

The following table summarises the authority's potential maximum exposure to credit risk, including the authority's historic experience of default over the past five years:

	Amount at 31 March 2008 £000s	Historic Experience of Default %	Estimated Maximum Exposure to Default £000s
Deposits with Banks and Financial Institutions	111,700	0	0

No credit limits were exceeded in the period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Liquidity Risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The authority's Short and Long Term Borrowing are summarised in the following tables at their unadjusted face value:

	31 March 2007 £000s	31 March 2008 £000s
Short Term Borrowing (less than one year)	0	0
Total	0	0

Long Term Borrowing	31 March 2007 £000s	31 March 2008 £000s
Public Works Loan Board	(378,520)	(388,520)
Total	(378,520)	(388,520)

The risk is that the authority may be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy adopted is to ensure that not more than 26% of loans are due to mature within any rolling three year period through a combination of planning of new loans taken out and the re-scheduling of existing loans. The maturity analysis of financial liabilities is as follows:

	31 March 2007 £000s	31 March 2008 £000s
One to two years	0	0
Between two and five years	16,000	16,174
Between five and ten years	65,456	78,282
More than ten years	297,064	294,064
Total	378,520	388,520

All trade and other payables (creditors as disclosed in Note 28) are due to be paid in less than one year.

Market Risk

The authority has limited its exposure to the risk of interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account would rise.
- Borrowings at fixed rates – the fair value of the liabilities would fall.
- Investments at variable rates – the interest income credited to the Income and Expenditure Account would rise.
- Investments at fixed rates – the fair value of the assets would fall.

The authority has a number of strategies for managing interest rate risk. Its policy is to set a maximum of 20% to its borrowings of variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and capital programme and which is used to update the regular monitoring of the budget during the year. This allows any adverse changes to be accommodated. The analysis also assists in determining whether any new

borrowing is at fixed or variable rates.

The sensitivity of the authority's finances to interest rate changes may be analysed as follows. If interest rates had been 1% higher with all other variables held constant in 2007/08, the financial effect would have been:

	£000s
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Increase in Government Grant receivable for financing costs	0
Impact on Income and Expenditure Account	0
Share of overall impact on the HRA	0

All of the authority's investments and loans are at fixed interest rates so that the existing portfolio has no short term sensitivity to either upward or downward interest rate changes.

31. PROVISIONS

	1 April 2007	Movement in	31 March 2008
	£000s	Year	£000s
		£000s	
Insurance	(4,131)	(170)	(4,301)
Section 117	(769)	167	(602)
Notting Hill Lease	(570)	570	0
Housing Repairs	0	(300)	(300)
Total	(5,470)	267	(5,203)

The Authority maintains an Insurance Provision (balance at 31 March 2008 £4.301 million) 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 £107,640 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 had 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 Council established a provision of £570,000 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. This claim was settled in 2007/08 with the remaining balance on the provision cleared to the revenue account.

A provision has been made in respect of a claim by a housing repairs contractor for the estimated maximum liability of the Council.

32. DEFERRED LIABILITIES

	31 March 2007 £000s	31 March 2008 £000s
Finance Leases	(207)	(229)
Frozen Holiday Pay	(44)	(31)
Total	(251)	(260)

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 2007/08 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.

33. 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.

34. EARMARKED RESERVES

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

Reserve	1 April 2007	Transfers In	Transfers Out	Movement Between Reserves	31 March 2008
	£000s	£000s	£000s	£000s	£000s
Insurance Fund	(972)	(1,691)	338		(2,325)
Insurance Fund Holding		(7,756)	7,756		
Controlled parking fund	(834)		657		(177)
Computer Replacement Fund	(886)		25		(861)
Efficiency Projects Reserve	(6,443)	(1,418)	3,206	(2,049)	(6,704)
Debtors and Creditors Review	(297)	(29)	255		(71)
Housing Benefit	(3,262)		643		(2,619)
Trading Services Contingency	(1,330)			1,330	
General Contingency	(719)			719	
Planning Inquiries	(139)				(139)
Departmental Carry Forwards	(807)	(3,309)	415		(3,701)
Single Status	(1,440)	(1,105)			(2,545)
LPSA1 Reward Grant	(539)	(471)	1,010		
Other Funds	(2,464)	(3,109)	378		(5,195)
NNDR Academy	(2,300)		2,300		
Borough Construction	(638)		638		
Projects Underwritten	(3,720)		750		(2,970)
Market Testing	(500)		500		
Corporate Finance Business System	(144)		144		
Community Services Contingency	(616)		616		
LPFA Top-up	(22)				(22)
JAR Implementation	(200)		200		
No Recourse to Public Funds	(200)				(200)
CEDAR Financials	(462)		287		(175)
Civic Accomodation	(325)	(731)			(1,056)
S 117	(200)	(200)	200		(200)
Major works		(76)			(76)
Total	(29,459)	(19,895)	20,318	0	(29,036)

The main purpose of each of the Earmarked 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) **Efficiency Projects Reserve** – these reserves will fund future revenue expenditure and capital investment that will provide future revenue savings. The Trading Services Contingency and General Contingency have both been transferred to this reserve in 2007/08.

- (v) **Debtors and Creditors Review Reserve** – 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) **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.
- (vii) **Trading Services Contingency Reserve** – this reserve earmarks funds to meet future potential costs emerging from the review of Trading Services. This reserve has been transferred to the Efficiency Projects Reserve in 2007/08.
- (viii) **General Contingency Reserve** – this money is set aside to meet general contingencies. This reserve has been transferred to the Efficiency Projects Reserve in 2007/08.
- (ix) **Planning Inquiries Reserve** – this reserve is established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
- (x) **Departmental Carry Forwards** – this reserve is used to carry forward departmental under spends.
- (xi) **Single Status Reserve** – this reserve has been created to meet the costs of the implementation of Single Status. Local authorities were required to introduce harmonised pay and conditions for staff by 31st March 2007.
- (xii) **LPSA1 Reward Grant Reserve** – reward grant has been received for achieving the targets set in the first tranche of the Local Public Service Agreements (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 was established to provide funding in respect of a reconciliation difference between the Council's general ledger and the Academy system. Work on this has been completed in 2007/08 and the reserve used to write off the difference.
- (xvi) **Borough Construction Reserve** – this reserve was created to offset exit costs that might arise from the loss of contracts by Borough Construction.
- (xvii) **Projects Underwritten Reserve** – these funds are set aside for the underwriting of various projects.
- (xviii) **Market Testing Reserve** – this reserve was established to enable the Council's Direct Services Organisation to obtain external support to enable the preparation and delivery of 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 Reserve** – this reserve consists of the 2006/07 budget provision that 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.
- (xxi) **LPFA Top-Up Reserve** – this reserve was 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 Reserve** – this reserve is established to provide services to people who have no recourse to public funds.
- (xxiv) **Cedar Financials Reserve** – 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 was set aside to meet the costs of any new cases arising in 2007/08 and future years.
- (xxvii) **Major Works Charges Reserve** – this reserve has been set aside to assist leaseholders in paying for major works resulting from the Decent Homes programme.

35. CAPITAL ACCOUNTS AND RESERVES

Reserve	1 April 2007	Transfers In	Transfers Out	Movement Between Reserves	31 March 2008
	£000s	£000s	£000s	£000s	£000s
Revaluation Reserve		(156,097)		14,272	(141,825)
Capital Adjustment Account	(1,233,681)	(11,603)	47,933	(37,838)	(1,235,189)
Financial Instruments Adjustment Account		3,479			3,479
Useable Capital Receipts Reserve		(30,022)	6,456	23,566	0
Capital Reserves	(2,566)	(484)			(3,050)
Total	(1,236,247)	(194,727)	54,389	0	(1,376,585)

The main purpose of the Capital Accounts and Reserves is as follows:

- (i) **Revaluation Reserve** – this is a store of the gains on revaluation of Fixed Assets not realised through sales since 1 April 2007.
- (ii) **Capital Adjustment Account** – this is a store of capital resources set aside to meet past expenditure.
- (iii) **Financial Instruments Adjustment Account** – this is a balancing account to allow for differences between statutory requirements and proper accounting practices in the treatment of borrowings and investments.

- (iv) **Useable Capital Receipts** – these are the proceeds of Fixed Asset sales available to meet capital expenditure. All receipts receivable in 2007/08 were used to finance capital expenditure incurred in the year.
- (v) **Capital Reserves** – these comprise revenue contributions earmarked for the future funding of capital expenditure.

36. REVENUE RESERVES AND BALANCES

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

	1 April 2007 £000s	31 March 2008 £000s
General Fund	(12,274)	(14,158)
Housing Revenue Account	(8,136)	(9,977)
Collection Fund	(2,380)	(1,714)
Education Establishment Account	(10,578)	(11,520)
TOTAL	(33,368)	(37,369)

- (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.

37. 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. The contributions were £351,459 in 2006/07 and £344,568 in 2005/06. The latest audited accounts available, those relating to 2006/07, show net assets of £2,913,225 (£3,198,115 in 2005/06) and a deficit on its activities in that year of £284,890 (deficit of

£158,464 in 2005/06). 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) **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 2006/07 show net assets worth £48,748 (£46,722 in 2005/06). A surplus of £2,026 has been reported for 2006/07 (£3,648 in 2005/06). 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.

In addition, H and F Homes, a wholly owned subsidiary company, and Bridge Partnership, an associate company, are incorporated into the Council's Group Accounts, in which section of this Statement further details may be found.

38. JOINT ARRANGEMENT

The Council is one of ten members of London Authorities Mutual Limited (LAML) , a Joint Arrangement, which is not an entity. LAML is capitalised at £7.7 million, consisting of a combination of paid up capital and guarantees. The purpose of the arrangement is to provide and procure insurance on behalf of its members so as to derive permanent long term savings by operating on a mutual not a commercial basis.

The Council has subscribed total resources of £260,500 (from the Insurance Provision) and provided a guarantee in the sum of £609,500 to LAML. In 2007/08, insurance was not provided to the Council by LAML, and this continues to be the case, meaning that the Council has not become a fully participating member of the mutual. The Council has made a commitment to take insurance cover with LAML at an unspecified point in the future, but there is no timescale attached to this.

39. 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.

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 terminated 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 ceased 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.

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 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 £2.545m to fund potential equal pay claims from 2008/09.

40. 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.

	2006/07 £000s	2007/08 £000s
Balance at 1 April	(5,239)	(5,465)
Income	(591)	(633)
Sub total	(5,830)	(6098)
Less:		
Expenditure and Transfers	365	401
Balance at 31 March	(5,465)	(5,697)

The trust owns assets valued at £5 million. Specifically these are car parks that are classified as investment assets and valued on an existing use basis.

In 2006/07 the Trust's accounts were incorporated into the Council's Group Accounts on the basis of the Balance Sheet value of the assets in the Trust. This accounting treatment has been reviewed in 2007/08 in the light of the requirements and definitions in the SORP and the Trust's account are no longer incorporated into the Council's Group Accounts on the basis that the specific enactment referred to above plus the obligations of trustees under the general law relating to charities preclude the trustees from acting other than in accordance with the charitable purposes of the Trust.

41. ANALYSIS OF NET ASSETS EMPLOYED

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

	2006/07 £000s	2007/08 £000s
General Fund	43,905	99,507
Housing Revenue Account	895,889	1,085,678
Collection Fund	2,380	1,714
Total	942,174	1,186,899

42. GOVERNMENT GRANTS

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

	2006/07 £000s	2007/08 £000s
Aids and HIV	310	294
Supporting People	12,819	13,157
Education Standards Fund	18,068	17,590
New Deal for Communities and Single Regeneration Budget	7,696	11,451
Mental Health	911	887
Community Care	2,492	2,583
Dedicated Schools Grant	79,033	82,621
Housing Subsidy	16,002	13,848
Rent Allowances and Rent Rebates Subsidy	114,969	113,305
Council Tax Benefit Subsidy	17,531	17,171
Housing Benefit Administration	3,157	2,785
Asylum Seekers	2,885	4,346
Sure Start	2,297	1,478
Youth Offending Team	787	881
NNDR Collection Allowance	499	493
Transport	1,104	1,386
Asset Management	246	274
Housing	589	3,179
Minority Ethnic Pupils	1,752	2,266
Funding for Sixth Forms	7,139	7,956
Children's Trust	117	153
Other Education Grants	8,112	6,878
Other Social Services Grants	7,683	8,502
Capital Ambition	3,283	2,422
London Centre of Excellence	1,239	1,168
Performance Reward Grant	471	0
Other Grants	2,783	4,268
Total	313,974	321,342

43. RECONCILIATION OF THE DEFICIT ON THE INCOME AND EXPENDITURE ACCOUNT TO THE REVENUE ACTIVITIES NET CASHFLOW

	2006/07		2007/08	
	£000s	£000s	£000s	£000s
Net Deficit on Income and Expenditure Account		20,566		23,284
Remove non cash transactions				
Pensions	(14,269)		(17,674)	
Depreciation	(24,067)		(26,044)	
Government Grants Deferred	2,624		3,657	
Deferred Charges	(4,954)		(4,121)	
Transfer to MRA	828		269	
Provisions	(1,089)		267	
Other Adjustments	(258)		(2,327)	
Sub Total		(41,185)		(45,973)
Remove accrued items				
Increase/(Decrease) in Debtors	(26,736)		(341)	
(Increase)/Decrease in Creditors	(6,401)		(5,776)	
Increase/(Decrease) in Stocks	(73)		(68)	
Sub Total		(33,210)		(6,185)
Financing Items shown later In Cash Flow Statement		(18,056)		(16,038)
Net Cash Inflow from Revenue Activities		(71,895)		(44,912)

44. MOVEMENTS IN CASH AND CASH EQUIVALENTS

The actual 2007/08 movements in cash and cash equivalent balances are shown in the following table:

	Balance 1 April 2007 £000s	Balance 31 March 2008 £000s	Net Movement in Year £000s
Petty Cash Imprests	204	1,356	1,152
Cash Overdrawn	(7,823)	(11,816)	(3,993)
Education Establishments	9,793	11,228	1,435
Total	2,174	768	(1,406)

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

	Balance 1 April 2007 £000s	Balance 31 March 2008 £000s	Net Movement in Year £000s
Short Term Investments	91,000	111,861	20,861
Total	91,000	111,861	20,861

46. EVENTS AFTER THE BALANCE SHEET DATE

As at 30 June 2008 when the accounts were authorised for publication and audit by the Council's Audit Committee there were no material adjusting or non adjusting events after the balance sheet date to report.

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 of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to precepting authorities and to the authority's own General Fund. The Collection Fund is consolidated into the accounts of the billing authority.

	Note	2006/07 £000s	2007/08 £000s
Income			
Income from Council Tax	1	(76,629)	(76,697)
Transfers from General Fund:			
- Council Tax Benefits		(17,221)	(16,937)
Non-Domestic Rate Income		(107,180)	(112,775)
Total Income		(201,030)	(206,409)
Expenditure			
Precepts and Demands	3	91,273	92,060
Non-Domestic Rates			
- Payment to National Pool	2	106,681	112,282
- Costs of Collection		499	493
Bad and Doubtful Debts/Appeals			
- Write offs		1,473	704
- Provisions		(728)	404
Distribution of previous year's Collection Fund Surplus		0	1,297
Total Expenditure		199,198	207,240
Change in Fund Balance in year (Surplus)/Deficit as at 1 April		(1,832) (1,297)	831 (3,129)
(Surplus)/Deficit as at 31 March		(3,129)	(2,298)

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 2007/08 it was calculated as follows:

Band	Estimated Number of Taxable Properties after Discounts and Exemptions	Ratio to Band D	Band D Equivalent Dwellings
A	2,231	6/9	1,487
B	4,254	7/9	3,309
C	10,520	8/9	9,352
D	18,403	1	18,403
E	12,152	11/9	14,852
F	7,708	13/9	11,134
G	9,403	15/9	15,671
H	1,778	18/9	3,556
	66,449		77,764

2. NATIONAL NON-DOMESTIC RATES

NNDR is organised and administered on a national basis. The government specifies an amount (44.4 pence in the £ in 2007/08) 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 £112.775 million for 2007/08 (£107.180 million for 2006/07). The rateable value at 31st March 2008 was £296.4 million (£296.4 million at 31st March 2007).

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.

	2006/07 £000s	2007/08 £000s
London Borough of Hammersmith and Fulham	69,423	68,617
Greater London Authority	21,850	23,443
	91,273	92,060

4. COLLECTION FUND BALANCE

A proportion of the Collection Fund balance above is properly attributable to the Greater London Authority and thus should not be wholly taken to the net worth component of the Council's Balance Sheet. Only an element calculated pro rata to the precepts above therefore appears as a balance in the net worth section of the Balance with the remainder treated as a creditor. The 2006/07 figures have been restated on the same basis, with the necessary adjustments made to the Statement of Total Recognised Gains and Losses.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

	Note	2006/07	2007/08
		Net Expenditure £000s	Net Expenditure £000s
Income			
Dwellings Rents (Gross)		(50,189)	(53,996)
Non-dwelling Rents (Gross)		(2,280)	(2,317)
Charges for Services and Facilities		(8,663)	(7,848)
Contributions towards Expenditure		(594)	(580)
HRA Subsidy Receivable (including MRA)	7	(15,430)	(13,836)
Total Income		(77,156)	(78,577)
Expenditure			
Repairs, Maintenance and Management			
Repairs and Maintenance		14,081	15,337
General Management		20,815	22,308
Special Services		9,172	9,080
Rent, Rates, Taxes and Other Charges		2,387	1,659
Increase in Provision for Doubtful Debts		503	406
Depreciation of Fixed Assets	6	10,220	11,518
Debt Management Costs		109	102
Deferred Charges		0	248
Net Cost of HRA Services included in the whole authority Income and Expenditure Account		(19,869)	(17,919)
HRA Services Share of Corporate and Democratic Core		497	497
Net Cost of HRA Services		(19,372)	(17,422)
HRA Share of the Operating Income and Expenditure included in the whole authority Income and Expenditure Account			
(Gain)/Loss on Disposal of HRA Fixed Assets		132	177
Interest Payable and similar Charges		14,308	16,425
Amortisation of Premiums and Discounts		1,860	1,627
Interest and Investment Income		(1,319)	(2,117)
Pensions Interest Costs and Expected Return on Pension Assets		164	212
(Surplus)/Deficit for the year		(4,227)	(1,098)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

	2006/07 £000s	2007/08 £000s
(Surplus)/Deficit for year on HRA Income and Expenditure Account	(4,227)	(1,098)
Net additional amount required by statute to be debited/(credited) to the HRA balance for the year	639	(743)
Increase/(decrease) in Housing Revenue Account Balance for year	(3,588)	(1,841)
HRA Balance brought forward	(4,548)	(8,136)
HRA Balance carried forward	(8,136)	(9,977)

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.

The HRA Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Account, comprising amounts included in the whole authority Net Cost of Services for the HRA and the HRA's share of Operating Income and Expenditure such as Pensions Interest Costs and Expected Return on Pensions Assets.

The Statement of Movement on the Housing Revenue Account Balance shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.

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 Homes. The average number of dwellings during 2007/08 was 13,189. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents; for this purpose three bed spaces equals one dwelling.

	Dwellings Number	Hostels Number	Equity Share Number	Total Number
Number at 1 April 2007	13,043	175	18	13,236
Adjustments		(3)	(4)	(7)
Sub total	13,043	172	14	13,229
Right to Buy Sales	(37)	0	0	(37)
Hostel Sales	0	(47)	0	(47)
Number at 31 March 2008	13,006	125	14	13,145

2. STOCK VALUATION

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

	1 April 2007 £000s	31 March 2008 £000s
Operational Assets		
Housing Dwellings	1,168,259	1,352,203
Other Land and Buildings	13,423	13,064
Non Operational Assets		
Other Land and Buildings	22,208	22,208
Vehicles, Plant, Equipment and Intangible Assets	1,602	1,531
Total	1,205,492	1,389,006

The open market, vacant possession value of hostels, houses and flats within the HRA as at 1 April 2007 was £3,541 million. This compares to the balance sheet value of £1,168 million for the Council's hostels, houses and flats as at 1 April 2007. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

3. MAJOR REPAIRS RESERVE

This reserve is credited with the depreciation charged to the HRA each year plus 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.

	2006/07 £000s	2007/08 £000s
Balance as at 1 April	(10,788)	(19,595)
Depreciation Charges to HRA	(10,305)	(11,614)
Adjusting Transfer from HRA:		
Depreciation on Non-Dwellings	542	569
Excess / (Shortfall) of Depreciation on Dwellings over MRA	(1,369)	(269)
Funding of Capital Expenditure	2,325	47
Balance as at 31 March	(19,595)	(30,862)

4. CAPITAL EXPENDITURE FINANCING

Capital expenditure, mainly on dwellings, amounted to £50.350 million (£31.221 million in 2006/07) in the year. The following summary shows how this was funded:

	2006/07 £000s	2007/08 £000s
Borrowing	28,707	50,350
Major Repairs Reserve	2,325	0
Other Grants and Contributions	189	0
Capital Accrual	0	0
Total	31,221	50,350

5. CAPITAL RECEIPTS

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

	2006/07 £000s	2007/08 £000s
Land	0	0
Dwellings	7,531	15,799
Total	7,531	15,799

The above figure includes capital receipts from the sale of hostels of £9.107 million.

6. DEPRECIATION

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

	2006/07 £000s	2007/08 £000s
Operational Assets		
Dwellings	9,763	11,045
Other Land and Buildings	359	360
Non Operational Assets		
Other Land and Buildings	0	0
Vehicle, Plant, Equipment and Intangible Assets	183	210
Government Grants Deferred	(85)	(97)
Total	10,220	11,518

7. HRA SUBSIDY

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

	2006/07 £000s	2007/08 £000s
Allowance for Management	13,345	13,330
Allowance for Maintenance	20,458	20,440
Allowance for Major Repairs	11,132	11,315
Charges for Capital	19,360	20,663
Admissible Allowance	81	0
Other Items	1,161	1,204
Rent	(51,105)	(55,079)
Interest on Receipts	(100)	(85)
Anti Social Behaviour Allowance	874	1,732
Sub Total - Housing Element	15,206	13,520
Adjustment for Previous Year	224	316
Sub Total – Adjusted Housing Element	15,430	13,836
Rent Rebate Element	0	0
Total	15,430	13,836

8. RENT ARREARS AND BAD DEBT PROVISIONS

Gross rent arrears were as follows:

	1 April 2007 £000s	31 March 2008 £000s	Change £000s
Main Council Stock	3,596	3,194	(402)
Hostels	203	289	86
Total	3,799	3,483	(316)

Bad debt provisions at 31 March 2008 were:

	Total 2006/07 £000s	Pre-Ringfenced (HGF) £000s	Ringfenced (HRA) £000s	Total 2007/08 £000s
Main Council Stock	2,457	1,121	956	2,077
Hostels	209	99	172	271
Total	2,666	1,220	1,128	2,348

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 by means of an appropriation to the Pensions Reserve in the Statement of Movement on the HRA Balance.

Note 6 to the Core Financial Statements provides further details.

10. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

	2006/07 £000s	2007/08 £000s
Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year		
Government Grants Deferred Amortisation	85	97
Gain/(Loss) on Sale of HRA Fixed Assets	(132)	(177)
Deferred Charges	0	(248)
HRA Share of Contributions (to)/from the Pensions Reserve	(231)	(223)
Depreciation on non dwellings	0	(569)
Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable relating to premiums and discounts on early repayment of debt	0	32
Items not included in the HRA Income and Expenditure Account but included in the Movement on the HRA Balance for the year		
Transfer to/(from) the Major Repairs Reserve	828	269
Capital Expenditure funded by the HRA	89	0
Net Transfers to/(from) Earmarked Reserves	0	76
Net additional amount required by statute to be debited/credited to the HRA Balance for the year	639	(743)

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 those entities.

Two entities have been identified for consolidation into the Group Accounts. These are H and F Homes and The Bridge Partnership.

H and F Homes (HFH)

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) in June 2004 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 relationship is recognised for Group accounting purposes as that of a subsidiary of the Council and its accounts have been consolidated using the merger method accounting basis.

The Council has entered into direct agreements with both reactive repairs contractors to H and F Homes covering both TUPE and pension liabilities for staff transferred from the former Council Direct Labour Organisation. The Council has also given parent company guarantees to H and F Homes in meeting its liabilities under these contracts.

Copies of HFH accounts may be obtained from HFH, Riverview House, Beavor Lane, Hammersmith, London W6 9AR.

The Bridge Partnership (HFBP)

The Bridge Partnership 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. The Council is deemed to have a significant influence over HFBP. This is exerted through active participation in policy decision-making and implementation and by comprising one third of the membership of the Board of Directors. As such, the relationship is recognised for Group accounting purposes as an Associate member, using the equity method of accounting for the consolidation of the Group accounts.

Copies of HFBP accounts may be obtained from HFBP, 2nd Floor, 26-28 Hammersmith Grove, Hammersmith, London, W6 7AW.

HFH and has 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

	2006/07	2007/08		
	Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Central Services to the Public	5,190	27,703	(23,611)	4,092
Court Services	132	852	(724)	128
Cultural, Environmental and Planning Services	38,104	75,785	(38,852)	36,933
Children's and Education Services	48,745	187,548	(137,875)	49,673
Highways and Transport Services	(1,707)	35,076	(31,187)	3,889
Housing Services		0	0	0
Housing General Fund	12,828	155,492	(141,739)	13,753
Housing Revenue Account	(20,593)	60,995	(78,577)	(17,582)
Adult Social Care	57,341	104,194	(49,135)	55,059
Non-distributed Costs	1,070	8,403	(2,459)	5,944
Share of Operating Results of Associate	375	245	0	245
Corporate and Democratic Core	9,859	10,020	(497)	9,523
Net Cost of Services	151,344	666,313	(504,656)	161,657
(Gain)/Loss on Disposal of Fixed Assets	404	578	0	578
Cost of Levies	6,618	7,109	0	7,109
(Surpluses)/Deficits on Trading Services	335	35,307	(35,558)	(251)
Interest Payable and similar Charges	26,182	22,836	0	22,836
Contribution to Housing Capital Receipts Pool	5,447	5,879	0	5,879
Interest and Investment Income	(4,344)	0	(5,965)	(5,965)
Other Operating Income		0	(1,356)	(1,356)
Pensions Interest Cost	39,699	45,675	0	45,675
Pensions expected Return on Assets	(28,834)	0	(32,287)	(32,287)
Taxation of Group Entities	110	0	(195)	(195)
Net Operating Expenditure	196,961	783,697	(580,017)	203,680
Demand on the Collection Fund	(69,423)	0	(69,603)	(69,603)
General Government Grants	(17,173)	0	(15,891)	(15,891)
Contribution from NNDR Pool	(89,800)	0	(94,688)	(94,688)
Deficit for the year	20,565	783,697	(760,199)	23,498

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

	2006/07	2007/08		
	Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
(Surplus)/Deficit on Council's single entity Income and Expenditure Account	20,556	780,795	(757,511)	23,284
(Surplus)/Deficit arising from Associates:				
H and F Homes	(364)	2,657	(2,677)	(20)
H and F Bridge Partnership	373	245	(11)	234
Group Account (Surplus)/Deficit	20,565	783,697	(760,199)	23,498

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006/07 £000s	2007/08 £000s
Deficit for year on Group Income and Expenditure Account	20,565	23,498
Other Capital Transactions	(3,254)	247
(Surplus)/Deficit arising on the Revaluation of Fixed Assets	(134,511)	(167,460)
Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	12,910	(112,863)
Deferred Tax arising on (Loss)/Gain on the Pension Scheme	213	862
(Surplus)/Deficit on LBHF proportion of Collection Fund	(1,366)	666
Sub - total	(105,443)	(255,050)
Prior Year Adjustment relating to the re-measurement of financial instruments at 1 April 2007	0	6,001
Total Recognised (Gains)/Losses for the year	(105,443)	(249,049)

GROUP BALANCE SHEET

	Note	At 31 March 2007		At 31 March 2008	
		£000s	£000s	£000s	£000s
Fixed Assets	1				
Intangible Fixed Assets		884		710	
Tangible Fixed Assets					
Operational Assets		1,649,025		1,840,635	
Non Operational Assets		64,651		59,657	
Total Fixed Assets			1,714,560		1,901,002
Long Term Investments		100		360	
Long Term Debtors		1,200		955	
Total Long Term Assets			1,715,860		1,902,317
Current Assets					
Stock and Work in Progress		313		245	
Debtors		61,370		49,614	
Short Term Investments		91,000		113,373	
Cash in Hand		14,189		17,561	
Total Current Assets			166,872		180,793
Total Long-Term Assets			1,882,732		2,083,110
Current Liabilities					
Creditors		(111,786)		(119,154)	
Cash Balances Overdrawn		(7,823)		(11,816)	
Total Current Liabilities			(119,609)		(130,970)
Total Assets less Current Liabilities			1,763,123		1,952,140
Long Term Liabilities					
Long Term Borrowing		(370,210)		(392,027)	
Long Term Creditor		(100)		(100)	
Provisions		(5,470)		(5,203)	
Deferred Liabilities		(624)		(867)	
Government Grants and Contributions Deferred		(66,882)		(79,440)	
Pensions Liability - LBHF		(369,784)		(279,940)	
Pensions Liability - LPFA		(9,022)		(4,483)	
			(822,092)		(762,060)
Total Assets less Liabilities			941,031		1,190,080
Financed by:					
Capital Adjustment Account		(1,233,681)		(1,235,189)	
Financial Instruments Adjustment Account		0		3,479	
Revaluation Reserve		0		(141,825)	
Capital Reserves		(2,566)		(3,050)	
Deferred Credits		(757)		(510)	
Pensions Reserve - LBHF		369,728		279,940	
Pensions Reserve - LPFA		9,022		4,483	
Major Repairs Reserve		(19,595)		(30,862)	
Earmarked Reserves		(29,459)		(29,036)	
Revenue Balances		(33,368)		(37,369)	
Profit and Loss Reserve		(355)		(141)	
Net Asset Worth			(941,031)		(1,190,080)

NOTE TO THE GROUP BALANCE SHEET

1. Fixed Assets

	2006/7		2007/8	
	£000s	£000s	£000s	£000s
Fixed Assets				
Intangible Fixed Assets	884		710	
		884		710
Tangible Fixed Assets				
Operational Assets				
HRA dwellings	1,168,259		1,352,203	
Other Land & Buildings	364,379		362,372	
Infrastructure	99,649		107,612	
Vehicles, plant & equipment	10,314		12,108	
Community Assets	6,424		6,340	
		1,649,025		1,840,635
Non Operational Assets				
Assets under construction	8,033		3,986	
Surplus assets for Disposal	12,564		12,164	
Investment Properties	44,054		43,507	
		64,651		59,657
		1,714,560		1,901,002

GROUP CASH FLOW STATEMENT

	2006/07		2007/08	
	£000s	£000s	£000s	£000s
Net Cash Inflow from Revenue Activities		(70,944)		(45,352)
Returns on Investments and Servicing of Finance				
Cash Inflow				
Interest Received	(3,763)		(8,863)	
Cash Outflow				
Interest Paid	20,941		24,456	
Interest Paid for Finance Leases	25		27	
Net Servicing Costs		17,203		15,620
Net Cash (Inflow)/Outflow		(53,741)		(29,732)
Taxation		65		1
Capital Expenditure and Financial Investment				
Cash Inflow				
Sale of Fixed Assets	(18,087)		(30,022)	
Capital Grants Received	(17,124)		(12,403)	
Other Capital Receipts	(6,302)		(13,215)	
Total Cash Inflow		(41,513)		(55,640)
Cash Outflow				
Purchase of Fixed Assets	51,890		67,990	
Other Capital Payments	17,349		6,816	
Total Cash Outflow		69,239		74,806
Net Cash (Inflow)/Outflow before Financing		(25,950)		(10,565)
Management of Liquid Resources		46,300		20,861
Financing				
Cash Inflow				
New Loans Raised	(80,000)		(51,064)	
Cash Outflow				
Repayment of Amounts Borrowed	60,000		41,064	
Capital Element of Finance Lease Rental Payment	467		325	
Net Cash Inflow		(19,533)		(9,675)
Net (Increase)/Decrease in Cash		817		621

NOTES TO THE GROUP CASH FLOW STATEMENT

1. MOVEMENTS IN CASH

The actual 2007/08 movements in cash balances are shown in the following table:

	2006/07 £000s	2007/08 £000s
Balance at 1 April	7,183	6,366
Net Movement in year	(817)	(621)
Balance at 31 March	6,366	5,745

2. RECONCILIATION OF SURPLUS TO NET CASH FLOW

	2006/07		2007/08	
	£000s	£000s	£000s	£000s
Deficit of Group		20,565		24,540
Items on Accruals Basis				
(Increase)/Decrease in Stocks/ Work in Progress	(73)		(68)	
Increase/(Decrease) in Debtors	(24,950)		6,345	
(Increase)/Decrease in Creditors	(7,112)		(13,283)	
		(32,135)		(7,006)
Items classified elsewhere on Cash Flow Statement				
Financing Items	(18,279)		(16,038)	
Taxation	129		(1)	
		(18,150)		(16,039)
Non-Cash Transactions				
Pensions	(14,589)		(18,314)	
Depreciation	(24,067)		(26,044)	
Government Grants Deferred	2,624		3,657	
Deferred Charges	(4,954)		(4,121)	
Transfer to MRA	828		269	
Provisions	(1,089)		267	
Other Transactions	23		(2,561)	
		(41,224)		(46,847)
Net Cash Flow from Revenue Activities		(70,944)		(45,352)

PENSION FUND ACCOUNTS 2007/2008

FUND ACCOUNT

	2006/07		2007/08	
	£000s	£000s	£000s	£000s
Contributions and Benefits				
Contributions Receivable				
From Employers	21,127		23,786	
From Members	6,875		6,713	
Total Contributions Receivable		28,002		30,499
Transfers In		3,064		2,916
Other Income		30		31
Benefits Payable				
Pensions	(12,125)		(13,297)	
Pension Increases	(4,893)		(5,350)	
Lump Sum Retirement Benefits	(5,043)		(4,898)	
Lump Sum Death Benefits	(153)		(298)	
Total Benefits Payable		(22,214)		(23,843)
Payments to and on account of Leavers				
Transfers Out	(3,936)		(4,372)	
Refund of Contributions	(25)		(7)	
State Scheme Premiums	10		(4)	
Tax paid to Revenue and Customs	(159)		0	
Total Payments regarding Leavers		(4,110)		(4,383)
Administration Expenses		(824)		(995)
Net Additions (Withdrawals) from dealings with members, employers and others directly involved in the scheme		3,948		4,225
Returns on Investments				
Investment Income		9,347		10,205
Taxation (Irrecoverable Withholding Tax)		(130)		(141)
Change in Market Value of Investments				
Realised	8,436		11,993	
Unrealised	5,697		(21,134)	
Total		14,133		(9,141)
Investment Management Expenses		(1,478)		(1,773)
Net Returns on Investments		21,872		(850)
Net Increase (Decrease) in the Fund during the Year		25,820		3,375
Opening Net Assets of the Scheme		431,250		457,070
Closing Net Assets of the Scheme		457,070		460,445

NET ASSETS STATEMENT

	31 March 2007	31 March 2008
	£000s	£000s
Investment Assets		
Fixed Interest Securities – Public Sector	17,639	23,321
Fixed Interest Securities – Private Sector	20,834	17,479
Fixed Interest Securities – Overseas	16,381	14,106
Index Linked Securities	35,146	39,115
Equities – UK	75,538	74,221
Equities – Overseas	119,309	120,684
Pooled Investment Vehicles:		
Managed Funds – UK Fixed Interest	27,298	29,557
Managed Funds – UK Equities	94,141	85,825
Managed Funds – Overseas Equities	39,501	42,417
Managed Funds – Private Equity	3,956	6,669
Cash Deposits	5,383	5,330
Other Investment Balances:		
Amounts Outstanding on Sale of Investments	1,433	502
Amounts Outstanding on Purchase of Investments	(943)	(1,073)
Investment Income Due	2,062	2,081
Total Investment Assets	457,678*	460,234*
Net Current Assets and Liabilities		
Contributions due from Employer	164	171
Unpaid Benefits	(723)	(257)
Cash Balances	176	661
Other:		
Investment Management Expenses	(242)	(353)
Administration Expenses	(8)	(42)
Combined Benefits	30	31
Tax due to Revenue and Customs	(5)	0
Total Assets	457,070	460,445

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

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

The Pension Fund is a funded, defined benefits scheme established in accordance with statute, which provides for the payment of benefits to 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 came into effect from 1 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 Note 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 eight elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may 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 Corporate Services, 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 2008, there were 4,572 employees (4,423 at 31st March 2007) contributing to the scheme, 3,812 pensioners (3,747 at 31st March 2007) receiving benefits and 4,343 deferred pensioners (3,850 at 31st March 2007). There are currently 18 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 to these Accounts.

2. ACCOUNTING POLICIES

(a) General Principles

The accounts have been prepared in accordance with the requirements of Section 2: “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 accruals 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. STATEMENT OF ACTUARY

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Hammersmith and Fulham Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

(a) Actuarial Position

Rates of contribution paid by the participating employers during 2007/08 were based on the actuarial valuation carried out as at 31 March 2004.

The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund’s assets at that date of £457.1 million (£317.1 million at 31 March 2004) covering 70% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay (66% at 31 March 2004 after applying a smoothing adjustment to the

market value of the assets). The shortfall in assets relative to the value of liabilities was £196.1 million (£170.9 million at 31 March 2004 after applying a smoothing adjustment to the market value of the assets).

The valuation also showed that the required level of contributions to be paid to the Fund by participating employers (in aggregate) with effect from 1 April 2008 was as set out below:

- 13.9% (13.1% at 31 March 2004) of pensionable pay to meet liabilities arising in respect of service after the valuation date.

Plus

- 8.3% (8.2% at 31 March 2004) of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report, and in particular allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme was put in place which comes into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the administering authority.

The rates of contributions payable by each participating employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008.

If the actuarial assumptions are borne out in practice, the rate of contribution for each employer would continue at the 2010/11 level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010.

The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

The main actuarial assumptions were as follows:

Discount Rate for periods In Service Admitted Bodies Scheduled Bodies Left Service Admitted Bodies Scheduled Bodies	6.20% a year 6.45% a year 5.20% a year 6.45% a year
Rate of General Pay Increases	4.70% a year
Rate of Increases to Pensions in Payment	3.20% a year
Valuation of Assets	Market Value

This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited (previously Hewitt Bacon and Woodrow Limited), for inclusion in the accounts of the London Borough of Hammersmith and Fulham. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report dated 28 March 2008 which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, the London Borough of Hammersmith and Fulham, in respect of this statement.

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.

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 2007		31 st March 2008	
	Market Value £000s	Total %	Market Value £000s	Total %
Legal and General	228,234	49.9	227,081	49.3
Goldman Sachs	57,840	12.6	57,711	12.6
Majedie Asset Management	86,648	18.9	84,351	18.3
MFS International	80,998	17.7	83,871	18.2
Barings English Growth Fund	343	0.1	323	0.1
Invesco Private Equity	1,665	0.4	3,395	0.7
Unigestion Private Equity	1,950	0.4	3,502	0.8
	457,678	100.0	460,234	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.

	2006/2007 £000s	2007/2008 £000s
Market Value of Investment Assets at 1 April	431,396	457,678
Movements in Year:		
Purchase of Investments	111,709	119,985
Sale of Investments	(102,113)	(107,193)
Realised Profit/(Loss) on Sales	8,436	11,993
Unrealised Profit/(Loss) in Market Value	5,697	(21,134)
Change in Cash Deposits	1,266	(54)
Change in Debtors and Creditors	1,287	(1,041)
Market Value of Investment Assets at 31 March	457,678	460,234

6. ANALYSIS OF INVESTMENT ASSETS

	31 March 2007 Market Value		31 March 2008 Market Value	
	£000s	£000s	£000s	£000s
United Kingdom				
Fixed Interest – Public Sector		17,639		23,321
Fixed Interest – Private Sector		20,834		17,479
Index Linked		35,146		39,115
Equities		75,538		74,221
Pooled Investment Vehicles (Indexed)				
UK Equity	84,868		78,206	
UK Smaller Companies	9,273		7,619	
Corporate Bonds – Over 10 years	10,743		11,120	
Over 15 years Gilt Index	10,575		11,069	
Over 5 years Index Linked Gilt	5,980		7,368	
Total – Pooled Investment Vehicles		121,439		115,382
Managed Funds – Private Equity (Unlisted)		3,956		6,669
Total United Kingdom		274,552		276,187
Overseas				
Fixed Interest		16,381		14,106
Equities				
North America	73,928		68,537	
Japan	8,869		9,918	
Europe (ex UK)	33,069		39,025	
Pacific Basin	3,113		2,501	
Other	330		703	
Total - Equities		119,309		120,684
Pooled Investment Vehicles (Indexed)				
North America	3,360		4,265	
Japan	8,492		7,519	
Europe (ex UK)	18,605		19,965	
World Advanced Emerging Index	2,635		3,241	
Asia Pacific ex Japan	6,409		7,427	
Total – Pooled Investment Vehicles		39,501		42,417
Total Overseas		175,191		177,207
Cash Deposits		5,383		5,330
Other Investment Balances:				
Amounts Outstanding on Sale of Investments		1,433		502
Amounts Outstanding on Purchase of Investments		(943)		(1,073)
Investment Income Due		2,062		2,081
Total Value of Investments		457,678		460,234

7. INVESTMENT INCOME

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

	2006/2007 £000s	2007/2008 £000s
Interest from Fixed Interest Securities	2,925	3,007
Dividends from Equities	5,272	5,499
Income from Index-Linked Securities	766	746
Interest on Cash Deposits	287	518
Currency Profit/(Loss)	(79)	(52)
Other	176	487
Total	9,347	10,205

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:

	2006/2007 % pa	2007/2008 % pa	3 Years % pa	5 Years % pa
Fund	5.4	-0.2	9.3	11.6
Benchmark	5.0	-2.4	8.1	11.1

9. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2008, the Fund had a commitment to invest a further £8.9 million 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. From 1 April 2008 a new scheme came into effect and employees' contributions are now based on their gross pay.

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 2006/07 £000s	Employer 2007/08 £000s	Employee 2006/07 £000s	Employee 2007/08 £000s
Scheduled Bodies				
LB Hammersmith and Fulham	17,753	19,546	5,985	5,652
H and F Homes	2,077	2,397	633	612
Mortlake Crematorium Board	38	41	12	11
London Oratory School	69	97	23	27
ARK Burlington Danes Academy	51	112	16	35
Admitted Bodies				
Peter Pan Trust	22	123	7	0
Urban Partnership Group	24	16	7	4
H and F Community Law Centre	32	28	10	8
Family Mosaic	459	312	25	56
Disabilities Trust	3	5	1	1
Greenwich Leisure Ltd	5	3	2	2
Medequip Assistive Technology	8	8	2	3
Blythe Neighbourhood Council	37	48	12	13
Glencross Cleaning Ltd	3	3	2	2
Inspace Partnerships Ltd	160	129	38	31
H and F Bridge Partnership	386	830	100	233
Keir	0	74	0	19
P H Jones Ltd	0	5	0	2
Irish Cultural Centre	0	9	0	2
Totals	21,127	23,786	6,875	6,713

11. BENEFITS PAYABLE

The tables below show a breakdown of the total amount of benefits payable for 2007/2008.

	2006/2007 Pensions £000s	2007/2008 Pensions £000s	2006/2007 Pension Increases £000s	2007/2008 Pension Increases £000s
Scheduled Bodies				
LB Hammersmith and Fulham	11,923	12,909	4,882	5,333
H and F Homes	106	230	1	5
Mortlake Crematorium Board	19	21	2	3
Admitted Bodies				
H and F Community Law Centre	10	10	1	1
H and F Police Consultative Group	5	5	1	1
ROOM the National Council	5	5	1	1
Family Mosaic	44	67	5	6
Greenwich Leisure Ltd	1	0	0	0
Blythe Neighbourhood Council	1	1	0	0
Inspace Partnerships Ltd	7	8	0	0
H and F Bridge Partnership	4	41	0	0
Totals	12,125	13,297	4,893	5,350

	2006/2007 Lump Sum Retirement Benefits £000s	2007/2008 Lump Sum Retirement Benefits £000s	2006/2007 Lump Sum Death Benefits £000s	2007/2008 Lump Sum Death Benefits £000s
Scheduled Bodies				
LB Hammersmith and Fulham	4,303	4,110	153	244
H and F Homes	455	611	0	54
Mortlake Crematorium Board	0	19	0	0
Admitted Bodies				
H and F Community Law Centre	0	3	0	0
Family Mosaic	154	44	0	0
Inspace Partnerships Ltd	20	0	0	0
H and F Bridge Partnership	111	111	0	0
Totals	5,043	4,898	153	298

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 2007/2008, 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 £18,291 in interest from the Council during 2007/2008 on the internally invested cash. No other material transactions with related parties of the Fund during 2007/2008 were identified

13. STOCK LENDING AGREEMENTS

The Fund does not actively participate in stock lending or underwriting.

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.

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

Hammersmith & Fulham Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Council has an approved and adopted code of corporate governance embedded in its Financial Regulations, which is consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government*. A copy of the code and Financial Regulations is contained in the Councils constitution and is available on the Council website. This statement explains how Hammersmith & Fulham Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement of internal control.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2008 and up to the date of approval of the annual report and statement of accounts.

The governance framework

The key elements of the systems and processes that comprise the authority’s governance arrangements are:

- Identifying and communicating the authority’s vision of its purpose and intended outcomes for citizens and service users

The Council approves its objectives and strategy through its executive (known as the Cabinet 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.

The principal publicly available 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 and these can be accessed via the Council website.

- reviewing the authority's vision and its implications for the authority's governance arrangements

A review of the Council's constitution takes place each year at the Annual Council meeting. Amendments that arise in-year based on any change in focus to the Council's vision or where change in legislation affects existing governance arrangements are presented to the Corporate Management Team Cabinet, and Full Council for approval as required.

- measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

The authority continues to produce a range of Best Value and operational Performance Indicators. These are reported to senior management as well as appropriate Member committees for review, which makes the information available to the general public. A programme of change management has been under way since 2004/05 and continued through 2007/08 year that has involved restructuring the authority, helping to improve overall efficiency and effectiveness.

- defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council's constitution clearly documents the roles, functions, responsibilities and delegated powers of the Cabinet and cabinet members, chief officers, the scrutiny process, and of its "Key" decisions process (those which involve significant savings or expenditure or which have a significant impact). 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 committee that reflects the political balance of the council 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 the 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.

- developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

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 from May 2008 the Council's own Standards Committee) and various additional local protocols governing Members and officers.

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. Staff are provided with a copy of the officers' code of conduct upon taking up post with the council. Standards of conduct of councillors are overseen by the Standards Committee.

- reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Standing Orders and Standing Financial Instructions form part of the Constitution. As such they are reviewed and approved annually. There is a framework of regular financial management information and reporting to all levels of management and to Members. In addition there are Financial Regulations and financial procedures in place, which are regularly reviewed, including the Contracts Standing Orders and a structure of Financial Delegations. These include appropriate checks and management monitoring to help ensure compliance.

- undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Council has also established an Audit Committee for the purposes of approving its accounts and considering audit and risk management matters generally. This committee met for the first time in March 2006. Its terms of reference form part of the Council's overall constitution. These are fully compliant with the CIPFA guidance.

- ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Regular reports are produced by the authority of compliance with current initiatives and external requirements e.g. reporting on PI performance.

Services are delivered by suitably experienced staff. All posts have a detailed job description, and professionally qualified finance staff are employed in key roles throughout the organisation. There is an internal audit service that undertakes reviews of and reports on the adequacy and effectiveness of internal control. This includes an annual, independent assurance statement by the Chief Internal Auditor giving their opinion on the authority's overall system of internal control. The Internal Audit Service has been subject to an independent annual review since financial year 2006/7.

All 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 corporate boards, including scrutiny committees and partnership boards, whose role is to approve plans and monitor performance.

The Council established a Standards Committee in 2003. This is for 2007/2008, 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 in respect of councillors. This committee meets regularly.

- whistle-blowing and for receiving and investigating complaints from the public

The Council has had a whistle blowing (confidential reporting) procedure in place since 1996 and this has been communicated to all staff via the corporate Intranet.

Complaints procedures are clearly signposted on the Council's internet site. This 3 step protocol is managed by the Corporate Complaints Officer based in the Finance and Corporate Services Department.

The Council also has a Monitoring Officer 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.

- identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

All Members are required to undergo initial training without which they are not authorised to take up their posts. Additional directed training is provided to Cabinet and Committee members as needed, as an example the Audit Committee receives training before each of its meetings. The Leader undertakes appraisal meetings with cabinet Members and Chief Officers annually from which additional training programmes may arise. A review of Member training is planned during the 2008/09 year.

- establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Many forms of consultation take place across council policy and budget and council tax setting and from the compilation of the Community Strategy and Corporate Performance Plans. 2007/8 also saw the introduction of a web based consultation package, Citizen Space, available through the Council's Internet. Added to these are the public forums for local issues such as Post Office Closures and the Leader Listens. Each year a Borough Residents Survey takes place that acts as a test of satisfaction in relation to the council's overall performance. The Council also produces its own newspaper distributed to residents called H & F News and performance and finance related material is available in both hard copy and electronic format available either centrally, on request or through release at local libraries.

- incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the

governance of partnerships and reflecting these in the authority's overall governance arrangements

In its wider community leadership role, the Council established in 1999 the Borough Partnership. This is now accredited as a Local Strategic Partnership (LSP), by the DCLG and Government Office of London. It is responsible for overseeing and updating the local community strategy, as a 10 year strategic vision for the area. The Borough Partnership has established a local public services board, to prepare and deliver the Local Area Agreement for Hammersmith and Fulham. A full refresh of the Local Area Agreement was conducted during 2007/8 alongside a review of the councils partnering activity considered by the Corporate Management Team. Where services are delivered through significant partners such as the Primary Care Trust, H & F Bridge Partnership for Information and communication technology, or H & F Homes for Housing services, performance monitoring arrangements are in place and assurances of their internal governance arrangements have been reviewed.

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.

H and F Homes

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.

H and F Bridge Partnership

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. 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 investment has been made in work flow systems. 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.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. A review of the main elements of the Council's entire governance framework has been completed and no significant issues found which is to be reported to the Council's Corporate Management Team.

Control Assurances and Group Accounts

The Council has reviewed in detail the control assurances across the authority and of its significant partners and advise on the implications of the result of the review of the effectiveness of the Internal Control environment to the audit committee and a plan to address weaknesses and ensure continuous improvement of the system is in place. Assurances have been sought of entities that form part of the Group Accounts and these have been included as part of this review. Matters pertaining to H & F Homes and H & F Bridge Partnership in which the council has an interest are disclosed as part of the following list. In completing this review the following governance issues were identified:

1. Business Continuity

The council has a statutory duty to prepare and test its continuity arrangements. Work in 2007/8 placed the council in a much more favourable position through the establishment of formal service continuity plans across many of the council's services. A commitment to extend the continuity arrangements to cover Information Technology has been agreed with its strategic delivery partner H & F Bridge Partnership and work to complete a robust IT recovery plan is on target for completion in December 2008.

2. Performance of H&F Homes

Slippage on the Decent Homes programme, managed through the council's delivery partner H & F Homes, highlighted a governance and effective monitoring issue that was further brought into focus with the recent Audit commission review of H&F Homes. Client monitoring arrangements are under review to enable closer and more effective scrutiny plus enhanced liaison with H & F Homes management.

3. Financial Reconciliations

This issue was raised in last year's statement, which 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 undertaken during the 2007/08 year. The existing process for the bank reconciliation had been recognised as being difficult and unwieldy. 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 on whether the reconciliations have taken place and the levels of unreconciled balances. However, the reporting to FSB still needs to be properly embedded plus reconciliations between the PCN income system and OLAS is not automated and are not currently occurring. As a result this remains an extant issue.

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. The main residual issue was a historic unreconciled balance which has now been written off and this can now be considered resolved.

4. Weaknesses in accounts compilation and evidencing

This issue was raised in the 2006/07 year statement. The Annual Audit and Inspection letter and the departments 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 remained with the control of errors in the preparation and presentation of accounts in financial year 2007/08. The finance department has worked to resolve these issues that initiated a project that reviewed 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 allocated to ensure that compliance with accounting recommended practice is secured. Many of these improvement measures have been put into place the results of which are likely to be demonstrable in the production of final accounts in 2008/9 and should demonstrate that this is no longer a significant control weakness. As a result this issue is now considered closed.

5. Certification of Grant Claims

This issue was raised in the 2006/07 year statement. The standard of preparation of grant claims and their timely submission remains an area where control improvement continues to be applied. 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 council recognises that while significant process improvements have already been made, and it is in a much more a favourable position relating to submissions which are on target this year to be completely up to date, amendments and qualifications and data quality remain an extant issue.

6. Health & Safety

Internal Audit conducted a general review of Health & Safety arrangements in preparation for the Corporate Manslaughter Act. The review culminated in a report providing a Limited Assurance and proposing recommendations for improvement. A formal response is due to be considered by the Corporate Management Team in June with action orientated to meet the entire recommendations of the audit.

The Council propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:.....



Chief Executive

Signed:.....



Leading Member

On behalf of Hammersmith & Fulham Council

GLOSSARY OF FINANCIAL TERMS

ACCOUNTING PERIOD

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

ACCOUNTING STANDARDS

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

ACCRUALS

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

ACQUISITIONS

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

ACTUARIAL VALUATION

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

AGENCY SERVICES

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

ARMS LENGTH MANAGEMENT ORGANISATIONS (ALMOs)

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

APPROPRIATION

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

ASSET REGISTER

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

AUDIT COMMISSION

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

BALANCES

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

BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)

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

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

CAPITAL EXPENDITURE

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

CAPITAL FINANCING

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

CAPITAL FINANCING REQUIREMENT

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

CAPITALISATION

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

CAPITAL RECEIPTS

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

COLLECTION FUND

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

CONTINGENT LIABILITIES

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

CREDITORS

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

DEBTORS

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

DEFERRED CREDITS

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

DEFERRED CHARGES

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

DEFERRED LIABILITIES

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

DEPRECIATION

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

EARMARKED RESERVES

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

FINANCE & OPERATING LEASES

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

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

FIXED ASSETS

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

GENERAL FUND

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

GROUP ACCOUNTS

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

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE

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

HISTORIC COST

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

HOUSING REVENUE ACCOUNT

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

HOUSING SUBSIDY

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

LEVIES

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

MINIMUM REVENUE PROVISION (MRP)

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

NATIONAL NON-DOMESTIC RATE (NNDR)

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

NET REALISABLE VALUE

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

OUTTURN

Actual income and expenditure in a financial year.

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)

Since 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.