

Lambeth

2006/2007

Statement of Accounts

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FOREWORD TO THE ACCOUNTS

This foreword provides a guide to the Council's accounts for the year ending 31 March 2007. The Accounts and Audit Regulations 2003 require the Statement of Accounts to be approved by the Council by 30 June 2007. The accounts are set out on pages 7 to 55.

The statements have been prepared in accordance with proper accounting practices and all relevant statutory requirements. Proper accounting practices represent compliance with the following:

- All relevant Financial Reporting Standards (FRS) issued by the Accounting Standards Board (ASB - a constituent board of the Financial Reporting Council)
- The Code of Practice on Local Authority Accounting in the UK 2006 (the Statement of Recommended Practice or SORP issued by the CIPFA/LASAAC Joint Committee, a body recognised by the ASB for the purpose of issuing SORPs)
- The Best Value Accounting Code of Practice 2006 (BVACOP issued by CIPFA) that establishes proper practice for consistent financial reporting below the Statement of Accounts level and has statutory recognition

The Statement of Accounts comprises:

The Statement of Responsibilities for the Statement of Accounts: This sets out the Council's and the Chief Finance Officer's responsibilities for the statement of accounts. This statement also carries the certification of the Chief Finance Officer.

The Statement on Internal Control: This statement sets out the main components of internal control and the framework within which the Council's internal control is managed and reviewed. This is signed by the Chief Executive and the Leader of the Council. This is not part of the accounts but is required to be shown alongside them.

Statement of Accounting Policies: This is a listing of the accounting policies followed in the production of the Council's accounts.

Income and expenditure Account: This statement is fundamental to the understanding of a local authority's activities. It summarises the costs for the year of all the functions for which the Council is responsible and demonstrates how the cost has been financed from general government grants and income from local taxpayers.

Statement on the Movement on the General Fund Balance: The Income and Expenditure Account discloses the income receivable and expenditure incurred in operating the Council for the year. However, there are other items that are required to be charged or credited to the General Fund that are not shown in the Income and Expenditure Account and they have to be taken into account in determining the Council's budget requirement and its Council Tax demand. These other items are shown in the Statement on the Movement on the General Fund Balance. While the surplus or deficit on the Income and Expenditure Account is the best measure of the Council's financial result for the year in accordance with generally accepted accounting practice, the movement on the General Fund Balance is also an important aspect of the Council's stewardship. The Income and Expenditure Account and the Statement on the Movement on the General Fund Balance replace the Consolidated Revenue Account that was used up to 2005/06.

Statement of Total Recognised Gains and Losses: Not all gains and losses experienced by a local authority are reflected in the Income and Expenditure Account, for example gains on revaluation of fixed assets and pension actuarial gains. This memorandum statement brings together all such gains and losses.

Balance Sheet: The Balance Sheet shows the financial position of the Council as at the 31 March 2007. It shows the balances and reserves at the Council's disposal, its long term indebtedness and the fixed and net assets employed in its operations, together with summarised information on the assets held.

Cash Flow Statement: This statement brings together the total movements of the Council's assets and liabilities during the financial year, inflows and outflows of cash arising from both revenue and capital transactions with third parties.

Notes to the Primary Statements of the Accounts: The various accounts and statements are supported by detailed notes to help the reader.

Housing Revenue Account (HRA) Income and Expenditure Account and the Statement of Movement on the HRA Balance: The Council is required by law to account separately for the provision of housing. This account shows the major elements of housing revenue expenditure; repairs and maintenance, administration and capital and financing

costs and how the expenditure is financed from rents, grants and other income. As with the Income and Expenditure Account this account is supported by statement of Movement on the HRA Balance.

Collection Fund: There is a statutory requirement for local authorities that issue Council Tax bills (billing authorities) to maintain a separate fund to show the transactions in respect of council tax and non-domestic rates and the way in which these have been distributed to precepting authorities.

Pension Fund: Pension Revenue Account and Notes. There is a statutory requirement for local authorities to maintain a separate fund to show the transactions in respect of pension contributions, investments and payment of benefits.

Glossary: This provides a guide to some of the technical terms used in this document.

Main changes to the 2006/7 Statement of Accounts

There have been several main changes to the Statement of Accounts for 2006/07 compared with 2005/06. Firstly, the notional interest charge for capital previously included in revenue accounts no longer applies. The only charge for capital is now depreciation. This means a significant reduction in the net cost of services. The second is that Government grant for specific services is now credited to the cost of services rather than previously in the Asset Management Revenue Account, which no longer exists. As noted earlier in this explanatory foreword, the Consolidated Revenue account has been replaced by an Income and Expenditure Account and Statement of Movement in the General Fund Balance. Similar changes have been made to the HRA. Because of these significant changes from 2005/06 to 2006/07, it has been necessary to restate some of the figures for 2005/06 in the new format.

There has also been a material change in the level of funding from Revenue Support Grant resulting from the creation of the Dedicated Schools' Grant. DSG, worth £147m in 2006/07, was effectively financed from what was general grant with the consequence that, being a ring-fenced specific grant, income for Education Services in the Income and Expenditure Account has bounced up considerably, and net spending similarly dropped.

Summary of financial performance in the year

During the financial year ended 31 March 2007 Lambeth's financial position has been stabilised and the achievements of previous years consolidated.

- The General Fund balance as at 31 March 2007 stands at £9.2m compared with a balance of £0.5m at the start of the year.
- An additional Locally Managed Schools (LMS) balance of £12.5m compared to £10.2m at the start of the year.
- The Housing Revenue Account balance is in deficit – £1.96m – compared to a surplus of £2.2m at the start of the year.
- For the fourth consecutive year the accounts have been prepared within or ahead of the statutory deadline; and
- For the fourth consecutive year total expenditure has been contained within the budget, the final departmental outturn being an underspend of £6.3m compared with an underspend of £0.5m in 2005/06. This includes an underspend on the Delegated Schools budget of £2.3m. Accordingly the General Fund balance has benefited by £4m in the year. Although the balance is not at a sufficiently high level there is a clear medium-term financial strategy to address this by 2009.

During the audit of the 2004/05 accounts the possible impact of capital financing transactions dating back to at least the early 1990s was identified with the council's auditors. At the date of certification of these statements regulations have come into force, which allow the council to transfer this sum back to its general fund. Its impact on the general fund balance to 31 March 2006 was £23.25m.

Lambeth's financial management cycle includes an assessment of all the risks facing the council at the start of the year, updated through the July review. Action plans to contain these risks are developed and implemented from an early stage, and progress against them monitored and reviewed at the most senior level every month. This process meant that decisions throughout the year were taken on a sound basis, informed by the relevant facts. Further work will be required over the next two years to bring the balances to at least the minimum level and towards the 10% of net expenditure deemed necessary.

Further improvements to controls will be developed over time. In particular, expenditure at the departmental level exceeded the budgets available for the Adults' and Community Services department, due to financial pressures caused by meeting the needs of non-UK nationals from local rather than national budgets. These were balanced by recognising anticipated savings elsewhere, but it is recognised that management action throughout the year is a departmental responsibility.

On closing the Accounts, weaknesses have been identified in the operation of the Fixed Asset Register. A review is planned in 2007/08 which will recommend how the Register may be improved or replaced to ensure that the requirements of the 2007 SORP can be adequately met.

The council has assessed that there are no group transactions to disclose this year, but, with the proposed introduction of an Arms Length Management Organisation for the management of Council dwellings, it is recognised that this will be a requirement for the 2008/09 accounts. There is a contingent liability disclosed in the accounts for the Council's interest in the London Authority Mutual Limited, a self insurance mutual co-owned with nine other authorities.

The accounts follow the prescribed CIPFA format, and as a result the consolidated revenue accounts cannot easily be related to the council's operational management structure. Accordingly a brief summary of the outturn at departmental level is set out in the table below:-

| REVENUE EXPENDITURE 2006/07 | | | | |
|--------------------------------------------------|----------------------------|-----------------|----------------|---------------------------------|
| Department | Cash Limited Budget | | Outturn | Variance |
| | Original | Revised* | | (Under) / Overspends |
| | £M | £M | £M | £M |
| Adult & Community Services | 83.8 | 84.9 | 87.0 | 2.1 |
| Strategy & Corporate Services | 12.6 | 7.5 | 5.8 | (1.7) |
| Children & Young Peoples' Services | 93.1 | 85.8 | 82.6 | (3.2) |
| Environmental & Cultural Services | 57.7 | 61.6 | 61.5 | (0.1) |
| Finance & Resources | 25.4 | 22.1 | 20.4 | (1.7) |
| Regeneration & Housing (General Fund) | 16.8 | 19.3 | 15.9 | (3.4) |
| | | | | |
| Departmental Subtotals | 289.4 | 281.2 | 273.2 | (8.0) |
| | | | | |
| Special Items | (12.6) | (4.4) | (2.7) | 1.7 |
| | | | | |
| TOTALS | 276.8 | 276.8 | 270.5 | (6.3) |
| | | | | |
| Housing HRA | (2.5) | (2.5) | 4.4 | 6.9 |

* - Revised budgets include the effect of transfers of services resulting from the Council reorganisation during the year as well as adjustments for central support recharges, capital charges and any budgets carried forward

The total underspend on General Fund services was 0.2% against the budget compared with an underspend of 0.17% in 2005/06. The Housing Revenue Account overspent by £6.9m in the year.

The main variances from the budget are summarised below.

Adult and Community Services – The overspend was forecast throughout the year and reflects unbudgeted costs for non-UK nationals, which were previously covered by Government Grant, now withdrawn

Strategy & Corporate Services – The underspend was mainly attributable to employee savings, and efficiencies across a number of Business Units.

Children and Young people's Services – The Locally Managed Schools budget (LMS) contributed to the majority of the underspend. This saving can only be spent on the delegated schools budget and cannot be used to cross-subsidise other General Fund Services.

Finance and Resources – Budgeted contributions to the Bad Debt Provision and Insurance Provision were not required, resulting in this saving.

Housing General Fund – Contingencies held for Bad debts, severance payments and associated costs were not required. There were also underspends on Town Centres and Regeneration projects and grant income was higher than estimated.

Housing Revenue Account – A significant overspend has been forecast throughout the year. A main factor has been the level of capitalisation of repairs being reduced in line with audit opinion.

The position on capital expenditure in the year is set out overleaf.

| CAPITAL EXPENDITURE - 2006/07 | | | |
|-----------------------------------------|--------------|--------------|----------------|
| Department | Budget £M | Spend £M | Variance £M |
| Adults' and Community Services | 2.5 | 1.9 | (0.6) |
| Children and Young People's Service | 23.4 | 14.8 | (8.6) |
| Building Schools for the Future | 13.4 | 4.7 | (8.7) |
| Environment, Culture & Corporate Safety | 40.6 | 22.8 | (17.8) |
| Regeneration & Housing | 108.2 | 62.1 | (46.1) |
| Strategy & Corporate Services | 12.9 | 5.7 | (7.2) |
| Finance & Resources | 0.0 | 0.0 | 0.0 |
| Total | 201.0 | 112.0 | (89.0) |

Some of the underspends are substantial, but are in practice either the result of delays in obtaining necessary planning approvals and/or letting the relevant contracts or represent approved carry forward of capital budgets into 2007/08 for schemes with a project completion phase spanning two or more financial years.

The ratio of current assets to liabilities has been maintained at approximately 2:1. Long-term borrowing has reduced by £53m as part of the drive to improve the Council's debt portfolio. Looking ahead the long-term liability on the pension fund remains a significant concern, with the assessed deficit now at £366m. However, a combination of increased employer's contributions and improved controls over early retirements, together with prospects of improved stock market returns mean that this should be made good over the next 20 years, in line with actuarial advice. It is as yet too early to assess or reliably estimate the long-term impact of the "credit crunch" on this position.

The council's pension fund's assets increased by some £49m during the year, reflecting improved investment performance. As with previous years additional funding has been earmarked to make good the shortfall over the long-term.

The collection fund recorded a modest surplus of £0.76m for the year, after a transfer to the General Fund of £1.7m and a distribution to the Greater London Authority of £0.5m. Council Tax collection performance during 2006/07 hit 92.6%.

The housing revenue account balance has declined to a deficit of £1.96m from a surplus of £2.2m in 2005/06 as a result of cost pressures, including repairs expenditure that was previously chargeable to capital now having to be met from revenue under audit requirements, and the need to increase the Bad Debt Provision to cover increased rent arrears. The pressure on the council to deliver to the Decent Homes standard by 2010 continues to grow, with reducing support from the Government making it more difficult to meet the affordability gap.

The general fund balance is lower than required but there are clear medium term financial plans to address this and good progress has been made in 2006/07. In summary the accounts present an authority where the prospects for further improvements are good. The council still faces a series of major financial risks, but is actively managing these so as to ensure that the financial recovery of the last three years is not jeopardised.

Mike Suarez
Executive Director of Finance and Resources

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (section 151 of the Local Government Act 1972). In this authority, the Executive Director of Finance and Resources is the Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the statement of accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's statement of accounts which, in terms of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

In preparing this statement of accounts, the CFO has:

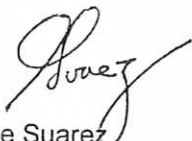
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice.

The CFO 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.

Certification of the Chief Financial Officer

I hereby certify that the statement of accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007.



Mike Suarez
Executive Director of Finance and Resources
Section 151 Officer
London Borough of Lambeth



on behalf of

Cllr Marcia Cameron
Chair – Corporate Committee

As the person presiding I hereby certify that this statement of accounts was approved by a resolution of the Corporate Committee at its meeting of 27 June 2007

Independent auditor's report to the Members of the London Borough of Lambeth

Opinion on the financial statements

I have audited the financial statements and pension fund accounts for the London Borough of Lambeth for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to the London Borough of Lambeth in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

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

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

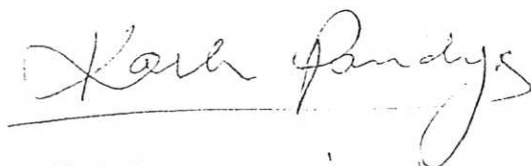
I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.



Kash Pandya
District Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
London SW1P 4HQ
23 May 2008

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

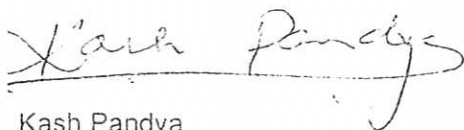
I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, the London Borough of Lambeth made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 14 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.



Kash Pandya
District Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
London SW1P 4HQ
23 May 2008

STATEMENT OF INTERNAL CONTROL

1. BACKGROUND

- 1.1 The Council is required to publish an annual statement of internal control under the provisions of Regulation 4 of the Accounts and Audit (Amendment) (England) Regulations 2006 and also the CIPFA Code of Practice on UK Local Council Accounting 2002: A Statement of Recommended Practice (SORP). The following statement is the latest statement produced under these regulations and follows on from the statement of internal control, which was included in the 2005/06 annual accounts.

2. THE COUNCIL'S RESPONSIBILITY

- 2.1. The Council has to make sure it carries out all its functions in accordance with the law, contracts and proper standards; that public money is safeguarded and properly accounted for; used economically, efficiently and effectively; and its financial and operating information is timely, accurate and complete. Also, the Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its services are delivered, having regard to obtaining best value.
- 2.2. In discharging its overall responsibility, the Council has to consider the risks to achieving its objectives and priorities and ensure that there is a sound system of internal control in place to mitigate them through the application of a risk management process.

3. WHAT THE SYSTEM OF INTERNAL CONTROL DOES

- 3.1. The Council's system of internal control helps to manage and control the business risks the Council experiences in delivering its operations. Not all these risks can be eliminated but they can be reduced and mitigated by implementing effective systems of control. The internal control system can only provide reasonable and not absolute assurance of effectiveness.
- 3.2. The system of internal control is an ongoing process designed to identify and prioritise the risks the Council faces in achieving its policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they occur, and manages them.
- 3.3. The system of internal control has been in place in the Council for the year ended 31st March 2007 and up to the date of approval of the annual accounts and, except for the details of significant internal control issues at section 6, accords with proper practice.

4. THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

- 4.1. The key features of the Council's internal control environment are as follows:
- 1) The Council has recently updated its Corporate Plan, which details what the Council will do to deliver its key priorities and commitments over the next three years (2007-2010). The Plan is made operational through the departmental Service Plans and the work programmes of all staff.
 - 2) The Council's governance structure is laid down in its constitution, which sets out how the Council operates, how decisions are made and the procedures that are followed. The business of the Council is governed in a cabinet style with scrutiny committees. The Executive (Cabinet) comprises a Leader, Deputy Leader and six Executive Members (Councillors) with an Overview & Scrutiny Committee and scrutiny sub-committees. There are also five Area Committees, and five Town Centre Areas and Partnership Boards and other consultative bodies that play a part in the decision making process.
 - 3) A number of committees have responsibility for governance matters, the key ones being the Corporate Committee (finance, audit/fraud/risk, and an overview of the constitution), Standards Committee (conduct of Councillors and other representatives), and Scrutiny Committees. The Council has an open government policy which means that as much information as possible is made available to the public, and is published on the internet. Sometimes certain documents are not open to the public, this can be for legal reasons or to protect sensitive information. In addition, senior officers of the Council can make decisions under delegated authority. The Council publishes a Forward Plan which contains details of key decisions to be made by the Council, its committees and Chief Officers under their delegated powers.
 - 4) The Council has a range of policies and procedures covering all aspects of the CIPFA/SOLACE Framework for Corporate Governance. Regular reports on all aspects are submitted to the relevant Committees.

- 5) The Council has built up a sound risk management infrastructure, including an annual review and update of the risk management strategy and action plan which were last approved by Corporate Committee in March 2007. Risk register software has been rolled out across the council allowing officers to record and manage threats and opportunities relating to strategic objectives, operational objectives, projects and partnerships. Regular meetings of the Risk Management Group are held and close working has been initiated with partner organisations, business continuity planning, emergency planning and civil contingency arrangements to ensure that these are tied in with risk management and that risks associated with these areas are recorded and managed. A wide range of risk management training has been developed and made available for staff and members. Risk management is an integral part of annual service planning, the budget setting process and committee reporting. Regular benchmarking with other public and private sector organisations takes place allowing us to learn, share experiences and develop best practice.
- 6) The Council's Value for Money (VfM) self assessment for the 2006 Use of Resources (UoR) submission generated an overall score of 2 (out of 4), maintained from 2005, under 'the harder test'. The Council built up a comprehensive body of supporting evidence for this submission. An improved score of 3 score for the 'managing and improving VfM' sub-theme reflects improved VfM planning and generation in the council, which is now beginning to bear fruit in the form of evidenced efficiencies and savings. The 3 score also gives the Council a strong base upon which to build activity and evidence for the 2007 assessment and the Council has developed a "strategic compass" framework for checking the quality and cost services.
- 7) The Council continues to ensure that trained and experienced staff deliver services. All posts have a detailed job description and person specification. Training needs are identified through the employees' Personal Development Plans, developed alongside the service plan and their work programme and addressed via a variety of Learning & Development opportunities. These include induction, corporate training programmes, leadership development and coaching.
- 8) The Council has designated the Executive Director of Finance and Resources as its Chief Financial Officer under the terms of Section 114 of the 1988 Local Government Finance Act, and his role is to prevent unlawful expenditure and to set a balanced budget. The Council has designated the Director of Legal & Democratic Services as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and Chief Finance Officer, the Monitoring Officer will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
- 9) The financial management of the Council is conducted in accordance with the financial rules set out in Part 3 (Section 4) of the Constitution and with Financial Regulations. The Council has designated the Executive Director of Finance and Resources as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.
- 10) The Council maintains an Internal Audit and Corporate Anti Fraud function, which operates to the standards set out in the current 'Code of Practice for Internal Audit in Local Government in the UK'.
- 11) The Council has an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.
- 12) The Council has a performance management framework that is tasked with the many facets of performance management and improvement for the Council. Putting in place effective performance measurement and management meant that Lambeth could clarify and prioritise its aims and objectives, disseminating areas of good practice and targeting individual areas of weakness, helping to drive up performance across the board.
- 13) The Council safeguards its assets through the implementation of a losses prevention programme aimed at reducing the opportunities for avoidable losses from error, mismanagement and fraud. Whistleblowing and specialist investigation teams are provided for.
- 14) The Council seeks annual assurances from each of the departmental Executive Directors as to the effectiveness of the systems of internal control within their department. The last Self Assurance Statement questionnaires were completed by Executive Directors in May 2007.

5. REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS

- 5.1. The Council is responsible for, at least once in each year, performing a review of the effectiveness of the system of internal control and conducting a review of the effectiveness of its system of internal audit. The work of the

internal audit function and the tracking of the implementation of significant audit and investigation recommendations inform the review of the effectiveness of the system of internal control. It is also informed by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

- 5.2. The effectiveness of the system of internal control has been reviewed throughout the year as part of the Council's internal audit coverage. Internal audit provides an annual report in July following the end of the financial year. Officers are held to account by the Corporate Committee in its 'audit committee' role, through the use of challenge sessions to focus on any areas of weakness or non-compliance. With regards to the Audit Board, the internal auditors meet monthly with senior finance staff to report the outcomes of reviews and internal control issues.
- 5.3. In 2007 the Council's Comprehensive Performance Assessment (CPA) rating was a one star, compared to a two star in the previous year. The fall was primarily due to poor performance in cultural services, although there was rapid improvement in other areas. As at the time of signing the accounts the 2008 rating had been received and the Council's rating had improved from one to three stars, making it London's "most improved council". This was as a result of significant improvements in the areas of Community Safety, Children and Young People and Adults' Social Care the benefits service. The Council did not perform as well on cultural services and the managing of council homes; however given the current pace and direction of improvement, the Council is well positioned to improve further on its performance in the coming year.
- 5.4. The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:
- 1) The Director of Legal and Democratic Services (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution each year at its Annual Meeting.
 - 2) The Council has an Overview and Scrutiny Committee and five Scrutiny Sub Committees. They can "call-in" a decision that has been made by a policy committee but not yet implemented, to enable them to consider whether the decision is appropriate. They allow residents to have a greater say in Council matters by holding public enquiries into matters of local concern.
 - 3) The Council has delegated to the Corporate Committee and the officer-composed Audit Board responsibility for discharging the functions of an audit committee, including the provision of independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
 - 4) In terms of decision making, in 2006/07 the Council looked at better ways to track decisions through to implementation i.e. to account for action taken after minutes have been published. A new Democratic Services back office system was procured in 2005/06 to achieve this ('modern government') and this system became operational in July 2006. The council's agenda, minutes and forward plan are now published on this system and viewers are able to sign up for email alerts for new items published for committees they are interested in.
 - 5) Internal Audit are responsible for monitoring the quality and effectiveness of the entire control environment. Its scope extends to systems and services provided wholly by, or in conjunction with other organizations, including partnership arrangements. A risk model is used to formulate a strategic plan which is approved by the Corporate Committee, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Chief Officer and service manager. The report includes recommendations for improvements in risk, control and performance that are included within an action plan showing the responsible officer, resources required and due date for implementation. The process includes monthly reviews of the implementation of recommendations using an automated tracker system to ensure that they are acted upon.
 - 6) The Council's systems of internal financial control were assessed in the Chief Internal Auditor's annual report of assurance (June 2007) relating to the 2006/07 Annual Plan. Overall, there was good improvement in the risk, control and governance processes within the council as demonstrated by the extent of positive assurance levels given, that is, 92% compared to 66% in the previous year. Three operational systems received an 'inadequate' assurance assessment, namely, Partnerships (LSP/NRF), Community Safety and Housing Reframing Tenant & Leaseholder Satisfaction – Major and cyclical repair satisfaction survey process. Management accepted and implemented a number of key Internal Audit recommendations. Ninety per cent of all recommendations made have been fully implemented. However the Authority must continue to drive

a sustainable robust internal control environment, anti fraud culture and risk management in its everyday operations.

- 7) Internal Audit carried out follow up work on the major Housing fraud (Project Ruby) which showed that serious consideration was given to the findings of the Ruby report by staff at all levels and they have made significant changes in their business units in response to the report. It was also noted that there was less pressure in the Housing department to spend the capital budget in the financial year; and that important changes had been made across the Council as regards the Commissioning function. Officers also appear to have accepted their responsibilities for ensuring that the Council's assets are adequately protected and to have taken steps to revise controls around fraud risks.
- 8) The Internal Audit Division has carried out an effectiveness review of the council's system of internal audit using a consultant, as required. The report concludes that "the system of internal audit appears to be working reasonably effectively, though there remain opportunities for further enhancement". An action plan was produced to ensure that the enhancement opportunities have been incorporated in Internal Audit's work and practices. In addition, we participated in the CIPFA Audit Benchmarking Club 'Good Practice' exercise 2007 and the results showed that we scored above the average in their Quality Assessment matrix.
- 9) Risk Management carried out an on-line self-assessment survey to support the compilation of this Statement. The responses received were respondents' assessment of the effectiveness of internal controls in operation in their department. The results of the survey were used to facilitate the completion of the Statement of Internal Control, by identifying those areas within the Council that may require additional input in order to enhance controls in operation and those areas where internal controls in place are reported as effective. Almost 44% of respondents believe that they regularly comply with best practice and that internal controls in place are effective.
- 10) Significant progress has been made in delivering the risk management strategy and towards improving the management of risk across the Council. Risk registers are maintained on a corporate risk management database that allows managers to populate and update the registers with new and emerging business risks. Close working with business continuity planning, emergency planning and civil contingency arrangements was initiated to ensure that these are tied in with risk management and that risks associated with these areas are recorded and managed. However, internal audit testing has shown that some business unit risk registers need to have more regard to the timely updating and review of their risks to meet the best practice established elsewhere within the Council.
- 11) A number of Governance Boards comprising senior officers across the Council meet on a monthly basis and review progress on performance management issues, audit, risk management and value for money or service reviews. There is an officer-composed Audit Board, which meets monthly to oversee audit activity and monitor implementation of recommendations. However, the Council undertook a review of its governance arrangements and agreed to new arrangements to ensure robust decision making and effective challenge.
- 12) The audit of the 2005/06 financial statements identified a significant issue with housing capitalisation. This has now been resolved, The council has significantly improved its accounting in the last few years, and continues to make progress in enhancing the standard of record keeping and accounting. A senior level officer group oversees improvements to accounting processes throughout the year.

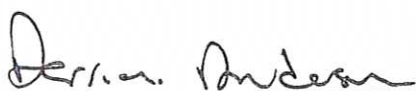
6. SIGNIFICANT INTERNAL CONTROL ISSUES

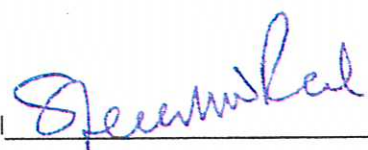
The table overleaf identifies those issues that represent the most significant exceptions to the generally sound system of internal control operating within the Council during the year ended 31 March 2007. For each exception identified the Council's action to resolve the problem is recorded alongside.

| 2006/07 | |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Exception | Council Actions Taken/Planned |
| <u>Human Resources Management:</u> More improvement work is needed to ensure that the Council has a set of up to | A number of required improvements have been identified in the council's library of employment procedures. Accordingly, a HR Improvement Programme has been drawn up |

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| date, relevant HR policies and procedures. | and is being implemented. The first set of policies and procedures have been approved and are available on the intranet. A consultation timetable has been agreed with the Trade Unions and so far consultation has concluded on a number of other policies and procedures. |
| <u>Partnerships:</u> The Council needs to more clearly define its expectations of partnership governance arrangements and must provide better evidence to support project output monitoring and payment approval arrangements for funded projects. | An internal control challenge session was held by the Corporate Committee. Management have provided action plans to address the weaknesses disclosed and their implementation is being monitored closely. |
| <u>Civil Contingencies, Business Continuity Planning and IT Disaster Recovery arrangements</u> There are a number of risks that may have a material impact on the ability of the Council to respond effectively to certain emergency or continuity scenarios, which need to be addressed. | An internal review was commissioned by the Chief Executive and a first report submitted to SLB on 15 May 2007. The internal review has taken a risk-based approach to the issue of achieving assurance that the council has robust and resilient processes covering all the requirements of the Civil Contingencies Act. Consequently, the report made nine recommendations which are designed to provide the required level of assurance and will also cover all the issues raised by Internal Audit. The current position is that, overall, the actions being undertaken to implement the recommendations are being progressed satisfactorily. |

The Council has been advised on the implications of the result of the review of the effectiveness of the system of internal control, and a plan to address the weaknesses and ensure continuous improvement of the system is in place. The Council is satisfied that these steps will address the need for improvements that have been identified during the year and will review their implementation and operation as part of the next annual review.

Signature of Chief Executive  Date... 22 May 08

Signature of Leader of the Council  Date... 22 May 08

STATEMENT OF ACCOUNTING POLICIES

General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (as amended) published by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Best Value Accounting Code of Practice (BVACOP), and also with guidance notes issued by CIPFA on the application of accounting standards, namely Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs). Any material variations from these guidelines are shown in the notes to the accounts.

Fixed Assets

Since 1 April 1994 all expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis in the accounts. This excludes expenditure on the routine repairs and maintenance of fixed assets, which are charged direct to the services in the revenue accounts.

Assets acquired under finance leases and the Council's assets under lease and leaseback transactions are also capitalised in the Council's accounts together with the liability to pay future rentals.

Fixed assets are valued in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS) and are classified into groupings required by the CIPFA Code of Practice on Local Government Accounting. Valuation dates are as at 1 April as required by the SORP.

There is a rolling programme of valuations intended to embrace the whole of the property asset portfolio of the Council, including landlord's fixtures and fittings, over a period of five years. Review is also undertaken of the values at which each category of fixed asset is included in the Council's balance sheet at each year-end. Where there is sufficient reason to believe that values may have changed materially since the last valuation, and that change is likely to be other than temporary, the relevant categories of assets are revalued accordingly. The specific basis of valuation of each category of asset is contained within note 1 to the balance sheet.

The Council values its vehicles, plant and equipment at historic cost rather than existing use value – the valuation basis recommended on the CIPFA Statement of Recommended Practice (SoRP).

Depreciation

Depreciation is provided for on all operational fixed assets with determinable finite useful life on a straight-line basis over the period for which they are expected to yield economic benefits to the Council. The periods over which assets are depreciated are as follows:

| | |
|--------------------------------------------------------|----------|
| Council dwellings | 60 years |
| Other land & buildings | 40 years |
| Vehicles | 4 years |
| Plant, furniture & equipment | 10 years |
| Infrastructure, commercial properties & surplus assets | 40 years |

Some items of equipment (e.g. playground equipment) are classed as community assets and depreciated on a straight-line basis over the lifetime of the assets.

Depreciation is charged to service revenue accounts where an asset is clearly identifiable with provision of service, and to Non-Distributable Costs otherwise. The whole effect of depreciation in the General Fund is reversed out in the Statement of Movement on the General Fund Balance, being replaced by statutory provision for repayment of debt. The charge to the Housing Revenue account is limited to the amount of Major Repairs Allowance received; the excess is reversed out into the Major Repairs Reserve and then to the Capital Financing Account.

Impairment of Fixed Assets

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against the Fixed Asset Restatement Account.

Disposal of Fixed Assets

Income from the disposal of fixed assets is initially credited to the usable capital receipts reserve and is accounted for on an accruals basis. In accordance the Local Government Act 2003, a proportion of capital receipts arising from the disposal of housing properties (mostly under the right to buy arrangements) is paid over to the government. This payment is shown in the accounts as a contribution to "pool receipts". This amount, together with the amount required to finance capital expenditure in the year, is appropriated to the capital financing account. On disposal, the net book value of assets disposed of is written off to the fixed asset restatement account. The gain or loss on disposal of a fixed asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the fixed asset. The accounting entries being debit cash/debtors and credit the Income and Expenditure Account with the disposal proceeds and credit the fixed asset account and debit the Income and Expenditure Account with the carrying amount of the tangible fixed asset. In practice, if there is no gain/loss these entries will not be made.

Deferred Charges & Intangible Assets

Deferred charges are payments to third parties to cover expenditure by the third party which would have been capital if it had been incurred by the Council. Primarily they relate to renovation and improvement grants, which are charged to service revenue accounts in the year of occurrence. The capital resources used to finance deferred expenditure are released from the capital financing account to revenue so there is no impact on the General Fund.

Intangible assets, such as software licenses, are only recognised when they are purchased or where internally developed and they have a readily ascertainable market value. In accordance with FRS 10, Intangible assets are included at historic cost and only revalued where their market value is readily ascertainable.

Premiums and discounts arising from the early redemption of debt were included in the 2005/06 balance sheet as Intangible assets. The 2006 SORP requires these items to be disclosed separately under a new heading, Deferred premiums on early repayment of debt.

Contracts under the Private Finance Initiative (PFI)

Smoothing Reserve

Any excess of government grants (PFI credits) received for PFI schemes over current expenditure levels are appropriated to an ear-marked reserve (PFI smoothing reserve) to be carried forward to fund future contract obligations.

Prepayments

The value of any assets transferred to a contractor under a PFI contract is treated as a prepayment and recorded in the accounts as a deferred asset. The prepayment is written down (charged) annually to the revenue account in equal amounts over the life of the contract to reflect the consumption of the prepayment.

Reversionary Interest.

Where assets will revert to the Council at the end of the PFI contract term, the authority builds up on its balance sheet a reversionary interests asset over the life of the contract. This is done by assigning annually part of the unitary payment under the PFI contract to the acquisition of a share of the reversionary interest. At the end of the PFI contract the reversionary interest asset (part of Other Land and Buildings in Fixed Assets) will equal the estimated value of the assets reverting to the Council.

Redemption of Debt

The Local Government Act 2003 prescribes the minimum amounts which must be set-aside as provisions for the redemption of external debt. The Council makes that minimum annual provision, which is equivalent to 4% of the debt outstanding in respect of General Fund Services.

The SORP requires any premiums or discounts arising from the premature redemption of debt to be recognised in the Income and Expenditure Account. The only exception to this is where a restructuring of debt occurs that results in substantially the same economic effect. Premiums and discounts arising in such circumstances are held on the balance sheet and amortised to the Income and Expenditure Account over the life of the replacement debt.

The method for charging premiums or discounts to the Housing Revenue Account is prescribed by the Item 8 Determination. It requires that they are amortised over the lower of the life of the borrowing that has been redeemed or ten years. The difference between the amount that has been amortised to the HRA Income and Expenditure Account

and the amount that can be charged to the HRA according to statute is reconciled in the Statement of Movement on the HRA balance, with any balance carried forward in the Capital Financing Account.

Interest Received

Interest received from investments made by the Council is credited initially to the Income and Expenditure Account on an accruals basis, making allowance for any sums due to the Housing Revenue Account.

Stocks and Stores

Stocks are recorded in the Balance Sheet at the lower of actual cost or net realisable value in accordance with the Code of Practice and SSAP9.

Long-term contracts

Long-term contracts are accounted for on the basis of charging the Income and Expenditure Account with the value of works and services received in the year of account.

Debtors and Creditors

For all material items of expenditure and income, the accounts are prepared on an accruals basis; i.e. sums due to or from the Council during the year are included whether or not the cash has been actually received or paid in the year. This treatment is in accordance with the Code of Practice and SSAP 2.

Leasing

The Council may use local authority operating leases to finance movable capital assets (such as computer equipment). The costs of the use of the asset are spread over the lifetime of the lease and met from service revenue budgets. Leasing is used when option appraisal indicates that this form of financing demonstrates value for money.

Investments

Investments are shown in the balance sheet at cost, inclusive of brokerage and fees.

Government Grants and Contributions

In accordance with CIPFA guidelines on the application of SSAP4, Government grants and other contributions are recognised in the accounts when conditions for their receipt have been complied with and there is reasonable expectation that the grants or contributions will be received.

Where the acquisition of a fixed asset is financed either wholly or partly by Government grant or other contributions, the amount of the grant or contribution is credited initially to the deferred government grants account. Amounts are then written off to the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates. Revenue grants receivable in the year are credited to respective areas and are matched with expenditure to which they relate.

Cost of Support Services

Central administrative expenses have been fully allocated in accordance with the BVACOP.

Provisions

The Council has set aside provisions for specific future liabilities or losses, which are likely or certain to be incurred, but the amount and/or timing of which cannot be determined accurately.

Reserves

Reserves are created where monies have either been received or set aside by the authority for specific purposes or where there is a receipt which cannot be immediately allocated to an individual service. The basis of each individual reserve is included in the relevant note to the balance sheet.

Pensions

The Council's pension costs are managed through its Pension Fund, details of which are contained in the Pension Fund accounts. In accordance with the CIPFA/LASAAC approach to the implementation of FRS 17, the impact on

council tax (and housing rent) levels has been nil, but the Council's balance sheet now discloses the full long-term actuarial liability of the pension fund.

Group Accounts

The Council has determined that although it forms part of a group (with the creation of the wholly owned company United Residents Housing during the period 2006/07), due to the nature of the transactions and relationship arising, and a consideration of materiality, it is exempt from the requirement to prepare group accounts, and has not formulated specific group accounting policies. Should the requirement to prepare group accounts arise, the Council will formulate appropriate accounting policies based on the circumstances pertaining to the group.

Value Added Tax

VAT is included in the income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable. VAT has been accounted for to HM Revenue and Customs on a monthly basis.

Discount Rate used in Pension Fund Liabilities

In assessing liabilities for retirement benefits at 31 March 2004 for the 2003/04 Statement of Accounts, the actuary was required by the SORP to use a discount rate of 3.5% real (6.5% actual). Since then, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities has been used. The actuary advised that a rate of 2.4% real (5.4% actual) in 2004/05, 1.7% real (4.9% actual) in 2005/06 and 2.1% real (5.4% actual) in 2006/07 was appropriate. Application of this rate resulted in an increase in liabilities of £149.9m in 2004/05 and £118.3m in 2005/06 and a decrease in the liability of £62m in 2006/07, which is recognised in the Statement of Total Recognised Gains and Losses.

INCOME AND EXPENDITURE ACCOUNT

| 2005/06 | | | 2006/07 | |
|-----------|-------------------------------------------------------------|------|------------------|-----------------|
| Net | | | | Net |
| spending | | Note | Gross | Income |
| £'000 | | | spending | £'000 |
| | | | £'000 | spending |
| | | | | £'000 |
| (4,263) | Central services to the public | | 242,936 | 7,123 |
| 53,327 | Cultural, environmental and planning services | | 110,064 | 68,503 |
| 162,333 | Education services | | 290,981 | 30,272 |
| 5,174 | Highways, roads and transport services | | 32,324 | 997 |
| (17,523) | Housing services (HRA) | | 136,958 | (13,721) |
| 7,161 | Housing services (non-HRA) | | 72,945 | 8,826 |
| 127,567 | Social services | | 210,634 | 133,885 |
| 16,244 | Corporate and democratic core | | 59,281 | 14,292 |
| 3,035 | Non-distributed Costs | | 8,097 | 5,224 |
| 5,777 | Exceptional items | | 0 | 0 |
| 358,832 | NET COST OF SERVICES | | 1,164,220 | 255,401 |
| 0 | (Gain)/Loss on the disposal of fixed assets | | | 3,524 |
| 0 | Notional Gain on disposal | | | (21,379) |
| 41,331 | Interest payable and similar charges | | | 40,363 |
| 8,391 | Amortisation of premiums/discounts | | | 21,294 |
| 21,998 | Contribution of housing capital receipts to Government Pool | | | 15,151 |
| (10,736) | Interest and investment income | | | (11,923) |
| 12,900 | Pensions interest cost less return on assets | | | 7,500 |
| 432,716 | Net Operating Expenditure | | | 309,931 |
| (81,839) | Demand on the Collection Fund | | | (83,245) |
| (231,483) | General government grants | | | (35,312) |
| 0 | Overhanging debt grant | | | (64,495) |
| (89,491) | Non-domestic rates redistribution | | | (160,609) |
| 6 | Transfer to/from the Collection Fund | | | (1,676) |
| 29,909 | (Surplus)/Deficit for the Year | | | (35,406) |

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| 2005/06 £'000 | | 2006/07 £'000 |
|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 29,909 | (Surplus)/deficit for the year on the Income and Expenditure Account | (35,406) |
| (39,205) | Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year | 24,415 |
| (9,296) | (Increase)/decrease in General Fund balance for the year | (10,991) |
| (1,387) | General Fund balance brought forward | (10,683) |
| (10,683) | General Fund balance carried forward | (21,674) |
| (10,157) | Amount of General Fund balance held by governors under schemes to finance schools | (12,499) |
| (526) | (Amount)/deficit of General Fund balance generally available for new expenditure | (9,175) |
| (10,683) | | (21,674) |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| 2005/06 £'000 | 2006/07 £'000 |
|-----------------------------------------------------------------------------|------------------|
| 29,909 (Surplus)/deficit for the year on the Income and Expenditure Account | (35,406) |
| 1,209,867 (Surplus)/deficit arising from revaluation of assets | (204,016) |
| 21,800 Actuarial (gains)/losses on pension fund assets and liabilities | (58,400) |
| (40,592) Other (gains) and losses | (14,145) |
| <u>1,220,984</u> Total recognised (gains)/ losses for the year | <u>(311,967)</u> |

BALANCE SHEET

| | | 31 March 2006 | 31 March 2007 |
|--------------------------------------------------|---------|---------------|---------------|
| | Note | £'000 | £'000 |
| FIXED ASSETS | | | |
| Intangible fixed assets | 4 | 16,892 | 15,572 |
| Tangible fixed assets (net of depreciation) | 1, 2, 3 | | |
| Operational assets | | | |
| Council dwellings | | 1,542,700 | 1,675,353 |
| Other land & buildings | | 365,928 | 414,906 |
| Vehicles, plant furniture & equipment | | 20,419 | 11,299 |
| Infrastructure assets | | 65,448 | 69,662 |
| Community assets | | 1,104 | 4,935 |
| Non-operational assets | | | 2,176,155 |
| Investment properties | | 62,034 | 63,127 |
| Assets under construction | | 0 | 4,765 |
| Surplus assets held for disposal | | 2,587 | 6,894 |
| | | | 74,786 |
| TOTAL FIXED ASSETS | | 2,077,112 | 2,266,513 |
| Long-term investments | | 5 | 5 |
| Long-term debtors | 16 | 1,259 | 1,080 |
| Deferred premiums on the early repayment of debt | 18 | 0 | 953 |
| TOTAL LONG TERM ASSETS | | 2,078,376 | 2,268,551 |
| CURRENT ASSETS | | | |
| Stocks | | 1 | 0 |
| Debtors (gross of provisions) | 15 | 213,660 | 216,212 |
| Bad debt provisions | | (87,886) | (77,578) |
| Investments | 13 | 249,509 | 261,885 |
| Cash at bank | | 43,048 | 82,627 |
| | | | 483,146 |
| TOTAL ASSETS | | 2,496,708 | 2,751,697 |
| CURRENT LIABILITIES | | | |
| Creditors | 19 | (159,268) | (173,861) |
| Cash overdrawn | | (39,282) | (83,345) |
| | | | (257,206) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,298,158 | 2,494,491 |
| LONG TERM LIABILITIES | | | |
| Long-term borrowing | 14 | (728,835) | (675,350) |
| Provisions | 25 | (17,510) | (19,954) |
| FRS17 Pensions liability | 26 | (426,738) | (366,163) |
| Government and other capital grants deferred | | (159,322) | (146,635) |
| Capital grants unapplied | | (27,868) | (36,716) |
| Deferred capital receipts | 17 | (969) | (790) |
| TOTAL NET ASSETS | | 936,916 | 1,248,883 |
| Fixed Asset Restatement Account | 6 | (926,717) | (1,094,875) |
| Capital Financing Account | 7 | (293,465) | (352,326) |
| Usable Capital Receipts Reserve | 8 | (86,936) | (77,498) |
| Major Repairs Reserve | | (4,810) | (14,237) |
| S20 reserve for capital works | | (5,614) | (7,417) |
| FRS17 Pensions reserve | | 426,738 | 366,163 |
| Fund balances and reserves | | | 0 |
| General Fund (exclusive of LMS balances) | | (526) | (9,175) |
| LMS balances | 23 | (10,157) | (12,499) |
| Collection Fund | | (7,619) | (8,379) |
| Housing Revenue Account | | (2,235) | 1,962 |
| Deferred premiums | | 11,243 | 0 |
| Other Reserves | 20 | (36,818) | (40,602) |
| TOTAL CAPITAL AND REVENUE RESERVES | | (936,916) | (1,248,883) |

CASHFLOW STATEMENT

| | Note | 2005/06 £'000 | 2006/07 £'000 |
|------------------------------------------------------------------------|------|------------------|------------------|
| REVENUE ACTIVITIES | | | |
| Cash Outflows | | | |
| Cash paid to and on behalf of employees | | 255,956 | 265,209 |
| Other operating cash payments | | 659,999 | 666,799 |
| Housing Benefit paid out | | 73,383 | 82,232 |
| NNDR payments to national pool | | 68,844 | 77,577 |
| Payments to capital receipts pool | | 21,998 | 15,151 |
| Precepts paid | | 24,765 | 28,552 |
| | | 1,104,945 | 1,135,520 |
| Cash Inflows | | | |
| Rents (after rebates) | | (51,665) | (51,745) |
| Council Tax receipts | | (88,788) | (95,016) |
| Community Charge receipts | | (50) | (8) |
| Receipts from non-domestic ratepayers | | (68,003) | (81,196) |
| Contributions from NNDR Pool | | (89,491) | (160,609) |
| Revenue Support Grant | | (231,483) | (31,003) |
| DWP grants for benefits | | (172,117) | (204,398) |
| Other Government grants | 4 | (173,455) | (294,083) |
| Cash received for goods and services and other operating cash receipts | | (311,130) | (343,393) |
| | | (1,186,182) | (1,261,451) |
| NET CASH INFLOW FROM REVENUE ACTIVITIES | | (81,237) | (125,931) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Cash outflows | | | |
| Interest paid | | 41,051 | 41,502 |
| Cash inflows | | | |
| Interest received | | (9,401) | (9,394) |
| | | 31,650 | 32,108 |
| CAPITAL ACTIVITIES | | | |
| Cash outflows | | | |
| Purchase of fixed assets | | 83,331 | 85,022 |
| Deferred charges | | 25,854 | 27,374 |
| Other capital cash payments | | 21,998 | 1,608 |
| Cash inflows | | | |
| Sale of fixed assets | | (70,304) | (36,588) |
| Capital grants received | 5 | (31,786) | (42,778) |
| Other capital cash receipts | | (24,539) | (2,192) |
| | | 4,554 | 32,446 |
| NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING | | (45,033) | (61,377) |
| MANAGEMENT OF LIQUID RESOURCES | | | |
| Net increase/(decrease) in short term deposits | 3 | 45,868 | 12,376 |
| FINANCING | | | |
| Cash outflows | | | |
| Repayments of amounts borrowed | | | |
| Long-term loans | | 19,238 | 53,485 |
| Short-term loans | | 5,517 | 0 |
| Cash inflows | | | |
| New long-term loans | | (45,993) | 0 |
| New short-term loans | | (5,517) | 0 |
| NET CASH OUTFLOW FROM FINANCING | | (26,755) | 53,485 |
| DECREASE/(INCREASE) IN CASH | | (25,920) | 4,484 |

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

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

- Capital investment is accounted for as it is financed, rather than when the 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 usable 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 General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

| 2005/06 £000s | | 2006/07 £000s |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year | | |
| 0 | Difference between amounts charged to Income and Expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute | (6,313) |
| (10,145) | Depreciation of fixed assets | (17,783) |
| | Impairment | (375) |
| (12,565) | Excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy | (8,443) |
| 4,374 | Government Grants Deferred amortisation | 6,107 |
| 0 | Overhanging debt grant | 53,486 |
| (4,089) | Write downs of deferred charges to be financed from capital resources | (9,284) |
| 0 | Notional gain on disposal | 21,379 |
| 0 | Net gain/(loss) on sale of fixed assets | (3,524) |
| (31,600) | Net charges made for retirement benefits in accordance with FRS 17 | (31,800) |
| (54,025) | | 3,450 |
| Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year | | |
| 7,232 | Minimum revenue provision for capital financing | 10,180 |
| 1,026 | Provision for repayment of transferred deemed debt | (2,610) |
| 3,563 | Capital expenditure charged in-year to the General Fund Balance | 766 |
| 401 | PFI - assets to be returned to LBL | 0 |
| (21,998) | Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool | (15,151) |
| 30,610 | Employer's contributions payable to the Lambeth Pension Fund and retirement benefits payable direct to pensioners | 32,565 |
| 20,834 | | 25,750 |
| 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 | | |
| (7,430) | Housing Revenue Account balance | (4,197) |
| (4,231) | Commutation adjustment | (4,371) |
| 5,647 | Net transfer to or from earmarked reserves | 3,783 |
| (6,014) | | (4,785) |
| (39,205) | Net additional amount required to be credited to the General Fund balance for the year | 24,415 |

NOTES TO THE CORE FINANCIAL STATEMENTS

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

- capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item
- gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table):

| | CRA in 2005/06 £'000 | Removal of capital charges £'000 | Relocation of government grants deferred £'000 | Other adjustments £'000 | 2005/06 comparatives in Income and Expenditure Account £'000 |
|--------------------------------------------------------|----------------------------|-------------------------------------------|------------------------------------------------------------|-------------------------------|-----------------------------------------------------------------------------|
| Central services to the public | (4,148) | 0 | 0 | (115) | (4,263) |
| Cultural, environmental and planning services | 55,787 | (1,349) | (915) | (196) | 53,327 |
| Education services | 172,614 | (9,056) | (1,225) | 0 | 162,333 |
| Highways, roads and transport services | 7,951 | (2,777) | 0 | 0 | 5,174 |
| Local authority housing (HRA) | 41,115 | (53,532) | (1,970) | (3,136) | (17,523) |
| Other housing services | 7,161 | 0 | 0 | 0 | 7,161 |
| Social services | 130,914 | (539) | (88) | (2,721) | 127,566 |
| Corporate and democratic core | 18,698 | (2,278) | (176) | 0 | 16,244 |
| Non-distributed costs | 3,036 | 0 | 0 | 0 | 3,036 |
| Exceptional items | 5,777 | 0 | 0 | 0 | 5,777 |
| Impact on Net Cost of Services | 438,905 | (69,531) | (4,374) | (6,168) | 358,832 |
| Asset management revenue account (Interest payable) | (32,574) | 69,531 | 4,374 | 0 | 41,331 |
| Amortisation of premiums and discounts | 8,391 | 0 | 0 | 0 | 8,391 |
| Impact on Net Operating Expenditure | 414,722 | 0 | 0 | (6,168) | 408,554 |

Note to the Income and Expenditure Account

1. PFI schemes

The Lilian Bayliss School PFI became operational in January 2005 and the Council made payments to Focus Education (Lambeth) Ltd of £2.148m in 2006/07. In 2007/08 the commitment is approximately £2.2m, though the actual sum paid will be subject to performance levels. The contract is for 25 years, and annual payments will increase by inflation.

In 2006/07 the authority made payment of £1.501m to RM Plc and is committed to making payments estimated at £2.1m for 2007-08 under the contract with RM Plc for the provision of ICT managed services in ten of the authority's schools. The actual level of payments will be subject to indexation and RM Plc's performance in providing services but in any event should not exceed £2.2m. The contract expires in 2013/14.

The council is committed to make payments to Lambeth Lighting Services Ltd, the street lighting PFI contractor. For 2006/07 these payments amounted to £1,699m and will rise to approximately £1.966m in 2007/08 and £2.778m in 2008/09. After that this will revert to £2.594m per annum until 2031 and finally £1.954m in 2032, when the contract expires. The contract is for a period of 25 years and the first four years will see the majority of the government's £17.2m funding spent on capital improvements. This will include upgrading or replacing all residential street lighting not meeting current standards and installing additional lighting, particularly in high crime areas.

2. Street Market Operations

Income from market operations arise from the issue of annual licences to stall holders and casual market traders at all markets currently operated by the Council. Expenditure includes the cost of providing facilities for markets, erection and taking down of stalls where applicable and the collection of rents from market traders.

| | 2005/06 £'000 | 2006/07 £'000 |
|-------------------|------------------|------------------|
| Income | 482 | 472 |
| Expenditure | 531 | 471 |
| Surplus/(Deficit) | (49) | 1 |

3. Council's Publicity Expenditure

The Council's Publicity Expenditure is set out below, under the requirements of Section 5(l) of the Local Government Act 1986.

| | 2005/06 £'000 | 2006/07 £'000 |
|--------------------------------|------------------|------------------|
| Recruitment advertising | 1,670 | 557 |
| Other advertising | 54 | 81 |
| Promotions and other publicity | 574 | 661 |
| | 2,298 | 1,299 |

4. Building Control Trading Account

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 – "details of scheme for setting charges". However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The table shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

| Building Regulations Charging Account 2006/07 | | | |
|-----------------------------------------------|------------|----------------|------------------------|
| | Chargeable | Non-Chargeable | Total Building Control |
| | £'000 | £'000 | £'000 |
| Expenditure | | | |
| Employee expenses | 674 | 169 | 843 |
| Premises | 4 | 1 | 5 |
| Transport | 7 | 2 | 9 |
| Supplies and services | 109 | 27 | 136 |
| Third Party Payments | 79 | 20 | 98 |
| Central & support charges | 56 | 14 | 70 |
| | 929 | 232 | 1,161 |
| Income | | | |
| Building Regulation charges | 901 | | 901 |
| Miscellaneous income | 131 | | 131 |
| | 1,032 | 0 | 1,032 |
| Surplus/(deficit) for the year | 103 | (232) | (129) |

| Building Regulations Charging Account 2005/06 | | | |
|-----------------------------------------------|------------|----------------|------------------------|
| | Chargeable | Non-Chargeable | Total Building Control |
| | £'000 | £'000 | £'000 |
| Expenditure | | | |
| Employee expenses | 657 | 164 | 821 |
| Transport | 8 | 2 | 10 |
| Supplies and services | 31 | 8 | 39 |
| Third Party Payments | 39 | 10 | 49 |
| Central & support charges | 98 | 24 | 122 |
| | 833 | 208 | 1,041 |
| Income | | | |
| Building Regulation charges | 936 | 0 | 936 |
| Miscellaneous income | 98 | 0 | 98 |
| | 1,034 | 0 | 1,034 |
| Surplus/(deficit) for the year | 201 | (208) | (7) |

5. Agency Income and Expenditure

The Council acts as an agent for Thames Water Utilities Limited in its capacity as a Local Housing Authority, whereby the Council collects charges on behalf of Thames Water, and the transactions are as shown below.

| | 2005/06 | 2006/07 |
|-----------------------------|---------|---------|
| | £'000 | £'000 |
| Charges receivable | 7,269 | 7,245 |
| Amount paid to Thames Water | 6,097 | 5,986 |
| Collection cost | 1,172 | 1,259 |

Registered Nursing Care Contribution The council acts as an agent for the Primary Care Trust, whereby the council pays the Care Providers gross and then collects the Nursing Care element from the PCT. This arrangement started in April 2004. (In 03/04 Care Providers invoiced the PCT directly).

The transactions for 2006/07 are shown below, and include 4 types of services namely Older Persons, Physical Disabilities, Learning Disabilities and Mental Health.

| | 2005/06 | 2006/07 |
|-------------------|---------|---------|
| | £'000 | £'000 |
| Nursing Care cost | 1,212 | 1,179 |
| PCT Contribution | 1,212 | 1,179 |

Lambeth Council acts as billing authority for the Waterloo Quarter Business Alliance, a Business Improvement District, which came into effect on 1 April 2006 (previously it was funded by regeneration grant as a pilot scheme known as Circle Waterloo). Under this arrangement, in 2006/07, £257k of income was raised on behalf of WQBA, of which £18k was reimbursed to meet the costs of collection. The Council does not incur any liabilities as a result of this agreement.

6. Local Authorities (Goods and Services) Act 1970

The Council recoups Statemented Special Education Needs' costs from other Local Education Authorities in accordance with the Local Authorities (Goods and Services) Act 1970. This amounted to £1.734m in 2006/07 (£1.498m in 2005/06) and the related expenditure was £3.873m in 2006-07 (£4.292m in 2005/06).

Under the provisions of the same act, Westminster City Council is expected to bill Lambeth for Jubilee Footbridge an amount of approximately £133,000.

7. Pooled Budgets under s31 Health Act 1999

The Council has one such scheme. The Adult Learning Disabilities (ALD) is in partnership with Lambeth PCT with the Council becoming accountable to the PCT for the discharge of its (the PCT's) statutory commissioning obligations. The gross income and expenditure is shown below.

| | 2005/06 | 2006/07 |
|------------------|---------|---------|
| | £'000 | £'000 |
| Income | | |
| From LB Lambeth | 21,045 | 22,284 |
| From Lambeth PCT | 8,443 | 8,836 |
| Expenditure | 29,488 | 31,120 |

8. Members' Allowances

Members' Allowances in respect of their duties were as follows:

| | 2005/06 | 2006/07 |
|----------------------------------|---------|---------|
| | £'000 | £'000 |
| Basic allowance | 502 | 540 |
| Special responsibility allowance | 245 | 310 |
| | 747 | 850 |

9. Remuneration Details

The numbers of employees whose remuneration, excluding pension contributions, was £50,000 or more were, in bands of £10,000:

| Remuneration band | Number of employees | |
|-------------------|---------------------|---------|
| | 2005/06 | 2006/07 |
| £50,000-£59,999 | 125 | 142 |
| £60,000-£69,999 | 53 | 58 |
| £70,000-£79,999 | 22 | 38 |
| £80,000-£89,999 | 20 | 20 |
| £90,000-£99,999 | 3 | 7 |
| £100,000-£109,999 | 3 | 2 |
| £110,000-£119,999 | 1 | 1 |
| £120,000-£129,999 | 1 | 0 |
| £130,000-£139,999 | 0 | 4 |
| £140,000-£149,999 | 2 | 0 |
| £150,000-£159,999 | 1 | 1 |
| £160,000-£169,999 | 0 | 0 |
| £170,000-£179,999 | 1 | 0 |
| £180,000-£189,999 | 0 | 0 |
| £190,000-£199,999 | 0 | 1 |
| £200,000-£209,999 | 1 | 0 |

10. Related Party Transactions

During the year no Council members, chief officers nor their close relations or members of the same household have declared any related party transactions other than those disclosed below. The numerical value shown is the value (£'000) of the transactions between the council and the stated body in the year.

| Councillor | Related Party | Nature of relationship |
|---------------------------------|-------------------------------------------|-------------------------------------------|
| J Dickson | Brixton Advice Centre (113) | Member of Management Board |
| K McHugh | Waterloo Community Development Group (56) | Partner is Director |
| J Meldrum | Clapham Park Project (11,231) | Director |
| | Brixton Online (78) | Member of household is a Director |
| D Sanders | Clapham Park Project (11,231) | Director |
| A Sawdon | Oasis Children's Venture (98) | Position of influence (unremunerated) |
| C Whelan | Anglian Group (33) | Family member is a non-Executive Director |
| J Whelan | Anglian Group (33) | Family member is a Director |
| Cllr until May 07 - J Pindar | Capita (7,672) | Family member is a Director |

| Director | Related Party | Nature of relationship |
|------------|---------------------------------------|---------------------------------------------------------------------------|
| P Dunipace | London Action Trust (54) | Trustee |
| M Suarez | London Authority Mutual Limited (161) | Member of Board of Directors (unremunerated representative of Council) |

11. Audit Fees

Audit Fees paid to the Audit Commission amounted to £0.902m (£0.585m for statutory audit, £0.071m for inspection fees, and £0.246m for grant claim certification) In 2005/06 the total paid was £0.856m (£0.546m for statutory audit, £0.067m for inspection fees, and £0.243m for grant claim certification).

Note to the Balance Sheet

1. Summary of capital expenditure and fixed asset disposals

Movements in fixed assets during the year were as follows:

Operational Assets

| | Council dwellings £'000 | Other land & buildings £'000 | Vehicles, plant & equipment £'000 | Infra-structure £'000 | Community assets £'000 | Total £'000 |
|-----------------------------------------|----------------------------|---------------------------------|--------------------------------------|--------------------------|---------------------------|------------------|
| Certified valuation at 31 Mar 2006 | 1,723,299 | 392,171 | 26,678 | 76,798 | 10,707 | 2,229,653 |
| Accumulated depreciation and impairment | (180,599) | (26,243) | (6,259) | (11,350) | (9,603) | (234,054) |
| Net book value at 31 Mar 2006 | 1,542,700 | 365,928 | 20,419 | 65,448 | 1,104 | 1,995,599 |
| <i>Movement in 2006-07</i> | | | | | | |
| Additions | 37,904 | 19,106 | 1,365 | 6,820 | 3,375 | 68,570 |
| Disposals | (22,280) | 0 | 0 | 0 | (48) | (22,328) |
| Reclassifications | (26,374) | 10,798 | (12,939) | (774) | 523 | (28,766) |
| Revaluations | (13,857) | 1,085 | 0 | 0 | 0 | (12,772) |
| Depreciation | (30,135) | (6,868) | (1,417) | (1,927) | (33) | (40,380) |
| Depreciation on revaluation | 184,934 | 24,116 | 0 | (35) | (42) | 208,973 |
| Depreciation on retirements | 2,356 | 0 | 0 | 0 | 0 | 2,356 |
| Depreciation on transfers | 480 | 741 | 3,871 | 130 | 56 | 5,278 |
| Impairments | (375) | 0 | 0 | 0 | 0 | (375) |
| NBV at 31 March 2007 | 1,675,353 | 414,906 | 11,299 | 69,662 | 4,935 | 2,176,155 |

Non-operational Assets

| | Commercial Investments £'000 | Industrial Investments £'000 | Investment Properties ¹ £'000 | Surplus Assets £'000 | Assets Under Construction ² £'000 | Total £'000 |
|-----------------------------------------|---------------------------------|---------------------------------|---------------------------------------------|-------------------------|-------------------------------------------------|----------------|
| Certified valuation at 31 Mar 2006 | 46,435 | 21,581 | 0 | 2,858 | 0 | 70,874 |
| Accumulated depreciation and impairment | (5,745) | (237) | 0 | (271) | 0 | (6,253) |
| Net book value at 31 Mar 2006 | 40,690 | 21,344 | 0 | 2,587 | 0 | 64,621 |
| <i>Movement in 2006-07</i> | | | | | | |
| Additions | 0 | 0 | 1,080 | 0 | 4,952 | 6,032 |
| Disposals ² | 0 | 0 | (15,768) | (426) | 0 | (16,194) |
| Reclassifications | (46,435) | (21,580) | 78,493 | 5,246 | 0 | 15,724 |
| Revaluations | 0 | 0 | 3,584 | 0 | (187) | 3,397 |
| Depreciation | 11 | 0 | (2,388) | (150) | 0 | (2,527) |
| Depreciation on revaluation | 2 | 0 | 4,743 | 48 | 0 | 4,793 |
| Depreciation on retirements | 0 | 0 | 347 | 0 | 0 | 347 |
| Depreciation on transfers | 5,732 | 236 | (6,964) | (411) | 0 | (1,407) |
| Impairments | 0 | 0 | 0 | 0 | 0 | 0 |
| NBV at 31 March 2007 | 0 | 0 | 63,127 | 6,894 | 4,765 | 74,786 |

¹ Per SORP 2006, the distinction between Industrial Investments and Commercial Investments has been removed, as such 05/06 totals have been combined.

² New category for reporting per SORP 2006

Properties are included in the balance sheet as per the RICS *Appraisal and Valuation Standards*. For Council dwellings and other land and buildings in the operational category this means taking the existing use value for non-specialised properties and depreciated replacement cost otherwise; for non-operational assets, including investment properties and assets surplus to requirements, this means market value. Vehicles, plant and equipment, infrastructure assets and community assets are included in the balance sheet at historical cost where this can be ascertained or otherwise at a nominal value of £1.

The assets were last fully valued at 1 April 2004 with revaluations taking place on a rolling basis designed to cover all assets within a five-year period. The last full cycle was completed in 2004. Dunlop Haywards (now Erinacaeous),

Chartered Surveyors, carried out the revaluations for all assets including the Council Dwelling stock, which they carried out for the first time in 2005/06.

The Council has set a de minimus level of £20,000 for capital expenditure, with the exception of lower valued housing schemes which can be shown to improve the housing stock. All other items are charged direct to revenue expenditure.

The possibility of any impairment losses has been considered as part of the 2006/07 closedown, as a result of which it has been determined that there are small impairment losses that need to be recognised in the accounts, which owing to their temporary nature and previous revaluation gains, have been expenses through the CFA.

During the 2006/07 financial year there has been a significant increase in the value of the council's assets, particularly its housing stock. This has resulted from the normal annual revaluation of assets.

Under the terms of the Council's contracts with both its Street Lighting PFI contractor and Lilian Bayliss PFI contractor, the assets in use under the contract will revert to the Council at the end of the contract. To reflect the value of these assets, the Council builds up a residual asset over the life of the contract by assigning part of the Council's unitary payment to the contractor to the creation of this asset. This balance is built up in Other Land and Buildings.

2. For each class of tangible fixed assets included in the balance sheet at current value the impact of the rolling programme of revaluation of fixed assets is as follows

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets. The valuations, including Council Dwelling Stock, are carried out by Dunlop Haywards (now Erinacaeous) Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

| | Council dwellings £'000 | Other land & buildings £'000 | Vehicles, plant & equipment £'000 | Investment properties £'000 | Total £'000 |
|----------------------------|----------------------------|---------------------------------|--------------------------------------|--------------------------------|----------------|
| Valued at historical cost | | | 11,299 | | 11,299 |
| Valued at current value in | | | | | |
| 2006/07 | 1,675,353 | 414,906 | | 63,127 | 2,153,386 |
| 2005/06 | 1,542,700 | 365,928 | | 62,034 | 1,970,662 |
| 2004/05 | 2,774,399 | 346,930 | | 60,101 | 3,181,430 |
| 2003/04 | 3,001,089 | 398,483 | | 91,508 | 3,491,080 |
| 2002/03 | 2,966,413 | 401,545 | | 71,989 | 3,439,947 |

3. Information on tangible fixed assets held

Analysis of the Council's assets as at 31 March.

| | 2006 | 2007 |
|----------------------------------|-------------|-------------|
| OPERATIONAL ASSETS | | |
| Council dwellings | 29,957 | 27,189 |
| Hostels | 33 | 33 |
| Garages | 10,629 | 10,629 |
| Other land & buildings | | |
| Adult education institutes | 3 | 3 |
| Car parks | 1 | 1 |
| Cemeteries and crematoria | 6 | 6 |
| Clocks | 6 | 6 |
| Community centres | 32 | 32 |
| Conveniences | 10 | 10 |
| Day centres/lunch clubs | 37 | 37 |
| Depots & workshops | 29 | 29 |
| Kitchens | 1 | 1 |
| Libraries | 11 | 11 |
| Neighbourhood management offices | 20 | 20 |
| Nurseries | 26 | 26 |
| Offices | 29 | 29 |
| Pools | 4 | 4 |
| Public halls | 14 | 14 |
| Refuse disposal units | 0 | 0 |
| Residential homes | 14 | 14 |
| Schools | 60 | 60 |
| Sports centres | 4 | 4 |
| Sports pitches | 5 | 5 |
| Support centres | 2 | 2 |
| Surgeries | 15 | 15 |
| Teaching centres | 0 | 0 |
| Town hall | 1 | 1 |
| Youth centres | 5 | 5 |
| Vehicles | | |
| Recycling equipment | 0 | 0 |
| Infra-structure | | |
| Roads | 323.8 miles | 323.8 miles |
| Bridges | 5 | 5 |
| Community assets | | |
| Parks & open spaces | 246 acres | 246 acres |
| NON-OPERATIONAL ASSETS | | |
| Public Conveniences | 14 | 14 |
| Commercial property | | |
| Garages | 8 | 8 |
| Miscellaneous | 184 | 172 |
| Offices | 6 | 6 |
| Public houses | 3 | 3 |
| Shops | 341 | 304 |
| Industrial | 1 | 1 |
| Surplus assets | 7 | 6 |

4. Intangible Assets

Balances of Intangible Assets are as follows:

| | LRB sinking fund (ILEA) £'000 | Software licences £'000 | Total £'000 |
|--------------------------------------------|-------------------------------------|-------------------------------|----------------|
| Gross book value at 31 Mar 2006 | 21,853 | 7,818 | 29,671 |
| Adjustment to opening balance | 0 | (6) | (6) |
| Accumulated amortisation and impairment | (12,616) | (163) | (12,779) |
| Net book value at 31 Mar 2006 | 9,237 | 7,649 | 16,886 |
| <i>Movement in 2006-07</i> | | | |
| Reclassifications | 0 | 13,042 | 13,042 |
| Additions | 0 | 7,269 | 7,269 |
| Amortisation | 2,610 | (8,517) | (5,907) |
| Transfers | (11,847) | (3,871) | (15,718) |
| NBV at 31 March 2007 | 0 | 15,572 | 15,572 |

The Balance Sheet as at 31 March 2006 included £9,237k as an amount representing the notional principal outstanding of loans originally transferred from the Inner London Education Authority (the value outstanding is notional because the loans have been repaid). The Council has made separate provision for their repayment by amortising the notional balance outstanding to revenue on a straight line basis. The prudential capital accounting system introduced from 1 April 2004 means that this outstanding balance can be provided for through the Minimum Revenue Provision. In order to do this, the outstanding balance has been transferred from Intangible Assets to the Capital Financing Account.

Software licenses have been recognised as Intangible assets at historic cost and are being amortised over 4 years using the straight line method.

5. Financing of capital expenditure

| | 2005/06 £'000 | 2006/07 £'000 |
|--------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Opening Capital Financing Requirement | 707,761 | 688,371 |
| Adjustment to opening balance | (12,440) | 0 |
| <i>Adjusted opening Capital Financing Requirement</i> | <i>695,321</i> | <i>688,371</i> |
| <i>Capital investment</i> | | |
| Intangible Assets | 7,818 | 7,269 |
| Tangible Assets | 82,527 | 73,742 |
| Deferred Charges | 26,820 | 30,982 |
| <i>Sources of finance</i> | | |
| Government grants | (48,506) | (47,174) |
| Capital receipts | (33,746) | (30,522) |
| Section 20 receipts | (9,528) | (4,265) |
| Developer's contribution | (2,626) | (1,581) |
| Direct revenue financing | (3,563) | 0 |
| Minimum Revenue Provision (MRP) | (7,556) | (10,180) |
| Backlog MRP | (23,250) | 0 |
| Balance of ILEA debt | 0 | 9,237 |
| Overhanging debt repayment | 0 | (53,486) |
| Other | 429 | 0 |
| Commutation adjustment | 4,231 | 4,371 |
| Closing Capital Financing Requirement | 688,371 | 666,764 |
| <i>Explanation of movements in year</i> | | |
| Increase in underlying need to borrow linked to capital expenditure (supported by financial assistance) | 15,871 | 22,642 |
| Increase in underlying need to borrow linked to capital expenditure (unsupported by financial assistance) | 0 | 0 |
| Other changes in underlying need to borrow | (22,821) | (44,249) |
| Increase / (decrease) in capital financing requirement | (6,950) | (21,607) |

6. Fixed Asset Restatement Account – this represents the difference between original valuations and current revaluations.

| | 2005/06 £'000 | 2006/07 £'000 |
|-------------------------------------|------------------|------------------|
| Balance brought forward 1 April | 2,171,935 | 926,718 |
| Restated valuation of Fixed Assets | (1,209,867) | 204,016 |
| Disposal of Fixed Assets | (35,350) | (35,858) |
| Balance carried forward at 31 March | 926,718 | 1,094,876 |

7. Capital Financing Account – this contains the amounts which are required by statute to be set aside for the repayment of external loans and the amount of capital expenditure finance from revenue and capital receipts. It also represents the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

| | 2005/06 £'000 | 2006/07 £'000 |
|----------------------------------------------|------------------|------------------|
| Balance brought forward 1 April | 244,456 | 293,464 |
| Capital Financing: | | |
| Capital Receipts applied | 33,745 | 30,522 |
| Excess statutory MRP over depreciation | (2,913) | (7,603) |
| Amortisation of deferred charges | (4,077) | (9,284) |
| Transfer of govt grant deferred amortisation | 4,374 | 6,107 |
| Notional gain on stock transfer | 0 | 21,379 |
| Impairment | 0 | (375) |
| Commutation adjustment | (4,231) | (4,371) |
| Net Transfer to the Major Repairs Reserve | (17,377) | (17,870) |
| Section 20 | 9,528 | 4,265 |
| Direct Revenue financing | 3,563 | 0 |
| Payment of Overhanging Debt | 0 | 53,486 |
| PFI - Assets to be returned to LBL | 3,146 | 766 |
| Premiums to be charged to HRA | 0 | (6,317) |
| ILEA Sinking Fund | 0 | (11,843) |
| Minimum Revenue Provision Backlog | 23,250 | 0 |
| Balance carried forward 31 March | 293,464 | 352,326 |

8. Usable Capital Receipts Reserve - represents the capital receipts available to finance capital expenditure in future years after the payment of any amounts due to the government under the pooling arrangements for receipts from housing properties.

| | 2005/06 £'000 | 2006/07 £'000 |
|-----------------------------------------------------------|------------------|------------------|
| Balance brought forward 1 April | 71,510 | 86,936 |
| Capital Receipts | 71,169 | 36,235 |
| Use of capital receipts in year | | |
| Payment to ODPM – Contribution to pooled capital receipts | (21,998) | (15,151) |
| Financing of capital expenditure | (33,745) | (30,522) |
| Balance carried forward 31 March | 86,936 | 77,498 |

9. Commitments under Capital Contracts at 31 March 2007 are:

| | £'000 |
|-------------------------------------------|--------|
| Regeneration and Housing | 14,001 |
| Adults' and Community Services | 1,150 |
| Children and Young People's Services | 15,310 |
| Strategy and Corporate Services | 2,287 |
| Environment, Culture and Community Safety | 3,090 |
| Total | 35,838 |

10. Leases – disclosure by Lessees

The authority was committed at 31 March 2007 to making payments of £2.498m under operating leases, comprising the following:

| | Vehicles, Plant & Equipment £'000 | Land & Buildings £'000 |
|-----------------------------|--------------------------------------|---------------------------|
| Leases expiring: | | |
| in 2007/08 | 299 | 150 |
| between 2008/09 and 2011/12 | 104 | 191 |
| after 2011/12 | 0 | 1,756 |

Vehicles, Plant, Furniture and Equipment. The Council holds some office equipment and vehicles under operating leases. Total lease rentals paid during the year amounted to £0.440 million (2005/06 = £0.506 million).

Land and Buildings. The Council has various assets, principally its main offices, held as operating leases. The rentals payable in 2006/07 were £2.17m (£1.996m in 2005/06)

11. Leases – disclosure by Lessors

Authority as Lessor. The Council acts as lessor on a large portfolio of commercial and investment properties, for which the rentals for 2006/07 amounted to £4.926m (£4.851m in 2005/06). The gross value of assets held for use in operating leases was £75.789m, and the accumulated depreciation was £9.957m.

12. United Residents Housing Limited

The Council is the sole member of United Residents Housing Limited (URH), an Arms Length Management Organisation which was incorporated on 31st May 2006. URH is a controlled company of the Council, and is a company limited by guarantee.

There is a management agreement between URH and the Council which provides that URH will manage part of the delegated budgets within the HRA for capital expenditure and planned maintenance. The management fee paid to United Residents Housing in 2006/07 was £276k. The Council has determined that the transactions with URH are not of a material nature and therefore there is no requirement to incorporate in group accounts.

13. The Council's investments consist of:

| | 31 March 2006 £'000 | 31 March 2007 £'000 |
|------------|------------------------|------------------------|
| Short term | 249,509 | 261,885 |
| Long term | 5 | 5 |

14. Long-Term Borrowing is as follows:

| | 31 March 2006 £'000 | 31 March 2007 £'000 |
|-------------------------|------------------------|------------------------|
| Public Works Loan Board | 728,835 | 675,350 |

Analysis by maturity:

| | 31 March 2006 £'000 | 31 March 2007 £'000 |
|------------------------|------------------------|------------------------|
| Between 1 and 2 years | 0 | 0 |
| Between 2 and 5 years | 26,000 | 9,022 |
| Between 5 and 10 years | 0 | 0 |
| More than 10 years | 702,835 | 666,328 |
| | <hr/> 728,835 | <hr/> 675,350 |

15. Debtors

| | 31 March 2006 | | 31 March 2007 | |
|------------------------------|---------------|----------------|---------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Government grants | 22,227 | | 15,769 | |
| Provision for bad debts | 0 | | 0 | |
| | | 22,227 | | 15,769 |
| Rents (HRA and non-HRA) | 36,086 | | 34,590 | |
| Provision for bad debts | (17,111) | | (11,030) | |
| | | 18,975 | | 23,560 |
| Housing Benefit Overpayment | 18,592 | | 17,997 | |
| Provision for bad debts | (18,592) | | (15,677) | |
| | | 0 | | 2,320 |
| Non-Domestic Ratepayers | 7,291 | | 7,356 | |
| Provision for bad debts | (3,010) | | (2,856) | |
| | | 4,281 | | 4,500 |
| Community Charge payers | 11,839 | | 11,815 | |
| Provision for bad debts | (9,315) | | (9,621) | |
| | | 2,524 | | 2,194 |
| Council Tax payers | 39,228 | | 47,440 | |
| Provision for bad debts | (26,050) | | (27,550) | |
| | | 13,178 | | 19,890 |
| Sundry debtors | 35,204 | | 45,428 | |
| Provision for bad debts | (13,308) | | (10,344) | |
| | | 21,896 | | 35,084 |
| HMRC | 11,452 | | 5,369 | |
| Possible overstatement | (500) | | (500) | |
| | | 10,952 | | 4,869 |
| Right to buy service charges | | 1,478 | | 412 |
| Non-Domestic Rating pool | | 0 | | 115 |
| Payments in advance | | 6,013 | | 4,310 |
| Other | | 7,788 | | 9,808 |
| Pension Fund | | 16,462 | | 15,803 |
| TOTAL | | 125,774 | | 138,634 |

The figure for sundry debtors includes £88k which represents Lambeth PCT's portion of debt under the pooled budget arrangements.

16. Long-Term Debtors

Mortgage loans are loans given to individuals, including those exercising their right to buy their council house and to Housing Associations to help them purchase housing property. Loans outstanding were as follows:

| | 31 March 2006 | 31 March 2007 |
|----------------------|---------------|---------------|
| | £'000 | £'000 |
| Individuals | | |
| Right to buy | 899 | 723 |
| Other | 24 | 24 |
| Housing Associations | 336 | 333 |
| | 1,259 | 1,080 |

17. Deferred Capital Receipts

These are amounts derived from the sale of assets which have not been received at the time of sale but will be paid by instalment over a set period. They arise principally from mortgages on the sale of council houses which form part of the mortgages under long-term debtors. Amounts held under s106 are also disclosed here.

18. Deferred Premiums on the early repayment of debt

The Balance Sheet as at 31 March 2006 included £11,243k of premiums arising from the premature repayment of borrowing. Of this total, £920k arose from restructures and the remaining £10,323k related to debt that was prematurely repaid. In accordance with the SORP and the Council's accounting policy, the premiums that are not linked to restructures have been charged to the Income and Expenditure Account.

The Council transferred some of its housing stock to Housing Associations during 2006/07 and the government repaid £53,486k of the Council's debt as a result. This repayment incurred £11,009k (net) of premiums and discounts which were also paid by the government. The full value has been reflected in the Income and Expenditure Account in accordance with the SORP and the Council's accounting policy. Grant income equal to the charge has also been included in the Income and Expenditure Account so there is no impact on either the general fund or HRA balances. This presentation reflects the substance of this transaction in accordance with FRS 5.

19. Creditors:

| | 31 March 2006 | 31 March 2007 |
|-------------------------|---------------|---------------|
| | £'000 | £'000 |
| Government grants | 12,062 | 23,409 |
| Rents | 5,306 | 6,610 |
| NNDR payers | 2,608 | 3,685 |
| Community charge payers | 2,463 | 2,156 |
| Council Taxpayers | 7,415 | 13,236 |
| Sundry creditors | 105,261 | 106,626 |
| PAYE/NI | 4,713 | 5,088 |
| Receipts in advance | 826 | 1,403 |
| Interest payable | 12,174 | 11,036 |
| Hyde HA | 3,942 | 0 |
| NNDR pool | 1,952 | 0 |
| Other | 185 | 199 |
| | 158,907 | 173,448 |
| Trust Funds | 361 | 413 |
| | 159,268 | 173,861 |

The figure for sundry creditors includes £624k which represents Lambeth PCT's portion of creditors under the pooled budget arrangements.

20. Other Reserves

| | Balance at 31 March 2006 | Transfers in | Transfers out | Balance at 31 March 2007 |
|-------------------------------|-----------------------------|---------------|----------------|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Revenue Reserves | | | | |
| Insurance fund | 12,514 | 2,863 | (4,094) | 11,283 |
| Insurance fund - HRA | 3,136 | 1,500 | (593) | 4,043 |
| BSF | 3,000 | 0 | (1,529) | 1,471 |
| Earmarked c/fwds | 1,586 | 977 | 0 | 2,563 |
| General contingency | 4,000 | 0 | 0 | 4,000 |
| EDFR/CE contingencies | 1,250 | 0 | (7) | 1,243 |
| Capital Funding Gap | 1,000 | 0 | 0 | 1,000 |
| Revitalise | 242 | 0 | 0 | 242 |
| Dilapidations | 1,500 | 0 | 0 | 1,500 |
| Litigation fund | 500 | 0 | 0 | 500 |
| UDP | 400 | 0 | 0 | 400 |
| Pensions disputes | 350 | 0 | 0 | 350 |
| Oracle reserve | 300 | 0 | 0 | 300 |
| Pension Fund | 3,000 | 0 | 0 | 3,000 |
| PFI Smoothing Reserve | 392 | 997 | 0 | 1,389 |
| Reorganisation | 1,000 | 1,600 | 0 | 2,600 |
| HB Operations | 2,000 | 0 | 0 | 2,000 |
| CCTV Renewals | 367 | 220 | 0 | 587 |
| Single Status Reserve | 0 | 2,000 | 0 | 2,000 |
| Other | 281 | 1 | (152) | 130 |
| Total revenue reserves | 36,818 | 10,158 | (6,375) | 40,601 |

- The Insurance Fund holds the balance set aside for potential liabilities in respect of insurable items for which the Council has elected to self-insure and for payments that fall within the insurance excesses. The known liabilities are assessed as £10.0m.
- The Building Schools for the Future (BSF) balance is earmarked for potential costs associated with the BSF project. The opening balance was previously shown as a provision and has been restated.
- Earmarked carry-forwards are to finance expenditure that had been committed but not yet incurred as at balance sheet date.
- The general contingency reserve is to meet unforeseen items of expenditure of an exceptional nature.
- Chief Officers' contingencies are set aside to permit prompt expenditure, within delegated limits, where circumstances require it.
- The reserve for the Capital Funding Gap is set aside to meet unforeseen revenue consequences of capital expenditure.
- The Revitalise reserve is set aside to meet anticipated expenditure on the start-up phase of this major project.
- The dilapidations reserve is set aside to meet unforeseen costs arising from previous shortfalls in repairs and maintenance.
- The litigation fund is set aside to enable the council to obtain high-quality legal advice, where circumstances require, and where the cases in question could not reasonably be budgeted for.
- The Pension Fund reserve has been established to provide a source of funds to tackle any deficit on the pension fund identified during the actuarial valuation.
- The Council operates a smoothing reserve to even out the flow of income and payments over the life of its PFI contracts.
- A reorganisation reserve has been created to fund costs that may arise during departmental restructuring.
- The HB Operations reserve exists to meet one-off expenditure needed to improve the quality of the benefits service.
- The CCTV Renewals reserve exists to provide for the renewal and replacement of the Council's CCTV equipment.
- The Single Status Reserve has been created to meet potential future costs arising from fair pay claims
- Other reserves under £500,000 are established for the reasons stated in the note, including various minor miscellaneous funds.

22. Funds and Other Reserves

The Council acts as trustee for various funds including bequests and legacies, comfort funds and individual trusts. The main trusts are:

| | Balance at 31 March 2006 | Receipts & Revaluation in year | Payments in year | 31 March 2007 |
|----------------|-----------------------------|-----------------------------------|------------------|------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Pedlars Acre | 2,010 | 122 | (86) | 2,046 |
| Cynthia Mosley | 742 | 22 | (23) | 741 |
| Miscellaneous | | | | |
| ACS | 125 | 37 | (26) | 136 |
| E&C | 73 | 9 | (33) | 49 |
| CYPS | 218 | 24 | (16) | 226 |
| | <u>3,168</u> | <u>214</u> | <u>(184)</u> | <u>3,198</u> |

The Pedlars Acre fund was established by the Pedlars Acre Estate Act 1826 for the benefit of the parish of St Mary, Lambeth.

The Cynthia Mosley fund is to benefit and promote the education and development of children aged 0-5 years receiving day nursery or other comparable provision.

The Adults & Community Services funds are monies held on behalf of clients.

The Environment & Culture funds are monies held on behalf of the deceased.

The Children & Young Peoples Service funds are to fund prizes, outings and activities and monies held on behalf of children in care.

23. Earmarked LMS Balances are as follows:

| | 31 March 2006 | 31 March 2007 |
|----------------------------|---------------|---------------|
| | £'000 | £'000 |
| Underspent school balances | 10,209 | 12,865 |
| Overspent school balances | (52) | (366) |
| | <u>10,157</u> | <u>12,499</u> |

24. Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, 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 and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2006/07 are as follows:

| | Central expenditure | Individual Schools' Budget | Unallocated | Total |
|-----------------------------------------------------------------------|---------------------|----------------------------|-------------|-----------|
| | £'000 | £'000 | £'000 | £'000 |
| DSG receivable | (20,891) | (125,175) | (1,005) | (147,071) |
| Actual expenditure | 18,327 | 123,963 | 0 | 142,290 |
| (Under)/overspend | (2,564) | (1,212) | (1,005) | (4,781) |
| Committed to LMS balances | | 1,212 | | 1,212 |
| Authority has a period of two years to spend (as per DSG regulations) | (2,564) | 0 | (1,005) | (3,569) |

25. Provisions:

| | Balance at 31 March 2006 | Receipts in year | Payments in year | Balance at 31 March 2007 |
|-----------------------|--------------------------|------------------|------------------|--------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| HB losses | 5,912 | 3,510 | (2) | 9,420 |
| S117 | 3,880 | 0 | 0 | 3,880 |
| Losses grant claims | 4,792 | 400 | (130) | 5,062 |
| Ebony Care | 800 | 0 | (800) | 0 |
| Dilapidations | 212 | 100 | 0 | 312 |
| Asylum Seekers | 300 | 0 | 0 | 300 |
| Contract terminations | 726 | 0 | (726) | 0 |
| Kerrin Point | 150 | 0 | 0 | 150 |
| Planning Appeals | 120 | 250 | (120) | 250 |
| Other | 618 | 200 | (238) | 580 |
| TOTAL | 17,510 | 4,460 | (2,016) | 19,954 |

The purpose of each provision is set out below:

HB losses – for potential losses in respect of previous housing benefits claims. It is anticipated that the extent of potential losses and their timing will be resolved in 2007/08.

S117 – for costs arising for repayments of client contributions under s117 of the Mental Health Act. The value and timing of costs attributable to this provision will be determined as and when claims by clients are assessed.

Losses on grant claims – for potential losses arising from the audit of the council's claims for specific government grants and housing benefit subsidy..

Ebony Care – for costs regarding an ongoing legal dispute with a provider of children's services.

Dilapidations – for likely charges in respect of the termination clauses on a property leased by the council.

Asylum Seekers – for specific risks associated with grant claims for asylum seekers' support costs.

Contract terminations – for likely losses arising from an ongoing legal dispute with former council contractors.

Kerrin Point – for legal costs arising from the explosion in this block of flats in 2001/02.

Planning Appeals – likely costs where planning decisions are reversed on appeal.

Other – miscellaneous amounts to cover assessed losses and probable unbilled charges.

26. Retirement Benefits

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

Teachers employed by the authority are members of the Teachers Pension Scheme, administered by the Teachers' Pension Agency. It 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 2006/07 the Council paid £8.3m to the TPA (£7.8m in 2005/06), representing 13.6% of pensionable pay (13.5% in 2005/06). Although, the

Teachers' Pension Scheme is a defined benefit scheme, due to it being impossible to identify the Council's share of the underlying liabilities in the scheme attributable to its own employees, it is accounted for on the same basis as a defined contribution scheme.

Non-teaching staff employed in schools belong to a Local Government Pension Scheme run by the London Pensions Fund Authority (LPFA). The Council made contributions of £0.49m in 2006/07 (£0.5m in 2005/06, 18.8%), equal to 21.7% of payroll, and a further contribution of £0.29m in respect of unfunded benefits. The net liabilities of the scheme are £16.598m, which thus becomes a component of the total Pensions Reserve. The equivalent figure for 31 March 2006 was £18.009m, which therefore becomes a prior period adjustment.

Other staff are eligible to join the Lambeth Pension Fund, which is a defined benefits scheme, meaning that the Council and employees pay contributions into the fund calculated at a level intended to balance the pension liabilities with the fund's assets. Under the projected unit method employed, the current service cost will increase as members approach retirement due to the age profile of the active membership rising.

The cost of retirement benefits in the Net Cost of Services is recognised when earned. However, the charge made against council tax is based on the cash payable in the year. The Income and Expenditure Account included the following transactions relating to the Lambeth Pension Fund:

| | 2005/06 | | 2006/07 | |
|--------------------------------------------------------|----------|--------------|----------|--------------|
| | £'000 | % of payroll | £'000 | % of payroll |
| Service cost | 16,600 | 17.0% | 23,200 | 21.6% |
| Past service costs | 500 | 0.5% | 0 | |
| Curtailment & settlements | 1,600 | 1.6% | 1,100 | 1.0% |
| Total net cost of services | 18,700 | 19.1% | 24,300 | 22.6% |
| Expected return on employer assets | (36,200) | 36.9% | (45,100) | 42.1% |
| Interest on Pension Scheme Liabilities | 49,100 | 50.0% | 52,600 | 49.1% |
| Net return | 12,900 | 13.1% | 7,500 | 7.0% |
| Net charge to Income and Expenditure Account | 31,600 | 32.2% | 31,800 | 29.6% |
| Movement on pensions reserve | (990) | | 764 | |
| Actual amount charged against council tax for pensions | 30,610 | | 32,564 | |

The Council's estimated share of assets and liabilities as at 31 March in its Pension Fund are as follows (this is extracted from the actuary's report so as to include information regarding assets and liabilities, and, based on the estimates used, arrives at a non-materially different net liability to that stated elsewhere; it should be noted that this arose from a late contribution to the pension fund that the actuary was unaware of and hence unable to incorporate into his estimates):-

| | 31 March 2006 | 31 March 2007 |
|---------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Present value of scheme liabilities | (971,100) | 960,600 |
| Present value of unfunded liabilities | (104,000) | 106,400 |
| Total liabilities | (1,075,100) | 1,067,000 |
| Estimated Assets | 666,100 | 716,300 |
| Net Liability | (409,000) | 350,700 |

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £366.163m (which is made up of two elements: that relating to the Lambeth Pension Fund, of approximately £350m, and that relating to the LPFA, of about £16m) has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the pensions' liability mean that the financial position of the Council remains healthy.

Liabilities have been valued by Hymans Robertson, an independent firm of actuaries, based upon their latest triennial valuation as at 31 March 2004. They have used the projected unit method with the following main assumptions as at 31 March:

| | 31 Mar 2006 | 31 Mar 2007 |
|------------------------------------------------------------|-------------|-------------|
| Price increases | 3.1% | 3.2% |
| Salary increases | 4.6% | 4.7% |
| Pension increases | 3.1% | 3.2% |
| Discount rate | 4.9% | 5.4% |
| Proportion of employees opting to take a commuted lump sum | 0% | 25% |

The expected returns on the Fund's assets attributable to the Council are:

| | Long-term return, 31 Mar 2006 % p.a. | Fair value as at 31/3/06 £'000 % of total | | Long-term return, 31 Mar 2007 % p.a. | Fair value as at 31/3/07 £'000 % of total | |
|----------|-----------------------------------------------|---------------------------------------------------|------|-----------------------------------------------|---------------------------------------------------|------|
| Equities | 7.4% | 496,200 | 74% | 7.8% | 527,600 | 74% |
| Bonds | 4.6% | 90,400 | 14% | 4.9% | 117,700 | 16% |
| Property | 5.5% | 51,600 | 8% | 5.8% | 57,700 | 8% |
| Cash | 4.6% | 27,900 | 4% | 4.9% | 13,300 | 2% |
| | 6.8% | 666,100 | 100% | 7.1% | 716,300 | 100% |

The movement in balances on the Pensions Reserve for both the Lambeth Pension Fund and Lambeth's share of the LPFA during the year are (the figures for the LPFA in the previous year are unavailable):

| | 31 March 2006 £'000 | 31 March 2007 £'000 | |
|----------------------------------------|------------------------|------------------------|------------------|
| | Lambeth | LPFA | Lambeth |
| Surplus/(Deficit) at Beginning of Year | (385,800) | (18,009) | (408,729) |
| Actuarial Gains/ (Losses) | (21,800) | 2,351 | 58,400 |
| Other Movements | (1,129) | (940) | 764 |
| Surplus/(Deficit) at End of Year | (408,729) | (16,598) | (349,565) |
| | (18,009) | | (16,598) |
| Total Pension Reserve | (426,738) | | (366,163) |

The actuarial gains and losses identified as movements in the Lambeth Pension Fund component of the Pensions Reserve for the last five years can be analysed as follows, the percentages referring to total assets or liabilities.

| | 2002/03 £000 % | | 2003/04 £000 % | | 2004/05 £000 % | | 2005/06 £000 % | | 2006/07 £000 % | |
|-----------------------------------------------------------------------------------|------------------------|------|------------------------|------|------------------------|------|------------------------|------|------------------------|-----|
| Differences between the expected and actual return on assets | (117,900) | 30.2 | 59,000 | 12.5 | 21,400 | 4.0 | 98,800 | 14.8 | 2,100 | 0.3 |
| Differences between actuarial assumptions about liabilities and actual experience | (69,300) | 10.2 | (15,000) | 2.1 | 61,500 | 7.5 | (2,300) | 0.2 | (5,700) | 0.5 |
| Changes in the demographic and financial assumptions used to estimate liabilities | 0 | | 0 | | (149,900) | 18.3 | (118,300) | 12.2 | 62,000 | 5.8 |
| Actuarial Gain/(Loss) recognised in STRGL | (187,200) | 25.2 | 44,000 | 5.6 | (67,000) | 7.3 | (21,800) | 2.0 | 58,400 | 5.5 |

Please refer to the accounting policies for further information regarding the impact of the change of discount rate on the actuarial gain/loss recognised.

27. Contingent liabilities – the Council has formed its own insurance mutual with 9 other London Boroughs – London Authorities Mutual Limited. The sum of £160,000 has been lodged with the lead authority, Croydon, and the Council has undertaken to provide a guarantee, or 'promise to pay' should an insurer go into liquidation. This comes into effect on 1/4/08 and is estimated to have a monetary value of £800,000 - £850,000. As the likelihood of a call on this sum is extremely low, the Council has not made a provision in its accounts for these costs.

28. Post Balance Sheet Events – There are no known post balance sheet events to date.

The Statement of Accounts was authorised for issue on 27 June 2007 by the Chief Financial Officer.

Note to the Cashflow Statement

1. Reconciliation of Net Deficit/(Surplus) to Cash Inflow from Revenue Activities:-

| | 2005/06 | | 2006/07 | |
|----------------------------------------------------|----------|-----------------|----------|------------------|
| | £'000 | £'000 | £'000 | £'000 |
| General Fund deficit/(surplus) | | (526) | | (10,991) |
| Collection Fund deficit/(surplus) | | (1,060) | | (760) |
| Housing Revenue Account deficit/(surplus) | | 7,430 | | 4,197 |
| Net surplus for the year | | 5,844 | | (7,554) |
| NON-CASH TRANSACTIONS AND OTHER ADJUSTMENTS | | | | |
| Minimum Revenue Provision | 2,913 | | (10,180) | |
| Transfers (to)/from reserves | (5,647) | | (3,783) | |
| Contribution (to)/from provisions | 32,255 | | (2,444) | |
| Other items | (49,999) | | (67,361) | |
| | | (20,478) | | (83,768) |
| MOVEMENTS IN WORKING CAPITAL | | | | |
| Increase/(decrease) in debtors | (10,285) | | 12,860 | |
| (Increase)/decrease in creditors | (20,698) | | (14,594) | |
| Increase/(decrease) in stocks | (6) | | (1) | |
| | | (30,989) | | (1,735) |
| OTHER MOVEMENTS | | | | |
| Capital expenditure financed from revenue | (3,964) | | (766) | |
| Deduct interest received | 9,401 | | 9,394 | |
| Add interest paid | (41,051) | | (41,502) | |
| | | (35,614) | | (32,874) |
| NET CASH INFLOW FROM REVENUE ACTIVITIES | | (81,237) | | (125,931) |

2. Analysis of Change in Debt

| | 31 March 2006 | Cash flows | 31 March 2007 |
|------------------------|------------------|---------------|------------------|
| 2006/07 | £'000 | £'000 | £'000 |
| Cash and bank | 43,048 | 39,579 | 82,627 |
| Cash overdrawn | (39,282) | (44,063) | (83,345) |
| Short-term borrowing | 0 | 0 | 0 |
| Long-term borrowing | (728,835) | 53,485 | (675,350) |
| Short-term investments | 249,509 | 12,376 | 261,885 |
| Net Debt | (475,560) | 61,377 | (414,183) |

| | 31 March 2005 | Cash flows | 31 March 2006 |
|------------------------|------------------|---------------|------------------|
| 2005/06 | £'000 | £'000 | £'000 |
| Cash and bank | 37,428 | 5,620 | 43,048 |
| Cash overdrawn | (59,582) | 20,300 | (39,282) |
| Short-term borrowing | 0 | 0 | 0 |
| Long-term borrowing | (702,080) | (26,755) | (728,835) |
| Short-term investments | 203,641 | 45,868 | 249,509 |
| Net Debt | (520,593) | 45,033 | (475,560) |

3. A reconciliation of the items shown within the financing and management of liquid resources sections of the Cash Flow Statement to the related items in the opening and closing Balance Sheets for the period.

Financing and Management of Liquid Resources—reconciliation with opening and closing balance sheets

| | Long-term borrowing £'000 | Short-term borrowing £'000 | Short-term investments £'000 |
|---------------------------------|---------------------------------|----------------------------------|------------------------------------|
| Balance at 1 April 2006 | (728,835) | 0 | 249,509 |
| Repayments of amounts borrowed | 53,485 | 0 | 0 |
| New loans raised | 0 | 0 | 0 |
| Short-term investments made | 0 | 0 | 1,097,891 |
| Short-term investments realised | 0 | 0 | (1,085,515) |
| Balance at 31 March 2007 | (675,350) | 0 | 261,885 |
| 2005/06 | | | |
| Balance at 1 April 2005 | (702,080) | 0 | 203,641 |
| Repayments of amounts borrowed | 19,238 | 5,517 | 0 |
| New loans raised | (45,993) | (5,517) | 0 |
| Short-term investments made | 0 | 0 | 1,544,768 |
| Short-term investments realised | 0 | 0 | (1,498,900) |
| Balance at 31 March 2006 | (728,835) | 0 | 249,509 |

The Authority's Liquid Resources are short-term investments (up to 364 days) of cash which is surplus to immediate requirements.

4. Analysis of government grants shown in the Cash Flow Statement.

Analysis of other Revenue Government Grants

| | 2005/06 £'000 | 2006/07 £'000 |
|-----------------------------------------------------|------------------|------------------|
| Children's Fund | 1,535 | 1,083 |
| Children's Services | 0 | 2,032 |
| Clapham Park NDC | 6,609 | 3,997 |
| Connected Learning Project PFI | 1,526 | 1,744 |
| Connexions | 1,231 | 1,549 |
| Council Tax Benefit | 25,308 | 0 |
| Dedicated Schools' Grant | 0 | 147,071 |
| Dept of Health—Access and System Capacity | 3,301 | 3,086 |
| Dept of Health—Unaccompanied Asylum Seeker Children | 2,328 | 0 |
| Dept of Health—CAMHS Mental Health Grant | 1,460 | 1,489 |
| Dept of Health—Carer's Special Grant | 1,724 | 1,677 |
| Dept of Health—Mental Health | 1,442 | 1,403 |
| Dept of Health—Preserved Rights | 3,563 | 3,140 |
| Dept of Health—Residential Allowance | 1,487 | 0 |
| Dept of Health—Unaccompanied Children | 6,294 | 2,683 |
| Early Years Development | 3,812 | 0 |
| Education Maintenance Allowance | 39 | 0 |
| Housing Act 1989 | 36,864 | 29,958 |
| Homelessness Strategy Grant | 2,550 | 2,015 |
| Learning Skills Council 6 th Form | 6,923 | 4,371 |
| Learning Skills Council Adult & Community Learning | 0 | 2,529 |
| Lilian Baylis PFI Project | 1,931 | 1,931 |
| National Training Strategy Development | 0 | 1,041 |
| Neighbourhood Renewal | 4,143 | 4,143 |
| Private Finance Initiative Grant | 3,398 | 3,398 |
| Safeguarding Children | 1,798 | 0 |
| Schools Standard Grant | 3,557 | 3,809 |
| Schools Standard Grant—personalisation | 0 | 1,182 |
| Single Regeneration Budget | 1,115 | 0 |
| Standards Fund | 14,767 | 19,762 |
| Street Lighting PFI | 0 | 1,388 |
| Supporting People | 17,505 | 20,984 |
| Sure Start | 534 | 12,830 |
| Other grants under £1m | 16,711 | 13,788 |
| | 173,455 | 294,083 |

Only grants in excess of £1m are disclosed separately

5. Analysis of Capital Government Grants :

| | 2005/06 | 2006/07 |
|--------------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Clapham Park NDC | 5,747 | 8,938 |
| EYCP – Children's Centres | 2,255 | 0 |
| Local Performance Service Agreement Reward | 0 | 2,292 |
| Single Regeneration Budget | 2,283 | 0 |
| Standards Fund | 9,156 | 12,278 |
| Sure Start | 0 | 4,362 |
| Transport For London Schemes | 7,051 | 8,136 |
| Waterloo | 0 | 1,975 |
| Other grants under £1m | 5,294 | 4,797 |
| | 31,786 | 42,778 |

Only grants in excess of £1m are disclosed separately

HRA INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) is a statutory statement, which summarises the transactions relating to the provision, maintenance and management of the Council's housing stock. The Local Government and Housing Act 1989 required the ring fencing of the Account with effect from 1 April 1990, thereby prohibiting cross subsidy between the HRA and the General Fund. The Government introduced a new prescribed format for the HRA with effect from 1 April 2001. As of the 2006 SORP, the statutory HRA is now being split into two statements: the HRA Income and Expenditure Account, which is UK GAAP compliant, and the Statement of the Movement on the HRA Balance.

| | 2005/06 | 2006/07 |
|------------------------------------------------------------------------------|------------|-----------|
| | £'000 | £'000 |
| Income | | |
| Dwelling rents | (110,127) | (108,235) |
| Non- dwelling rents | (3,236) | (3,090) |
| Charges for services and facilities | (11,023) | (12,275) |
| HRA subsidy receivable | 8 (35,734) | (27,079) |
| Reduction in Provision for Bad or Doubtful Debts | (449) | 0 |
| | (160,569) | (150,679) |
| Expenditure | | |
| Repairs and maintenance | 41,228 | 38,202 |
| Supervision and management | 63,273 | 54,989 |
| Rents, rates, taxes and other charges | 5,835 | 7,245 |
| Depreciation of fixed assets | 7 37,034 | 31,968 |
| Impairment | 7 0 | 375 |
| Debt management expenses | 160 | 93 |
| Increase in bad debt provision | 0 | 3,310 |
| | 147,530 | 136,182 |
| Net cost of HRA services per Authority Income and Expenditure Account | (13,039) | (14,497) |
| HRA share of Corporate and Democratic Core | 1,000 | 776 |
| Net cost of HRA services | (12,039) | (13,721) |
| Interest payable and similar charges | 25,444 | 24,153 |
| Amortised premiums and discounts | 6,368 | 15,423 |
| Notional Gain on disposal | 0 | (21,379) |
| Overhanging debt grant | 0 | (7,397) |
| Interest and investment income | (88) | (739) |
| Pensions interest cost & return on assets | 3,049 | 1,266 |
| Deficit for the year on HRA services | 22,734 | (2,394) |

STATEMENT OF MOVEMENT ON THE HRA BALANCE

| | 2005/06 | 2006/07 |
|-----------------------------------------------------------------------------|----------|---------|
| | £'000 | £'000 |
| Deficit for the year on the HRA Income and Expenditure | 22,734 | (2,394) |
| Net additional amount required by statute to be credited to the HRA balance | (15,304) | 6,591 |
| Decrease in the HRA Balance | 7,430 | 4,197 |
| HRA (surplus)/deficit brought forward | (9,665) | (2,235) |
| HRA (surplus)/deficit carried forward | (2,235) | 1,962 |

NOTES TO THE HOUSING REVENUE ACCOUNT

1 Analysis of the movement on the HRA balance:

| | 2005/06 £'000 | 2006/07 £'000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Difference between amounts charged to Income and Expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute | 0 | (6,314) |
| Net contribution to Insurance Fund | 0 | 907 |
| Net charges made for retirement benefits in accordance with FRS 17 | (6,969) | (5,181) |
| Items not included in the HRA Income and Expenditure Account but included in the Movement on HRA Balances for the year | | |
| Transfer from Major Repairs Reserve | (12,564) | (8,443) |
| Notional gain on disposal | 0 | 21,379 |
| Employer's contributions payable to the Lambeth Pension Fund and retirement benefit payable direct to pensioners | 4,229 | 4,618 |
| Reversal of impairment | 0 | (375) |
| Net additional amount required by statute to be credited to the HRA Balances for the year | (15,304) | 6,591 |

2 Housing stock

The authority was responsible for managing a Housing Revenue Account stock of 27,189 properties as at 31 March 2007 compared with a total of 29,957 properties as at 31 March 2006.

| | 31 March 2006 | 31 March 2007 |
|------------------|---------------|---------------|
| Flats | 25,492 | 22,881 |
| Houses | 4,294 | 4,141 |
| Multi-occupied | 170 | 166 |
| Shared ownership | 1 | 1 |
| Total | 29,957 | 27,189 |

3 HRA assets

| | 1 April 2006 £'000 | 31 March 2007 £'000 |
|-----------------------------------|-----------------------|------------------------|
| Operational properties | | |
| Dwellings | 1,542,700 | 1,675,353 |
| Other properties | 27,707 | 29,796 |
| Sub-total | 1,570,407 | 1,705,149 |
| Non-operational properties | | |
| Commercial properties | 42,525 | 40,614 |
| TOTAL | 1,612,932 | 1,745,763 |

4 Vacant Possession Value

The vacant possession value of dwellings within the HRA at 1 April 2006 was £5.03 billion. The difference between this value and the balance sheet value represents the economic cost of providing subsidised housing.

5 Major repairs reserve

The movement on the reserve during 2006/07 is shown below

| | 2005/06 £'000 | 2006/07 £'000 |
|--------------------------------------------|------------------|------------------|
| Balance brought forward | 0 | 4,810 |
| Transfer from HRA equal to depreciation | 37,034 | 31,968 |
| Transfer to HRA | (12,565) | (8,443) |
| Capital expenditure charged to the reserve | (19,658) | (14,098) |
| | 4,811 | 14,237 |

6 Capital expenditure, financing and receipts

| | 2005/06 £'000 | 2006/07 £'000 |
|-----------------------------------------|------------------|------------------|
| HRA capital expenditure | | |
| Works to dwellings | 40,606 | 37,904 |
| Works to non-dwellings | 0 | 7,469 |
| | <u>40,606</u> | <u>45,373</u> |
| Financing of capital expenditure | | |
| Borrowing | 12,493 | 8,689 |
| Usable Capital Receipts | 7,209 | 22,055 |
| Major Repairs Reserve | 19,658 | 14,098 |
| Grants | 1,246 | 531 |
| Total | <u>40,606</u> | <u>45,373</u> |

| | 2005/06 £'000 | 2006/07 £'000 |
|-------------------------|------------------|------------------|
| Capital Receipts | | |
| Dwellings | 29,757 | 23,429 |
| Other properties | 19,936 | 6,276 |
| Total | <u>49,693</u> | <u>29,705</u> |

7 Depreciation and impairment

| | 2005/06 £'000 | 2006/07 £'000 |
|------------------------------------------|------------------|------------------|
| Depreciation charged for the year | | |
| Operational assets | 35,592 | 30,459 |
| Non-operational assets | 1,442 | 1,509 |
| Impairment | 0 | 375 |
| Total | <u>37,034</u> | <u>32,343</u> |

8 Housing Revenue Account subsidy

| | 2005/06 £'000 | 2006/07 £'000 |
|-------------------------------|------------------|------------------|
| Major repairs allowance | 24,469 | 23,525 |
| Housing element | 14,205 | 3,554 |
| Subsidy due for the year | 38,674 | 27,079 |
| Subsidy limitation adjustment | (2,940) | 0 |
| Subsidy receivable | <u>35,734</u> | <u>27,079</u> |

9 Rent arrears

The rent arrears shown below relate to charges due from tenants including those in temporary accommodation and represent an increase of 12.77%. Bad debt of £3.985m was written off during the year.

| | 2005/06 £'000 | 2006/07 £'000 |
|---------------------------|------------------|------------------|
| Arrears as at 31 March | 24,390 | 21,288 |
| Provision for bad debts | (13,443) | (10,929) |
| Collectable amount | <u>10,947</u> | <u>10,359</u> |

10 Early redemption of debt

The Council transferred some of its housing stock to Housing Associations during 2006/07. As well as repaying £53,486k of the Council's debt as a result, £11,009k (net) of premiums and discounts paid for the early redemption of these loans was reimbursed by the Government. £7,316k (net) is chargeable to the HRA and matched by grant. In addition £7,392k of premiums held on the balance sheet at 31 March 2006 have been amortised to the HRA Income and Expenditure account in accordance with the Council's accounting policies. Regulations require that only £2,590k is charged to the HRA balance, so £4,802k has been credited to the Statement of Movement on the HRA Balance.

11 Large Scale Voluntary Transfers

The Council undertook two Large Scale Voluntary Transfers (LSVTs) during 2006/07, following a resolution of the Council and a subsequent ballot of its then tenants. The financial implications of all transactions relating to this transfer are included throughout this Statement of Accounts.

On 27 June 2006, the Council effected a transfer of 1,409 dwellings for the estate known as Clapham Park to Clapham Park Homes Limited, a community-based subsidiary company of the Metropolitan Housing Trust Limited and the valuation of Council Dwellings was amended to reflect the Tenanted Market Value expected to be received at the time of transfer. This was calculated at a negative value of £298,068 reflecting the work required to bring the dwellings up to an acceptable standard. As a result the dwellings were transferred for a nil consideration. On 26th March 2007, the Council effected a further transfer of 1,025 dwellings for the estate known as Robsart and Stockwell Park to Community Trust Housing, a community-led subsidiary of Network Housing Group Limited, and the valuation of Council Dwellings was amended to reflect the Tenanted Market Value expected to be received at the time of transfer. This was calculated at a negative value of £5,251,556 reflecting the work required to bring the dwellings up to an acceptable standard. As a result the dwellings were transferred for a nil consideration.

The Government Grants Deferred Account showed a balance of £21.3m relating to Estate Action funding provided for Stockwell Park. As the estate has been disposed of, a notional 'gain' for this sum has been credited to the Housing Revenue Account. To ensure there is no impact on the bottom line, the sum has been reversed out to the Capital Financing Account as part of the Statement of Movement on the HRA Balance.

Each transfer process involved a special VAT shelter set-off arrangement agreed by both parties with HM Revenue and Customs whereby the related input VAT (£9.36m and £7.59m respectively) accounted for by the Council on each occasion was matched centrally by HMRC against the corresponding output VAT that was accounted for by each of the transferee companies.

Seven staff were transferred under TUPE arrangements to Clapham Park Homes Limited (CPHL), and one to Metropolitan Housing Trust Limited (MHTL) (parent company to CPHL) as a result of the Clapham Park transfer. The staff remain within the Council's Pension Scheme but CPHL and MHTL meet future employers contributions and any changes as a result of actuarial revaluations. As there are only eight employees affected, it was considered neither economically viable nor sufficiently material to justify the cost of providing separate actuarial valuation reports in respect of this transfer.

COLLECTION FUND

| | | 31 March 2006 | | 31 March 2007 | |
|--------------------------------------------------------|------|---------------|----------------|---------------|----------------|
| | Note | £'000 | £'000 | £'000 | £'000 |
| INCOME | | | | | |
| Council Tax | 1 | | 89,798 | | 93,837 |
| National Non-Domestic Rates | 2 | | 71,298 | | 78,076 |
| Transfers from the General Fund | | | 21,116 | | 24,675 |
| | | | <u>182,212</u> | | <u>196,588</u> |
| EXPENDITURE | | | | | |
| Precepts and Demands | | | | | |
| Greater London Authority | | 24,764 | | 28,552 | |
| London Borough of Lambeth | | <u>81,839</u> | | <u>83,245</u> | |
| | | | 106,603 | | 111,797 |
| National Non-Domestic Rates | | | | | |
| Payment to National Pool | | 70,796 | | 77,577 | |
| Cost of Collection Allowance | | <u>502</u> | | <u>499</u> | |
| | | | 71,298 | | 78,076 |
| Provision for bad and doubtful debts | | | 3,298 | | 3,458 |
| Transfer to General Fund in respect of prior year | | | | | |
| Estimated Council Tax Surplus | 3 | | 0 | | 1,681 |
| Payments to preceptors re prior year estimated surplus | | | | | |
| Greater London Authority | 3 | | 0 | | 509 |
| Adjustment – Community Charge | 4 | | (47) | | 307 |
| | | | <u>181,152</u> | | <u>195,828</u> |
| SURPLUS/(DEFICIT) FOR THE YEAR | | | <u>1,060</u> | | <u>760</u> |
| MOVEMENT ON FUND BALANCE | | | | | |
| Surplus/(deficit) brought forward 1 April | | | 6,559 | | 7,619 |
| Movement for the year | | | | | |
| Council Tax | | 1,013 | | 1,067 | |
| Community Charge | | <u>47</u> | | <u>(307)</u> | |
| | | | 1,060 | | 760 |
| Surplus balance carried forward 31 March | | | <u>7,619</u> | | <u>8,379</u> |

Notes to the Collection Fund

1. Under the arrangements for **Council Tax**, each domestic property within the Council's area was assigned to one of eight valuation bands based on the estimated market value at 1 April 1991. The total number of dwellings in each band is then adjusted to account for discounts, exemptions and other expected movements in the year. The Council Tax is set for band D properties and the tax for other bands calculated as a proportion of the band D tax. For the year ended 31 March 2007, the band D Council Tax was set at £1,129.95 based upon a tax base of 98,931 (for 2005/06, £1,095.96 based upon a tax base of 97,263) and included the £288.61 requirement of the Greater London Authority (£254.62 in 2005/06).

The table below shows the calculation of the Council Tax Base for 2006/07.

| Valuation Band | Total no. of dwellings on valuation list | Total equivalent dwellings after adjustments | Ratio to Band D | Band D equivalents |
|----------------|------------------------------------------|-----------------------------------------------------------|-----------------|--------------------|
| A | 4,655 | 3,756 | 6/9 | 2,504 |
| B | 31,864 | 25,854 | 7/9 | 20,109 |
| C | 35,834 | 30,302 | 8/9 | 26,934 |
| D | 25,804 | 22,479 | 1 | 22,479 |
| E | 12,800 | 11,442 | 11/9 | 13,985 |
| F | 8,597 | 7,733 | 13/9 | 11,170 |
| G | 5,251 | 4,783 | 15/9 | 7,972 |
| H | 576 | 497 | 18/9 | 993 |
| TOTALS | 125,381 | 106,846 | | 106,146 |
| | | Adjustment for expected movements in property base | | (2,008) |
| | | | | 104,138 |
| | | Adjustment for collection rate | | (5,207) |
| | | Tax base for Council Tax purposes | | 98,931 |

2. **National Non-Domestic Rates** are organised on a national basis. Central Government specifies an amount, 43.3p in 2006/07 (42.2p in 2005/06) and 42.6p for small business rate-relief (41.5p in 2005/06). Subject to the effects of transitional arrangements local businesses pay rates which are calculated by multiplying their rateable value by this amount.

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

The NNDR income shown in the account for 2006/07 is based upon a total rateable value for the Council's area of £232.51m at 31 March 2007 (£238.845m at 31 March 2006).

3. Collection Fund Surpluses and Deficits

The regulations state that an estimate of the balance on the Collection Fund at the year-end must be made on the 15 January preceding that year-end. Any calculated surplus or deficit on the Collection Fund in respect of Council Tax is required to be made good in the following year by contributions to or from the Council's General Fund and from or to the Greater London Authority in proportion to the level of demand each makes on the Fund. Any surplus or deficit in respect of Community Charges is fully attributable to the London Borough of Lambeth in subsequent years.

4. Adjustments in Respect of Community Charges

Although Council Tax replaced Community Charge from 1 April 1993, the Council continues to account for residual adjustments in relation to the Community Charge raised in earlier years in the Collection Fund. The amount shown in the 2006/07 account in respect of Community Charge adjustments is made up as follows:

| | 2005/06 | | 2006/07 | |
|-----------------------------------------------------|---------|-------|---------|-------|
| | £'000 | £'000 | £'000 | £'000 |
| Reduction/(increase) in Community Charge receivable | | (7) | | 0 |
| Transfers (to)/from the Collection Fund | | | | |
| Community Charge Benefits | 7 | | 0 | |
| Transitional relief | 0 | | 0 | |
| Community Charge transfer | 0 | | 0 | |
| | | 7 | | 0 |
| Increase/(Reduction) in provision for bad debts | | (47) | | 307 |
| Net Community Charge adjustments | | (47) | | 307 |

PENSION FUND

| REVENUE ACCOUNT | Note | 2005/06 £'000 | 2006/07 £'000 |
|-------------------------------------------------------------------|------|------------------|------------------|
| CONTRIBUTIONS AND BENEFITS | | | |
| Contributions receivable | | | |
| From employers | 4 | 26,496 | 28,178 |
| From employees | 5 | 6,162 | 6,744 |
| From employees transferring from other pension funds | | 7,763 | 3,555 |
| Income re equivalent contribution scheme | | 16 | 15 |
| Benefits payable: | 5 | | |
| Pension payments | | (26,782) | (27,591) |
| Lump sum payments due when people retire | | (2,676) | (2,570) |
| Payments to and on account of leavers | | | |
| Refunds to employees who leave the scheme | | (64) | (29) |
| Payments where employees transfer to other funds | | (7,373) | (4,524) |
| Payments re Equivalent Contribution Scheme | | (48) | (12) |
| Administrative and other expenses borne by the scheme | | (674) | (489) |
| Net (withdrawals) / investments from dealings with members | | <u>2,820</u> | <u>3,276</u> |
| | | | |
| Returns on investments | | | |
| Income earned on investments | 6 | 19,101 | 21,804 |
| Unrealised Profit on Transition | | | (6,171) |
| Change in market value of investments (realised/unrealised) | | 125,428 | 32,129 |
| Investment management expenses | | (1,539) | (1,862) |
| Net return on investments | | <u>142,990</u> | <u>45,900</u> |
| | | | |
| Net increase/(decrease) in the fund during the year | | 145,810 | 49,176 |
| Opening net assets of the scheme | | 532,675 | 678,485 |
| Closing net assets of the scheme | | <u>678,485</u> | <u>727,662</u> |

| NET ASSETS STATEMENT | Valuation Basis | 2005/06 £'000 | 2006/07 £'000 |
|-----------------------------------------------------|-----------------|------------------|------------------|
| Market value of investments | | | |
| Fixed interest investments—UK | Market Value | 55,426 | 65,095 |
| Fixed interest investments—overseas | Market Value | 31,811 | 32,871 |
| UK equities (shares) | Market Value | 297,465 | 244,362 |
| Overseas equities (shares) | Market Value | 213,465 | 279,413 |
| Index-linked investments (inflation-proof)—UK | Market Value | 14,770 | 15,051 |
| Index-linked investments (inflation-proof)—overseas | Market Value | 0 | 0 |
| UK unit trusts | Market Value | 6,425 | 13,554 |
| UK unit trusts—property | Market Value | 53,435 | 59,616 |
| Overseas unit trusts | Market Value | 0 | 0 |
| UK cash investments | Market Value | 45 | 229 |
| Overseas cash investments | Market Value | 0 | 0 |
| Adams Street Private Equity | Market Value | 963 | 3,938 |
| UK venture capital funds | Market Value | 1,353 | 1,769 |
| F&C Exempt Ethical UK Equity Trust | Market Value | 2,250 | 0 |
| | | <u>677,408</u> | <u>715,898</u> |
| Current assets/liabilities | | | |
| Debtors | | | |
| Investment income accrued | | 3,988 | 3,272 |
| Inland Revenue—tax claims | | 116 | 54 |
| Futures | | 42 | 912 |
| Forward Contracts | | 3 | 14,742 |
| Sales settlements | | 2,113 | 0 |
| Fund Managers—cash balance | | 13,530 | 24,091 |
| Creditors | | | |
| Futures | | | (890) |
| Forward Contracts | | 0 | (14,534) |
| Inland Revenue—refunds | | (14) | (15) |
| Purchases settlements | | (2,175) | 0 |
| General Fund—temporary borrowing | | (16,526) | (15,868) |
| Net assets at 31 March | | <u>678,485</u> | <u>727,662</u> |

Notes to the Pension Fund

1. Operation and Membership of the Fund

The London Borough of Lambeth Pension Fund is run in accordance with the Local Government Pension Regulations 1998 and the subsequent revised legislations and is for the benefit of Council employees and also employees of outside organisations, who have entered into an agreement with Lambeth for pension purposes. At 31 March 2007, 4589 employees paid contributions to the fund (4471 at 31 March 2006), 5,954 pensioners were paid by the fund (5,958 at 31 March 2006). As at 31 March 2007, outside bodies who had entered into agreement with Lambeth for pension were Age Concern Lambeth, Hyde Housing Association, Stockwell Park EMB, Thorlands Action Group Ltd, Excelcare Holdings plc, St. Martins Community Partnership, Blenheim Gardens RMO, Metra Housing Co-operative, Research Machines plc, Clapham Park Homes, Metropolitan Housing Trust and Wellington Mills Housing Co-op.

The Pension Regulations specify which employees are eligible for membership and the service that is reckonable for benefit purposes. They also set out various rules for payment of contributions, calculation of benefits and refunds, as well as arrangements for the transfer values to and from other funds and schemes. With the passing of the Social Security Act 1986, the compulsory requirement for membership was removed and employees now have the right to choose whether or not to be members.

Under current legislation, pension contributions qualify for full tax relief. The Fund is also contracted out of the Government State Earnings Related Additional Pension Scheme, the effect of which is to slightly reduce the National Insurance Contributions paid by members of the Fund (except women still paying the reduced rate). The compulsory retirement age for both male and female contributors is 65, however, earlier retirement with payment of benefits can be made under certain circumstances.

The investment portfolio is managed by fund managers under the Statement of Investment Principles laid down by the Council.

2. Accounting Policies

The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy. They also comply with the Statements of Standard Accounting Practice, the Statement of Recommended Practice (SORP1) and the Financial Reporting Standards (FRS17) as applicable to local authorities.

In general, the Revenue Account shows contributions and benefits and returns on investments, with amounts due to and from the Fund being included in the year of account irrespective of whether cash has been received or paid. However, in accordance with the Code of Practice, no accruals have been made in respect of transfer values payable or receivable. Neither do they take account of liabilities to pay pensions and other benefits after the accounting period end.

Administration expenses are based on actual spending for the year for the Pension administration and investment management departments.

Foreign currencies and assets held in overseas companies/properties are translated using prevailing rates of exchange at the balance sheet date.

Under the Pensions (Increase) Acts, from 1 April 1990, pension increase payments (indexing of pension payments) are to be met from the Pension Fund. Prior to this they were met from the Council's General Fund.

3. Actuarial Valuation

The scheme is a funded, defined benefits scheme.

The fund's assets and liabilities are valued by an external actuary every three years. The last completed valuation was carried out by Hymans Robertson & Co. as at 31 March 2004. The most recent valuation was undertaken as at 31 March 2007, but the figures were not available for inclusion in this Statement.

The valuation method used was the Projected Unit Method. The following financial assumptions formed the basis of the valuation:

- Investment rate of return at 6.70% per annum for equities and 4.90% per annum for bonds;
- Rate of future pension increases at 2.9% per annum; and
- Rate of future pay increases at 4.40% per annum.

At 31 March 2004, the scheme's assets were £482.9 million, detailed in the Net Asset Statement, and the actuarial value of the assets was sufficient to cover 71% of the benefits that had accrued to members, after allowing for expected future increases in earnings. In order to achieve 100% coverage by the end of the average expected working lifetime of the current contributors, an employer's contribution rate of 12.6% per annum of payroll, plus an additional £11.9 million (increasing each year at 4.4% p.a.), based on the assumption that the deficit is funded over 20 years.

In order to comply with the actuarial findings and address the shortfall the authority has undertaken to implement the recommended contribution as from the 2005/06 financial year.

4. Contributions from Employers

| | 2005/06 £'000 | 2006/07 £'000 |
|----------------|------------------|------------------|
| From employers | 14,596 | 15,778 |
| Backfunding | 11,900 | 12,400 |
| | 26,496 | 28,178 |

In 2006/07, the contribution rate payable by the Council was 12%, the past service adjustment was set at a monetary amount of £12.4m increasing in line with RPI (based on the assumption that the deficit is funded over 20 years).

5. Total Contributions Received and Paid

| | Administering Body (Lambeth), £'000 | | Admitted Bodies, £'000 | |
|------------------------|-------------------------------------|---------|------------------------|---------|
| | 2005/06 | 2006/07 | 2005/06 | 2006/07 |
| Contributions received | 24,657 | 34,492 | 1,839 | 430 |
| Benefits paid | 29,456 | 30,075 | 37 | 86 |

6. Investment Income

| | 2005/06 £'000 | 2006/07 £'000 |
|-----------|------------------|------------------|
| Interest | 1,788 | 2,938 |
| Dividends | 17,313 | 20,928 |
| Taxation | 0 | (2,062) |
| | 19,101 | 21,804 |

7. Management of the Fund

Initially, the book cost of £300.00m was divided equally between Deutsche Asset Management (DeAM) and UBS Asset Management (UBS). As a result of an Asset/Liability study, it was decided to restructure the fund and appoint additional fund managers, Majedie Asset Management and Aberdeen Global Equity were appointed during the year and the portfolios were funded in March 2007. As at 31st March 2007, the total market value of the investments of the Fund was £715.9 million (£677.4 million at 31st March 2006), of which 8.4% was managed by Aberdeen, 42.1% by UBS, 9.4% by Aberdeen Global Equity, 7.8% by Majedie Asset Management and 27.2% by AllianceBernstein. Various other managers invest the remainder in Venture Capital Funds and Property including an investment of £3.9 million made in Private Equities with Adams Street Partners. Also the funds investments in the F&C ethical funds were sold during the year. The table below shows the breakdown of the investments at market value between the managers.

| | Aberdeen £'000 | Aberdeen Global £'000 | UBS £'000 | AB £'000 | Majedie £'000 | REEF £'000 | Others £'000 | TOTAL £'000 | % of Fund |
|-----------------------------|-------------------|-----------------------------|----------------|----------------|------------------|---------------|-----------------|----------------|-----------------|
| UK Equities | 10 | 10,731 | 110,288 | 73,581 | 49,752 | 0 | 0 | 244,362 | 34.13 |
| UK Unit Trusts | 0 | 0 | 7,520 | 0 | 6,034 | 0 | 0 | 13,554 | 1.89 |
| UK Unit Trusts- property | 0 | 0 | 27,908 | 0 | 0 | 31,708 | | 59,616 | 8.33 |
| Overseas Equities | 0 | 56,709 | 103,108 | 119,597 | 0 | 0 | 0 | 279,413 | 39.03 |
| UK Fixed Interest | 41,194 | 0 | 23,901 | 0 | 0 | 0 | 0 | 65,095 | 9.09 |
| UK Index Linked | 7,953 | 0 | 7,098 | 0 | 0 | 0 | 0 | 15,051 | 2.10 |
| Overseas Fixed Interest | 10,813 | 0 | 22,058 | 0 | 0 | 0 | 0 | 32,871 | 4.59 |
| UK Cash | 0 | 0 | 0 | 229 | 0 | 0 | 0 | 229 | 0.03 |
| Investments Adams Street | 0 | 0 | 0 | 0 | 0 | 0 | 3,938 | 3,938 | 0.55 |
| Private Equity | 0 | 0 | 0 | 0 | 0 | 0 | 1,769 | 1,769 | 0.25 |
| UK venture capital funds | | | | | | | | | |
| TOTAL | 59,970 | 67,439 | 301,881 | 193,407 | 55,785 | 31,708 | 5,707 | 715,898 | 100.0 |

8. Investments

The following is a detailed breakdown of the investments held by the Pension Fund (excluding cash) at the end of 2005/06 and 2006/07:

| | 2005/06 £'000 | 2006/07 £'000 |
|--------------------------------------|------------------|------------------|
| UK EQUITIES | | |
| Resources | | |
| Mining | 8,782 | 8,089 |
| Oil & Gas | 37,824 | 31,870 |
| Basic Industries | | |
| Chemicals | 4,490 | 508 |
| Construction and building materials | 6,769 | 8,019 |
| Diversified industrials | 0 | 1,692 |
| Forestry and paper | 2,870 | 328 |
| Steel & other metals | 1,549 | 1,520 |
| General Industrials | | |
| Aerospace and defence | 2,225 | 1,929 |
| Electronic and electrical equipment | 1,968 | 2,919 |
| Engineering and machinery | 2,582 | 2,074 |
| Cyclical Consumer Goods | | |
| Automobiles and parts | 1,310 | 242 |
| Household goods and textiles | 0 | 1,118 |
| Non-Cyclical Consumer Goods | | |
| Beverages | 9,293 | 5,503 |
| Food producers and processors | 4,884 | 3,405 |
| Health | 0 | 1,173 |
| Packaging | 0 | 0 |
| Pharmaceuticals | 16,236 | 13,078 |
| Personal care and household products | 928 | 7,914 |
| Tobacco | 15,741 | 7,266 |
| Cyclical Services | | |
| General retailers | 13,102 | 5,150 |
| Leisure, entertainment and hotels | 9,427 | 6,165 |
| Media and photography | 6,240 | 10,555 |
| Support services | 4,875 | 6,415 |
| Transport | 3,597 | 1,601 |
| Non-Cyclical Services | | |
| Food and drug retail | 7,279 | 10,627 |
| Telecommunication services | 21,207 | 16,152 |
| Utilities | | |
| Electricity | 0 | 4,701 |
| Gas distribution | 6,343 | 6,509 |
| Water | 7,461 | 0 |
| Financials | | |
| Banks | 55,807 | 46,558 |
| Insurance | 4,680 | 8,503 |
| Life assurance | 16,611 | 9,756 |
| Investment companies | 10,096 | 0 |
| Real estate | 4,394 | 3,049 |
| Special and other finance | 6,385 | 6,472 |
| Information Technology | | |
| Information technology hardware | 127 | 120 |
| Software and computer services | 2,383 | 3,382 |
| Total UK Equities | 297,465 | 244,362 |
| UK UNIT TRUSTS | | |
| Small companies | 6,425 | 13,554 |
| Total UK Unit Trusts | 6,425 | 13,554 |
| OVERSEAS EQUITIES | | |
| United States | 70,964 | 103,397 |
| Japan | 29,516 | 39,212 |
| Europe | 64,940 | 81,843 |

| | | | |
|----------------------------------------|--------|----------------|----------------|
| Pacific Region | 16,780 | | 18,524 |
| Developing markets | 31,265 | | 36,437 |
| Total Overseas Equities | | 213,465 | 279,413 |
| OVERSEAS UNIT TRUSTS | | | |
| United States | 0 | | 0 |
| Japan | 0 | | 0 |
| Europe | 0 | | 0 |
| Pacific Region | 0 | | 0 |
| Developing markets | 0 | | 0 |
| Total Overseas Unit Trusts | | 0 | 0 |
| UK INDEX LINKED | | 14,770 | 15,051 |
| OVERSEAS INDEX LINKED | | 0 | 0 |
| UK FIXED INTEREST | | 55,426 | 65,095 |
| UK UNIT TRUSTS—PROPERTY | | 53,435 | 59,616 |
| OVERSEAS FIXED INTEREST | | 31,811 | 32,871 |
| UK CASH INVESTMENTS | | 45 | 229 |
| OVERSEAS CASH INVESTMENTS | | 0 | 0 |
| ADAMS STREET PRIVATE EQUITY | | 963 | 3,938 |
| UK VENTURE CAPITAL FUNDS | | 1,353 | 1,769 |
| F&C ETHICAL UK EQUITY TRUST | | 2,250 | 0 |
| TOTAL VALUE OF INVESTMENTS | | 677,408 | 715,898 |

During the year the Fund purchased investments totalling £297.5 million (2005/06 - £227.3 million) and sold investments to the value of £286.5 million (2005/06 - £210.5 million). The realised profit amounted to £56.6 million (2005/06 - £21.5 million)

As at 31 March 2007, the Fund's 20 largest investments were:

| | £'000 | % of Fund |
|---------------------------------------------|----------------|--------------|
| 1 UBS Triton Property Unit Trust | 27,085 | 3.78 |
| 2 RREEF UK Core PRP A UK Core Property Fund | 26,985 | 3.77 |
| 3 Aberdeen FXD INC Long Dated STG | 20,456 | 2.86 |
| 4 British Petroleum Ordinary US\$0.25 | 18,027 | 2.52 |
| 5 Vodafone Group | 14,339 | 2.00 |
| 6 UBS Global Emerging Markets Equity J | 13,576 | 1.90 |
| 7 Glaxosmithkline Ordinary £0.25 | 13,427 | 1.88 |
| 8 Royal Dutch | 11,926 | 1.67 |
| 9 Royal Bank of Scotland | 11,356 | 1.58 |
| 10 Aberdeen Funds Long Dated STL Bond | 11,294 | 1.58 |
| 11 Aberdeen Global SPE GBL Aggregate B | 10,813 | 1.51 |
| 12 Barclays Ordinary £0.25 | 10,804 | 1.51 |
| 13 HSBC | 10,539 | 1.47 |
| 14 UBS Life Dur Nuet UK Long Dtd | 9,790 | 1.37 |
| 15 ACMBVI Emerging Markets | 8,749 | 1.22 |
| 16 Aberdeen Funds Index Link | 7,953 | 1.11 |
| 17 HBOS Ordinary 25p | 7,713 | 1.08 |
| 18 UBS Life Small Company UK A | 7,520 | 1.05 |
| 19 Majedie Asset Management | 6,034 | 0.84 |
| 20 Tesco | 5,551 | 0.77 |
| | 253,937 | 35.47 |

As at 31 March 2006, the Fund's 20 largest investments were:

| | £'000 | % of Fund |
|---------------------------------------------------|--------|-----------|
| 1 UBS Triton Property Unit Trust | 24,533 | 3.62 |
| 2 RREEF UK Core PRP A UK Core Property Fund | 24,491 | 3.62 |
| 3 British Petroleum Ordinary US\$0.25 | 22,733 | 3.36 |
| 4 Aberdeen FXD INC Long Dated STG | 19,171 | 2.83 |
| 5 Royal Dutch Sheel B SHS UK | 15,061 | 2.22 |
| 6 Royal Bank of Scotland Group Ordinary £ 0.25 | 13,429 | 1.98 |
| 7 HSBC Holdings Ordinary US\$0.50 (UK registered) | 12,360 | 1.82 |
| 8 UBS Global Emerging Markets Equity J | 11,829 | 1.75 |
| 9 Glaxosmithkline Ordinary £0.25 | 11,190 | 1.65 |

| | | | |
|----|---------------------------------------|----------------|--------------|
| 10 | Barclays Ordinary £0.25 | 10,968 | 1.62 |
| 11 | Aberdeen Global SPE GBL Aggregate B | 10,297 | 1.52 |
| 12 | ACMBBVI Emerging Markets | 9,183 | 1.36 |
| 13 | Aberdeen Funds Long Dated STL Bond | 9,140 | 1.35 |
| 14 | Vodafone Group | 9,008 | 1.33 |
| 15 | Aberdeen Funds Sterling Bond G SHS | 8,852 | 1.31 |
| 16 | Aberdeen Funds Index Link | 7,735 | 1.14 |
| 17 | HBOS Ordinary 25p | 6,889 | 1.02 |
| 18 | Aberdeen Investment 11 Small Cap Core | 6,523 | 0.96 |
| 19 | UBS Life Small Company UK A UTS | 6,425 | 0.95 |
| 20 | British Telecom plc Ordinary 5 | 5,862 | 0.87 |
| | | 245,679 | 36.28 |

9. Advance Corporation Tax

On the 2nd July 1997, the Chancellor announced in the Budget that he had removed the facility for Pension Funds to reclaim the Advance Corporation Tax (ACT) credit available relating to dividends from UK companies. This reduced the income to the Pension Fund from 1997/98 onwards.

10. Related Party Transactions

Information in respect of material transactions with related parties is disclosed within the Pension Fund accounts. During the year, no trustees or Council Chief Officers with direct responsibility for the Pension Fund have undertaken transactions with the Pension Fund.

A GLOSSARY OF LOCAL AUTHORITY FINANCIAL TERMS AND ABBREVIATIONS

For the purposes of compiling the Statement of Accounts the following definitions have been adopted:

Accruals

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

Acquired Operations

Income and expenditure directly related to acquired operations shown separately on the face of the Consolidated Revenue Account.

Balance Sheet

This statement is fundamental to the understanding of an authority's financial position at the year end. It shows the balances and reserves at an authority's disposal and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

Balances

The capital or revenue reserves of an authority are made up of the accumulated surplus of income over expenditure on the General Fund and the Housing Revenue Account. Revenue balances may be utilised to provide for unforeseen circumstances or to ensure that payments can be made pending the receipt of income, and may be used to reduce the Council Tax levy.

Budget

The Council's aims and policies set out in financial terms, against which performance is measured. Both capital and revenue budgets are prepared.

Capital Expenditure

Expenditure either on the acquisition of a fixed asset, or expenditure on an existing fixed asset which adds to, rather than merely maintaining its value.

Capital Receipts

The proceeds of the sale of capital assets.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice, guidance to local authorities on best practice, etc.

Code of Practice

This specifies the principles and practices of accounting required to prepare a Statement of Accounts which "present fairly" the financial position and transactions of an authority.

Collection Fund

A statement that 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 preceptors and the General Fund.

Consistency

The concept that the accounting treatment of like items within an accounting period, and from one period to the next, is the same.

Contingency

A condition which exists at the balance sheet date, the outcome of which depends on one or more uncertain future events.

Corporate and Democratic Core

This incorporates the following sub-divisions, the activities of which can not be charged to services under the Best Value Accounting Code of Practice:-

- Democratic Representation and Management costs – includes all aspects of Members' activities including corporate, programme and service policy making, general governance and representing local interests.
- Corporate Management costs – concerns those activities which provide the infrastructure which allows services to be provided, whether by the Authority or not, and the information required for public accountability.

Creditors

Occur where the Council owes money at the year end to persons for goods and services supplied in year.

Current Liabilities

Those amounts which will become payable or could be called upon within the next accounting period e.g. creditors and cash overdrawn.

Debtors

Occur where money is due at the year end from persons for goods and services supplied to them by the Council.

Deferred Charges

Expenditure which may properly be deferred but which does not result in, or remain matched with, tangible assets. Examples of deferred charges are expenditure on items such as improvement grants, where the asset that is "improved" does not belong to the Council.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Discontinued Operations

An operation is classified as discontinued if all the following conditions are met:

- (a) the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- (b) the activities related to the operation have ceased permanently;
- (c) the termination of the operation is material to the overall activity of the authority.

Employee Costs

Pay and associated costs such as National Insurance and pension contributions.

Estimates

Same as budget.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are therefore expected not to recur frequently or regularly.

Fair Value

The fair value of a fixed asset is the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Fixed Assets

These can be either:

Tangible Fixed Assets

- Operational Assets - Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.
- Community Assets - Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.
- Infrastructure Assets - Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
- Non-operational Assets - Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirement, pending sale or redevelopment.

Intangible Fixed Assets

The definition of intangible fixed assets is 'non-financial fixed assets that do not have a physical substance but are identifiable and are controlled by the entity (the Council) through custody or legal rights'. Assets falling under this definition in the Council's Accounts are IT systems and software licences

FRS

Financial Reporting Standards as required within the SORP.

Fund

A major division of the Council's accounts.

General Fund

This is the main revenue account which summarises the cost of all services (except those related to Council Housing and Locally Managed Schools) provided by the Council.

Going Concern

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Gross Expenditure

The total cost of providing services before deducting any income.

Housing Revenue Account

Reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how this is met by rents, subsidy and other income.

Income

Monies received or due from rents, fees and charges for services, specific grants and investment interest.

Income and Expenditure Account

A statement that reports the net cost for the year of all the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from taxpayers.

Investments

These are only long-term investments which are intended to be held for use on a continuing basis in the activities of the authority. Where investments do not meet this criterion they have been classified as current assets.

Lease

These can be either:

- Finance lease - A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.
- Operating lease - A lease other than a finance lease.

Liabilities

Those amounts which will become payable by the Council in the short or long term.

Locally Managed Schools balances

Reflects the unspent balance of the delegated schools budget.

Long-Term Contracts

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service, where the time taken substantially to complete the contract is such that the contract falls into different accounting periods.

Matching

The concept that expenditure and income transactions, including accruals, are matched with one another so far as their relationship can be established, or justifiably assumed, and dealt with in the period to which they relate.

Materiality

The concept of materiality derives from the premise that financial statements often cannot be precisely accurate but this need not detract from their ability to be fairly stated. Within certain limits a tolerance is permitted in measurement and disclosure of financial statement items and the concept of materiality determines the acceptability of the degree of this tolerance.

Minimum Revenue Provision

The minimum revenue provision (MRP) is the minimum amount that must be charged to an authority's revenue account each year and set aside as a provision for debt repayment or other credit liabilities.

National Non-Domestic Rates

A national rate levied on businesses by the Government, collected by local authorities on the Government's behalf. The total proceeds are redistributed between local authorities on the basis of government relative needs formulas.

Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Expenditure

Gross expenditure for a service, less directly related income.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Post Balance Sheet Event

The occurrence of a material event between the balance sheet date and the date the accounts are authorised for issue, which might have a bearing on the financial results of the organisation. In such cases the event should be reflected in the Statement of Accounts as a note or amendment.

Precept

The amount of income collected in the Collection Fund on behalf of this Council and the Greater London Authority.

Prior Year Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions

Provisions are required for any liabilities or losses which are certain or likely to be incurred, but where there is uncertainty as to the amounts or the dates on which they will arise.

Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

PWLB

Public Works Loans Board - a statutory body operating within the United Kingdom Debt Management Office, which is an Executive Agency of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Rateable Value (RV)

The value, assessed by the Valuation Office Agency, on which business rates are payable.

Recharges

The transfer of costs from one account to another.

Related Party Transactions

The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Reserves

Amounts set aside for purposes falling outside the definition of provisions made above are considered as reserves.

Revenue Expenditure

The cost related to the day-to-day running of services.

Revenue Income

The income related to the day-to-day running of services.

Revenue Support Grant

A general grant paid by Central Government to local authorities to help them finance the cost of their services, distributed on the basis of government relative needs formulas.

Running Expenses

Regular revenue expenses other than employee costs.

SSAP's

Statements of Standard Accounting Practice as recommended to local authorities.

SORP

The Statement of Recommended Practice (SORP) sets out the application of Statements of Standard Accounting Practice (SSAP's) and Financial Reporting Standards (FRS's) to local authorities in the United Kingdom.

Statement of Movement on the General Fund Balance

A statement that reconciles the Income and Expenditure account for the year with the authority's budget requirement; the latter is governed by statute and differs in certain key respects from accounting conventions.

Statements of Movement on the HRA Balance

A statement that reconciles the HRA Income and Expenditure account for the year with the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

Statement of Total Recognised Gains and Losses (STRGL).

A statement that brings together all gains and losses experienced by the Council, as required by FRS 3 "Reporting Financial Performance".

Substance over Form

The concept of substance over form requires that transactions and other events are accounted for and represented in financial statements with regard to their economic substance and financial reality rather than just their legal form.

UK GAAP

United Kingdom Generally Accepted Accounting Practices, which constitute proper practice, have been incorporated into the revenue statement for the first time this year. The result of this is the creation of the Income and Expenditure Account, which is UK GAAP compliant.

Useful Life

The period over which the local authority expects to derive benefits from the use of a fixed asset.

Work in Progress

The cost of work completed on an unfinished project at the year end.