

**LONDON BOROUGH OF HOUNSLOW**  
**STATEMENT OF ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

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## **EXPLANATION OF CHANGES IN LOCAL GOVERNMENT ACCOUNTING**

In 2006/07 CIPFA formally adopted the UK Generally Accepted Accounting Practice (UK GAAP) as the basis of the CIPFA Local Government Accounting Code of Practice (ACOP), which provides a statement of recommended practice for local authorities. All Local Authorities comply (unless stated) with this Code, which prescribes the concepts behind, and the presentation of, Local Authority Accounts.

CIPFA has been working towards the re-alignment of local government accounting from one based in statute that has been developed over a number of years to compliance with UK GAAP. Further changes will be adopted in 2007/08 in relation to the valuation of assets and capital reserves to complete the change. In addition, further changes are anticipated with the adoption of international accounting standards to the Local Authority SORP from 2008/09.

The adoption of UK GAAP has meant a significant change to both the presentation of the accounts and to the accounting concepts insofar as it is not easy to translate the results reported at the end of 2005/06 to the 2006/07 Accounts. This section of the annual accounts attempts to explain in simple terms the changes to Hounslow's Accounts.

### **Income and Expenditure**

The previous consolidated revenue account is replaced with a performance statement of income and expenditure; which excludes statutory items that would also not be included in any company accounts. The changes to the net cost of services include:

- Capital financing charges for the use of fixed assets are no longer made to services in the top of the Income & Expenditure Account (e.g. Central Services to the Public) and taken out of the Asset Management Revenue Account (AMRA) – there is no effect on the bottom line of this change.
- The AMRA account is deleted and replaced with external interest paid shown separately, and the credits from amortised government grants are now included in corporate income.
- Gains and losses on the disposal of fixed assets are recognised in the Income and expenditure account.
- Postings to and from reserves and other statutory adjustments are excluded from the Income and Expenditure Account.
- Contributions from revenue to capital are excluded as a statutory transaction.

These and items in the statutory section of the Consolidated Revenue Account e.g. funds set aside to repay debt, are now charged directly to the General Fund Reserve on the balance sheet. They are also shown as a total in a new statement – Statement of the Movement on the General Fund Balance (page 29), and in detail as a note to the accounts (Note 10 on page 35).

The surplus/deficit on the Income & Expenditure account and these statutory items are equal to the previous surplus or deficit on the old Consolidated Revenue Account.

The table overleaf sets out the changes from the Consolidated Revenue Account to the Income and Expenditure Account and the General Fund Balance.

## 2005/06 RESTATED ACCOUNTS

INCOME & EXPENDITURE A/C	Original Reported Expenditure £000	Asset Disposals £000	Revised Capital Charges £000	Govt Grants Amortised £000	Revenue Contributions to Capital £000	Internal Transfers £000	Reverse HRA £000	Restate HRA £000	Total £000
Central Services to the Public	4,925		(237)			(125)			4,563
Cultural, Environmental and Planning Services	32,672		(4,517)		(472)	(76)			27,607
Education Services	164,292		(19,608)		(344)	1,594			145,934
Highways, Roads and Transport Services	15,405		(3,039)		(55)	(146)			12,165
Housing Services	8,149		(13,527)			(188)	13,204	(13,204)	(5,566)
Social Services	78,515		(994)			(217)			77,304
Law and Order*	(9)								(9)
Corporate and Democratic Core	8,376		(157)			(454)			7,765
Non-distributed costs	199				(282)	(3)			(86)
<b>Net Cost of Services</b>	<b>312,524</b>	<b>0</b>	<b>(42,079)</b>	<b>0</b>	<b>(1,153)</b>	<b>385</b>	<b>13,204</b>	<b>(13,204)</b>	<b>269,677</b>
Gain or loss on disposal of fixed assets		(1,988)				270		(2,132)	(3,850)
Precepts and Levies	6,613								6,613
Surplus from Trading Operations	(480)		(57)						(537)
Asset Management Revenue Account	(27,015)		42,136	2,440			(13,285)	13,285	17,561
Contribution to Housing Pooled capital receipt	3,565								3,565
Interest and Investment Income	(3,075)					(61)	1,208	(1,208)	(3,136)
Pension interest cost & expected return on assets	8,519								8,519
<b>Net Operating Expenditure</b>	<b>300,651</b>	<b>(1,988)</b>	<b>0</b>	<b>2,440</b>	<b>(1,153)</b>	<b>594</b>	<b>1,127</b>	<b>(3,259)</b>	<b>298,412</b>
Income from the collection fund	(88,834)								(88,834)
Revenue Support Grant	(131,628)								(131,628)
Non-Domestic Rates Redistributed	(70,951)								(70,951)
Other Corporate income				(2,440)					(2,440)
<b>(Surplus) / Deficit for the year</b>	<b>9,238</b>	<b>(1,988)</b>	<b>0</b>	<b>0</b>	<b>(1,153)</b>	<b>594</b>	<b>1,127</b>	<b>(3,259)</b>	<b>4,559</b>

## 2005/06 RESTATED ACCOUNTS

INCOME & EXPENDITURE A/C	Original Reported Expenditure £000	Asset Disposals £000	Revised Capital Charges £000	Govt Grants Amortised £000	Revenue Contributions to Capital £000	Internal Transfers £000	Reverse HRA £000	Restate HRA £000	Total £000
Depreciation & Impairment of fixed assets	(10,992)								(10,992)
Excess depreciation charge to HRA services over the major repairs allowance element of housing subsidy									0
Government grants deferred amortisation matching depreciation & Impairments	2,440								2,440
Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute	(1,361)								(1,361)
Gain or loss on disposal of fixed assets		1,988							1,988
Contributions to/from the pension reserve	(5,489)							(17,616)	(23,105)
Statutory Provision for the repayment of debt	2,925								2,925
Capital Expenditure charged to the general fund balance	603				1,153		(604)		1,152
Transfer from usable capital receipts for HPCR	(3,565)								(3,565)
Pension contributions payable and pensions paid to pensioners								17,616	17,616
Transfer of HRA Balances	1,270						(1,270)	3,259	3,259
Voluntary provision for repayment of debt	406								406
Net Contribution to Earmarked Reserves	3,376					(594)	747		3,529
<b>Total charged to the General Fund Balance</b>	<b>(10,387)</b>	<b>1,988</b>	<b>0</b>	<b>0</b>	<b>1,153</b>	<b>(594)</b>	<b>(1,127)</b>	<b>3,259</b>	<b>(5,708)</b>
<b>Total movement on the Income and Expenditure account and charges to the General Fund Balance:</b>									
Deficit on the Income & Expenditure a/c	9,238	(1,988)	0	0	(1,153)	594	1,127	(3,259)	4,559
Charges to the General Fund Balance	(10,387)	1,988	0	0	1,153	(594)	(1,127)	3,259	(5,708)
Original Surplus on Consolidated Revenue a/c	(1,149)	0	0	0	0	0	0	0	(1,149)

This table shows that together the net change is zero - the Council's management accounts will still show a surplus of £1,149k surplus

## Housing Revenue Account

The Housing Revenue Account changes follow the same principle as with the Income & Expenditure account, with all statutory transactions posted directly to the Housing Revenue Account General Balance. This change is more straightforward as there are fewer changes required. The changes are set out below:

Reconciliation of Housing Revenue Account	£000	£000
Surplus on the Housing Revenue Account		(1,270)
Gain or loss on sale of HRA fixed assets	(2,132)	
Capital Expenditure funded by HRA	(604)	
Transfer from Major Repairs Reserve	878	
Transfer to Major Works Reserve	(537)	
Net contribution to District Heating Reserve	406	
Subtotal	(1,989)	
Revised Surplus on the Housing Revenue Account		(3,259)

The Movement of the Housing Revenue Account Balance is then made up as follows:

Movement on the General Fund Balance	£000
Revised Surplus on the Housing Revenue Account Balance	3,259
Additional Items required by Statute	(1,989)
Total Movement	1,270

## Statement of Recognised Gains and Losses (STRGL)

In the previous Statement of Accounts the movement in net worth was shown in a Statement of Total Movements in Reserves. This is now replaced by a Statement of Total Recognised gains and losses. The effect of this statement is to split movements on reserves into two categories:

- Recognised gains/losses which are recorded in the STRGL
- Transfers between reserves which have a nil effect on the overall total reserves – these are recorded in Note 24 to the accounts.

## Other Statements

The group accounts follow the same changes as the LB Hounslow's accounts; there are no material changes to the cash flow statement, collection fund or pension fund accounts.

# FOREWORD

## 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. In this Authority that officer is the Director of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts

### Internal Financial Control

The Authority recognises its responsibilities to ensure proper financial management and control of its affairs. The Authority approves an annual revenue and capital budget and publishes annual accounts, which are approved by the Authority and subject to external audit by KPMG LLP, a firm of auditors appointed by the Audit Commission.

The Director of Finance is the Authority's officer responsible for finance and he has direct management responsibility for the Internal Audit Section, which maintains a regular review of the Authority's financial systems and investigates any irregularities that arise. Further information is contained within the Statement of Internal Control.

### The Director of Finance's responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code;

The Director of Finance has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

The Director of Finance should sign and date the Statement of Accounts at the accounting date of 31 March 2007.

## Accounting Statements

The pages that follow are the Authority's accounts for 2006/07 and comprise:

- **Statement of Accounting Policies** - This explains the basis of the figures in the accounts.
- **Income and Expenditure Account** - This reports the cost of performing the council's functions on the basis of UK Generally Accepted Accounting Practice (UK GAAP) and shows how that cost is financed from charges made by the Authority, Council Tax and Central Government. Transactions required under statute, and the use of the Authority's own reserves are shown in the notes to the accounts.
- **Housing Revenue Account** - This records the Authority's statutory obligation to account separately for the costs of its landlord role. It shows the major elements of housing revenue expenditure - maintenance, administration, rent rebates - and how these are met by rents, housing subsidy and other income on a UK GAAP basis.
- **Collection Fund** - This shows the transactions of the Authority as a billing authority in relation to non-domestic rates and the council tax and illustrates the way in which they have been distributed to precepting authorities and the consolidated revenue account. The Collection Fund is consolidated with other accounts of the Authority.
- **Balance Sheet** - This records the Authority's year-end financial position. It shows the balances and reserves at the Authority's disposal and its long-term indebtedness, the net current assets or liabilities, and summarised information on the fixed assets held. It excludes trust funds and the Pension Fund.
- **Statement of Total Recognised Gains and Losses** - This brings together all the gains and losses in 2006/07. The total movements between revenue and capital reserves are shown as a note to the accounts.
- **The Cash Flow Statement** - This summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes.
- **The Group Accounts** - This provides an income and expenditure account, group balance sheet, statement of recognised gains and losses and cash flow statement for the Authority and its subsidiaries – Hounslow Homes, David Henry Waring Home and Bedfont Lakes Trust.
- **Pension Fund Revenue Account and Net Assets Statement** - The Revenue Account shows the contributions to the fund during 2006/07 and the benefits paid



from it. The Net Assets Statement sets out the financial position for the Fund as at 31 March 2007. The Authority acting as trustee separately manages the fund and its accounts are separate from the Authority's accounts.

### General Fund revenue spend in 2006/07

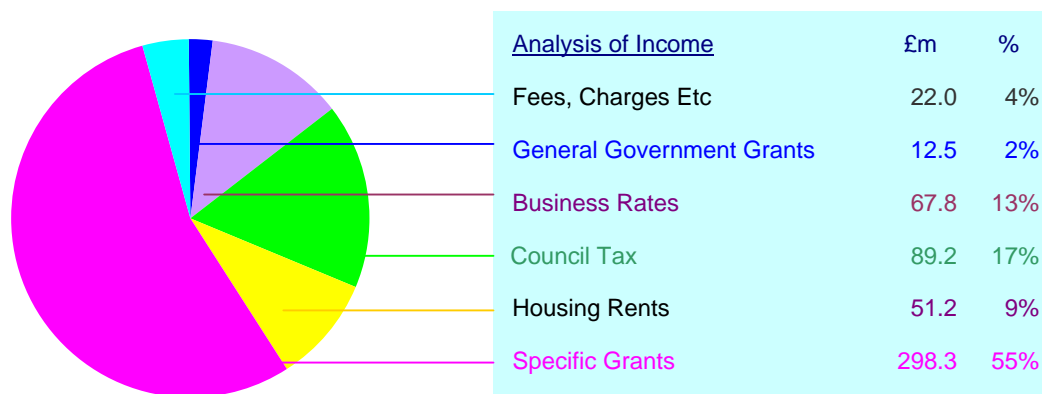
The net service expenditure compared with budgeted figures for 2006/07 is set out below. This analysis reflects the Authority's present departmental structure and not the Best Value Accounting Code of Practice as reported in the Income & Expenditure Account.

2005-06		Revised Budget	2006-07	
Actual	Service		Actual	Variance
£m		£m	£m	£m
13	Chief Executive's Directorate	11.7	11.6	(0.1)
164	Childrens Services and Lifelong Learning	50.4	52.8	2.4
17	Leisure Services	13.8	14.4	0.6
32	Street Management and Public Protection	33.3	33.8	0.5
86	Housing and Community Services	64.1	62.6	(1.5)
0	Law and Order	0.1	0.1	0.0
(22)	Other	0.7	(2.4)	(3.1)
290	<b>Total Net Expenditure</b>	174.1	172.9	(1.2)

The Authority's net spend was £172.9m, representing an underspend of £1.2m (0.7%) on the revised budget of £174.1m, which resulted in a drawing on balances of £0.9m.

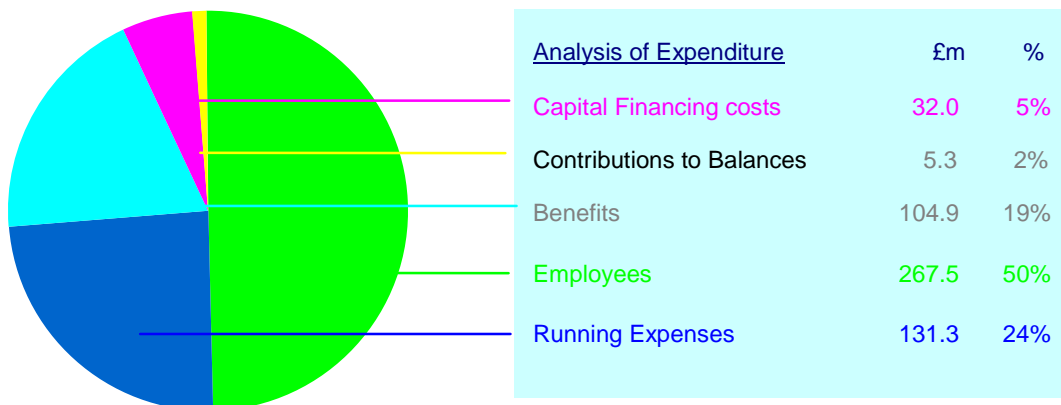
The following diagrams show in broad terms where the Authority's money was spent, the services provided and how spending was funded.

#### WHERE THE MONEY COMES FROM



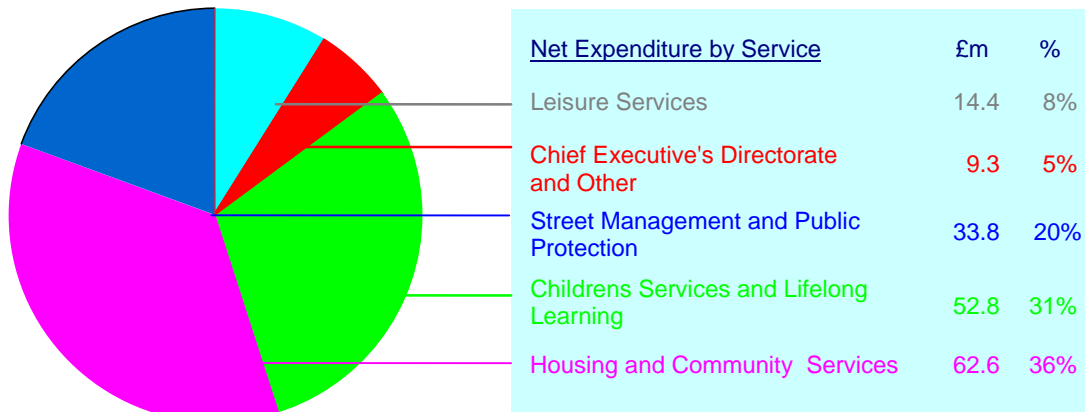
The diagram overleaf shows the bulk of the Authority's spending was on employee costs and running expenses.

### WHERE THE MONEY WAS SPENT



The following diagram illustrates how the council tax was spent, with Housing and Community Services, Childrens' Services and Lifelong Learning being the largest service spenders. The diagram includes Other Expenditure, which are mainly capital adjustments with Chief Executive's Directorate. The diagram does not include the Housing Revenue Account, which is mainly funded from rents.

### NET EXPENDITURE BY SERVICE



### Capital spending and borrowing in 2006/07

The Authority's capital spending in the year amounts to £60.4m (05/06: £86.7m) as set out in the following statement. Some 20% of the programme has been funded from borrowing (compared to 52% in 2005/06) with grants and contributions funding a further 32% (20% 2005/06). The remaining 48% (28% 2005/06) has been met from other sources, including contributions from reserves and the proceeds from the sale of assets.

## Capital spending 2006/07

	2006-07							Total
	Dwellings	Other Land & Buildings	Intangible Fixed Assets	Infrastructure	Community Assets	Vehicles Plant & Equipment	Deferred Charges	
	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	
<b>Housing</b>								
General Fund Expenditure	0	61	0	0	0	0	4,221	4,282
Housing Revenue Account	20,767	0	0	3,795	0	4,190	0	28,752
<b>Life Long Learning &amp; Cultural Services</b>								
Schools	5	9,669	0	0	0	35	0	9,709
Leisure Services	340	21	0	16	764	160	0	1,301
Childrens Services	0	374	0	0	0	199	0	573
<b>Street Management &amp; Public Protection</b>								
Street Management & Public Protection	0	31	0	7,188	0	194	0	7,413
<b>Other Services</b>								
Housing and Community Services	0	1,380	0	0	0	113	0	1,493
Other	1,358	3,465	104	0	0	1,713	216	6,856
<b>Total Expenditure</b>	<b>22,470</b>	<b>15,001</b>	<b>104</b>	<b>10,999</b>	<b>764</b>	<b>6,604</b>	<b>4,437</b>	<b>60,379</b>

## **Other key features**

### **Housing**

On 1 April 2002 the Authority transferred responsibility for the management of its Housing stock to Hounslow Homes, an arms length management company, wholly owned by the Authority. The Authority retains ownership of the housing stock and has statutory responsibility for the Housing Revenue Account (HRA). The financial position of the HRA is shown on page 50. Hounslow Homes prepares and publishes separate accounts in respect of its activities and copies of these accounts are available from them or Companies House.

Hounslow Homes Company Accounts are consolidated in the Group Accounts shown on pages 57-62 as a wholly owned subsidiary.

The Authority continues to be the major provider of rented accommodation in the Borough. Council rents were increased, after consultation, by an average of 5 % in 2006/07 in line with Government guidelines (4.25% 2005-06).

### **Financial Position – 2006-07 Revenue Outturn**

The Authority set an original budget for 2006/07 including levies and contingencies of £174.1m excluding schools, which service is now separately funded by central government via the Dedicated Schools Grant. The Authority spent £172.9m representing an underspend of £1.2 m. The key changes related to:

- Lower payments to the revenues and benefits contractor (£0.7M)
- Increased government grants relating to housing benefits and its administration (£1.7M)
- Higher costs of placements for children £1.3M
- Increased legal costs for looked after children £0.8M
- Increased investment income (£0.4M)

### **Outlook for 2008-09**

The 2007-08 budget was the first set by the new Administration, which had specific financial aims to set a nil council tax increase for the Hounslow element of the tax. As with previous years Hounslow, along with the majority of Outer London Boroughs received the minimum increase in government grant, at the 2.7% floor. The Authority set a budget of £174,248k keeping Band D council tax at the same level as 2006/07 at £1,090.65 with planned reductions enabling investment in priority services. The GLA set a precept of £303.88 including an Olympic surcharge of £20 representing in total a 5.2% increase.

## Approval of the Accounts

The Accounts and Audit Regulations 2003, require the accounts to be approved by the Authority.

### CERTIFICATE OF THE CHIEF FINANCE OFFICER

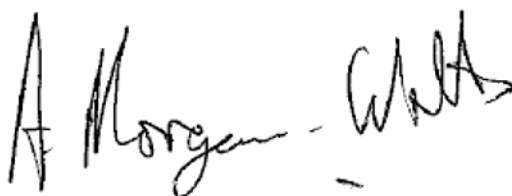
I certify that the accounts on pages 29 to 62 set out the financial position of the London Borough of Hounslow as at 31 March 2007 and its income and expenditure for the year then ended and that the accounts on pages 63 to 69 set out the net assets of the London Borough of Hounslow Pension Fund as at 31 March 2007 and its income and expenditure for the year then ended.



S Fitzgerald BA MBA ACIS ACCA  
**Acting Director of Finance**

### CERTIFICATE OF THE CHAIRMAN OF THE COUNCIL MEETING

I confirm that these accounts were approved at a meeting of the Council on 26<sup>th</sup> June 2007.



A Morgan-Watts  
**Mayor**

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONDON BOROUGH OF HOUNSLOW**

## **Opinion on the financial statements**

We have audited the financial statements of London Borough of Hounslow and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the Housing Revenue Account, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to London Borough of Hounslow, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to London Borough of Hounslow, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Hounslow, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Chief Finance Officer and auditors**

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements presents fairly the financial position of the Authority and its income and expenditure for the year n accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2006.

We review whether the statement on internal control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

## **Basis of audit opinion**

We conducted our 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.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us 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 our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2006, the financial position of the Authority and the Group as at 31 March 2007 and their income and expenditure for the year then ended.

A handwritten signature in blue ink that reads "KPMG LLP".

KPMG LLP  
Chartered Accountants  
London

28 September 2007

# **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.

## **Auditors' Responsibilities**

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are 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 we have done so;
- stating whether we 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**

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission, in all significant respects, London Borough of Hounslow made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

## **Best Value Performance Plan**

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 11 November 2006. We 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**

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



KPMG LLP  
Chartered Accountants  
London

28 September 2007

# INDEPENDENT AUDITORS' REPORT TO LONDON BOROUGH OF HOUNSLOW ON THE WHOLE OF GOVERNMENT ACCOUNTS (WGA) CONSOLIDATION PACK

We have examined pages 1 to 15 of the consolidation pack of London Borough of Hounslow for the year ended 31 March 2007, which has been prepared and certified by the Consolidation Officer in accordance with instructions from HM Treasury.

We confirm that we have performed the procedures for Band 1 bodies as set out in the Audit Commission's Auditor Briefing 1/2006 (revised).

This report is made solely to London Borough of Hounslow, as a body, in accordance with section 10 (2) of the Government Resources and Accounts Act 2000. Our audit work has been undertaken so that we might state to London Borough of Hounslow, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Hounslow, as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion, pages 1 to 15 of the consolidation pack are consistent with the statement of accounts for the year ended 31 March 2007 on which we have entered our opinion in accordance with section 9 of the Audit Commission Act 1998.



KPMG LLP  
Chartered Accountants  
38th Floor  
One Canada Square  
Canary Wharf  
London  
E14 5AG

28 September 2007

# STATEMENT OF INTERNAL CONTROL

## 1. Scope of Responsibility

Hounslow Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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

## 2. The Purpose of the System of Internal Control

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

The system of internal control has been in place at the Council for the year ended 31<sup>st</sup> March 2007 and up to the date of the approval of the annual accounts and, except for the details of significant internal control issues at section 5, accords with proper practice.

## 3. The Internal Control Environment

The key elements of the internal control environment are summarised below:

### **Establishing and Monitoring the Achievement of the Council's Objectives**

The Hounslow Plan, published in December 2006, sets out the priorities of the new administration, elected in May 2006, for 2006 – 2010. The Hounslow Plan has three broad policy themes and ten priorities. Each priority is supported by targets which include objectives, intended outcomes and risks. Service delivery is monitored quarterly by the Executive and Overview and Scrutiny through a set of performance indicators. The delivery of corporate priorities is supported by a hierarchy of corporate strategies and plans and service plans. The implementation of the Community Strategy and Local Area Agreement is monitored by the Local Strategic Partnership and the Executive. Extensive consultation has been carried out during 2006/07 to inform the new Community Strategy for the Borough to be published later this year.

### **Policy and Decision making**

The Council's constitution sets out how it operates and decisions are made. The full Council approves the annual budget and accounts and corporate policies and strategies. The Executive is responsible for most member-led decisions. Each of the members of the Executive, including the Leader of the Council, has a portfolio of services that they oversee. Overview and Scrutiny scrutinise the decisions of the Executive and assist in policy development through a member driven programme of reviews led by each of the four Scrutiny Panels. Some decisions are delegated to regulatory panels or committees

including licensing, school admissions and sustainable development. The Council has five Area Committees which consider planning applications and receive monitoring reports on the operation of policies in their local area. The Area Committees also have a consultative role assisting in the development of policies. All meetings are open to the public with all but a small number of confidential matters being considered in public. Meetings of the Executive, Borough Council and Overview and Scrutiny are web cast and can be viewed via the Council website [www.hounslow.gov.uk](http://www.hounslow.gov.uk). A Residents Panel is consulted regularly on aspects of service provision. Their feedback informs service and policy developments.

### **Compliance with Established Policies, Procedures, Laws and Regulations**

The Council's procedure rules are designed to ensure that it acts in accordance with laws and regulations. These rules include standing orders and financial regulations and are underpinned by codes of conduct for Members and staff.

The Council has a comprehensive range of HR procedures which are regularly reviewed and updated and are underpinned by training for managers. There are also procedure notes for specific services and systems within departments. As part of the annual appraisal process, training and development plans are developed for individual members of staff to provide them with the necessary knowledge and skills to comply with internal and external regulations. There are regular training sessions for Members to keep them up to date with new requirements. There are induction programmes for new Members and staff.

The legal, financial and equality implications of decisions are considered in all reports to Members where a decision is needed.

### **Identifying, Assessing and Managing risks to the Council's Objectives**

The Council's Risk Management Strategy was updated during the year. It sets out the roles and responsibilities of the Executive, Corporate Management Team and service managers in respect of risk management. Departmental risk registers are updated at least annually and these inform the corporate risk register. The Audit Committee receives quarterly risk management monitoring reports. Risk management training is undertaken annually being targeted at specific groups of staff each year. Risks associated with the delivery of each of the priorities are highlighted in the Hounslow Plan. The Council's project management methodology includes the assessment and monitoring of risks. There are risk registers for significant corporate projects with the key risks being monitored and reported on regularly during the year to project boards and, for key projects, to the Executive.

### **Economic, Effective and Efficient use of Resources and Securing Continuous Improvement**

The Council's budget process generates year on year efficiency savings. Local service reviews and service improvement initiatives have contributed to the Annual Efficiency Statement (AES). The delivery of efficiencies included in the AES is monitored quarterly. The Hounslow Plan is underpinned by a Medium Term Financial Strategy which enables the funding of the delivery of the Plan. Services are subject to regular performance reviews through the quarterly performance monitoring meetings. The Overview and Scrutiny Committee, through its standing and time limited panels, monitor, review and scrutinise a range of policies, plans and services. Their findings are reported to the Executive and the relevant department. The implementation of agreed scrutiny recommendations are tracked and monitored through regular meetings with the lead

Scrutiny and Executive Member. The cost effectiveness of services is benchmarked against other organisations for these services where benchmarking data is available. Services are also subject to statutory inspections. Regular peer reviews are undertaken and external parties are employed to challenge services as part of internal reviews.

### **Financial Management**

The system of internal financial control has the following components

- Financial regulations and tenders and contracts regulations
- A system of accountability for the management of budgets and delegation of financial responsibilities
- Management supervision
- Corporate budget setting and accounts closing procedures and timetables
- Annual revenue and capital budget approved by the Borough Council
- Monthly risk based monitoring of revenue and capital budgets
- Monthly monitoring of arrears
- Regular reporting on actual income and expenditure against revenue and capital budgets and key financial performance indicators on the collection of income and payment of invoices
- The Budget and Performance Scrutiny Panel scrutinises budget proposals
- The Council 's core financial systems are reviewed annually by the Internal Audit Service

The Audit Committee receives reports from the Council's internal and external auditors as well as considering aspects of the Council's systems of internal control and the Council's annual accounts.

### **Performance Management**

A new strategic plan, the Hounslow Plan, was developed by the new Executive and published in December 2006. The delivery of this Plan will be monitored during the year through performance indicators and action based monitoring. The Local Strategic Partnership and Executive receive monitoring reports on the delivery of the Community Strategy and Local Area Agreement. Performance indicators were reported to the Executive and Budget and Performance Scrutiny Panel on a quarterly basis. The delivery of departmental business plans is monitored by departmental management teams. The objectives of individual officers are linked to the delivery of business plans through the appraisal system. At a departmental level the performance of individual partnerships and working groups against their service specific action plans is monitored.

## **4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of system of Internal control is informed by the work of the internal auditors and the managers within the Council who have responsibility for the development and maintenance of the internal control environment and also by comments made by the external auditor and other review agencies and inspectorates in their annual audit and inspection letter and other reports.

## **The Borough Council**

The Borough Council has approved the form and content of the Statement on Internal Control having due regard to the Audit Committee's review of the effectiveness of the Council's system of internal control during the year.

## **The Audit Committee**

The Audit Committee has considered a report on the review of the effectiveness of the system of internal control during 2006/07. This included information on the assurances obtained from appropriate managers, the Head of Internal Audit and other relevant sources including the Audit Commission, the External Auditor and other statutory inspectors.

## **Internal Audit**

The Council's Internal Audit Service operates to the standard set out in the CIPFA Code of Practice for Internal Audit in Local Government. Internal Audit work is based on analysis of the risks to which the Council is exposed and includes an annual review of the effectiveness of each of the Council's core financial systems. The Head of Internal Audit reports on each assignment to the relevant service director and quarterly to the Chief Financial Officer. The implementation of recommendations is followed up six months after each assignment is completed. The annual report of the Head of Internal Audit informs the review of the effectiveness of internal control. This report summarises the key recommendations arising from each audit and the results of any follow up work that has been undertaken. It also includes the Head of Internal Audit's independent opinion on the effectiveness of the Council's system of Internal Control.

## **External Review**

The Council has been subject to a range of external audits and inspections during the year. The Council's score under the Comprehensive Performance Assessment was refreshed by the Audit Commission in January 2007. The Council continues to be assessed as a 'three star' authority which is improving well. The Corporate Assessment Report published in August 2006 concluded that the Council was performing well. The Joint Area Review concluded that the outcomes for most children and young people in Hounslow are good. The results of the Benefit Fraud Inspectorate Review concluded in 2007 were also favourable with a limited number of recommendations for improvement being made. Action plans are in place to address the recommendations made in these inspection reports.

The most recent Annual Audit and Inspection Letter (February 2007) noted that the Council had made good progress in priority areas such as planning, housing management and educational attainment at GCSE level with significant improvements in adults social care. The letter did not highlight any significant weaknesses in respect of internal financial control. The Council has prepared its annual accounts for 2006/07 and these are due to be audited in July/ August 2007. An unqualified audit opinion was issued on the 2005/06 accounts. The Council maintained a score of 3 out of 4 in the 2006 CPA Use of Resources assessment. Actions have been taken in response to external audit recommendations on data quality, risk management and the systems for the production of specific performance indicators.

In July 2005 the Council was awarded corporate Investor in People status. This positive result provides independent assurance on its systems for staff training and development.

## 5. Significant Internal Control Issues

The Council's annual review of the effectiveness of its system of internal control has identified some areas where action is appropriate to enhance the internal control environment and to cure continuous improvement. These areas are already included within existing corporate or departmental plans and work is currently underway on each of the action points.


- An Information Security policy and acceptable usage policies need to be approved and implemented.
- Business continuity plans need to be developed for all service areas.
- The Council needs to continue to develop its information management strategy.
- Risk management arrangements need to be further embedded in 2007/08.
- The control environment for the car parking application needs to be strengthened.
- The ICT service needs to reorganise its resourcing to be better equipped to support the Oracle HR Pay and Agresso financial system.
- Procedures for the management of bed and breakfast and annexe accommodation need to be strengthened.

## 6. Conclusion

We have been advised on the implication of the result of the review of the effectiveness of the system of internal control by the Audit Committee having appropriate regard to internal and external sources of assurance. We are satisfied that there are suitable plans in place to address weaknesses and ensure continued improvement to the system.



Mark Gilks  
Chief Executive



Councillor Peter Thompson  
Leader of the Council

## STATEMENT OF ACCOUNTING POLICIES

The accounting policies in this Statement of Accounts comply with the code of practice issued by the Chartered Institute of Public Finance and Accounting (CIPFA) and its Statement of Recommended Practice on the Application of Accounting Standards to Local Authorities in Great Britain. Further details are set out below. Separate accounting policies apply in respect of the Authority's Pension Fund.

### Fixed assets

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

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by The Royal Institute of Chartered Surveyors (RICS). Fixed assets are classified into groupings required by the Code. The balances are stated on the following basis:

- Land, operational properties and other operational assets are included in the balance sheet at the lower of net replacement cost or net realisable value in existing use;
- Council dwellings are valued at existing use for social housing purposes in accordance with Department for Communities and Local Government (CLG) (previously ODPM and DTLR) rules which require the valuation to be adjusted to reflect the ratio at a regional level of local authority rents to those rents in the private sector that are applicable for housing benefit;
- Investment properties (other than those held by the pension fund) and assets that are surplus to requirements and held for disposal, are included in the balance sheet at the lower of net current replacement cost or net realisable value. In the case of investment properties, this is normally market value. In the case of assets under construction, these are held at historical cost until they are brought into commission;
- Intangible assets, infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation;
- Assets with value of less than £10,000 are considered to be below the de-minimis level and are not recorded in the asset register.

The surpluses arising on the initial valuation of fixed assets have been credited to the fixed asset restatement account. Subsequent revaluations of fixed assets are planned through a rolling programme which will ensure revaluation of all assets within, at the most, five yearly intervals, although material changes to asset valuations will be adjusted in the interim period as they are identified.



Capital expenditure in the year that adds to the operational value of an asset but does not enhance its balance sheet valuation is included in the balance sheet with the difference between the cost and its balance sheet valuation charged to the fixed asset restatement account at the year-end.

Income from the disposal of fixed assets is accounted for on an accruals basis. Such income that has neither been used nor reserved for the payment of external loans, forming part of the capital financing account, is included in the balance sheet as usable capital receipts.

## **Depreciation**

FRS 15 requires that depreciation be provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation). Depreciation in these accounts is included according to the following policy:

- In accordance with CIPFA guidelines, the Major Repairs Allowance has been used as a proxy for depreciation on council dwellings;
- Where it can be separately identified, depreciation is not charged for land;
- Depreciation is calculated using the straight-line method over the following periods:

Buildings	5 to 60 years
Vehicles, plant & equipment	3 to 20 years
Infrastructure	40 years

- Newly acquired assets are not depreciated in the year of acquisition and assets in the course of construction are not depreciated until they are brought into use. Assets are depreciated in the year of disposal.

## **Charges to Revenue**

External interest payable and the provision for depreciation are charged to general fund balances. Depreciation has a neutral impact on the amounts to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately in the appropriate section when determining the Movement on the General Fund Balance for the year.

## **Deferred Charges**

Deferred charges represent expenditure which may properly be capitalised, but which does not represent tangible fixed assets. Deferred charges are amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by the Authority.

## **Group Accounts**

The subsidiaries of the Authority have been consolidated on a merger accounting basis in accordance with the Statement of Recommended Practice and FRS2. This requires each line on the published statements to be consolidated into the Reporting Authorities Accounts, and removing any intra group transactions. The Accounting Policies of the subsidiaries are largely in line with the Authority's own policies.

## **Government Grants and Contributions for the Acquisition of Fixed Assets**

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to a government grants deferred account. Amounts are released to services over the useful life of the asset to match the depreciation charged on the asset to which it relates. Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

## **Reserves**

The capital accounting regime requires the maintenance of two special reserve accounts in the consolidated balance sheet:

- The fixed asset restatement account, which represents, principally, the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets.
- The capital financing account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions;

The HRA Resource Accounting regime requires the maintenance of a Major Repairs Reserve, which represents the balance of the HRA Major Repairs Allowance not yet used to fund major repairs to housing stock.

## **Income and Expenditure**

*Revenue* - in the revenue account, income and expenditure is generally accounted for in the year in which it arises, on an accruals basis, by the creation of material debtors and creditors, including estimates where appropriate.

*Overheads* - the cost of the Authority's Support Services is fully recharged to services. Charges are based on estimated time allocations or work undertaken with the exception of administrative building costs (floor area basis) and computer services (facility usage). The remaining overhead costs, which comprise the Corporate and Democratic core and

certain non-distributable costs, are not recharged, in accordance with CIPFA's Best Value Accounting Code of Practice.

*Operating Leases* - rentals paid under leasing agreements have been accrued and accounted for through the revenue accounts in the period to which they relate.

*Finance Leases* - rentals paid under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation with the finance charge being allocated and charged to revenue over the term of the lease. Finance leases are held on the balance as an asset and deferred liability.

*Interest Between Funds* - cash balances held by the General Fund, HRA and Pension Fund are pooled for the purposes of cash flow management. Interest is payable on overdrawn balances for individual funds and receivable on surplus cash held by individual funds. For Funds other than the HRA the interest rate used is the average 7-day *LIBOR* rate. The rate used for the HRA is the average rate of interest earned in the year on approved investments.

*Redundancy and Early Retirement Compensation* - costs of redundancy and lump sum early retirement payments in the General Fund and the former DLO/DSO accounts in previous years were capitalised under a directive by the then Secretary of State for the Environment, Transport and the Regions and are being written off over seven years on a straight line basis. Annual pension enhancements for early retirement are accounted for in the year in which they are paid.

*Government Grants* - revenue government grants, like other revenue income, are accounted for in the year in which they arise. They are credited to the service to which the related expenditure is charged.

## **Pensions**

Employees are able, subject to certain qualifying criteria, to become members of the Local Government Pension Scheme (LGPS), or in the case of teachers, the pension scheme operated by the Department for Education and Skills (DfES). The employee and employer make pension contributions in the case of the LGPS and the teachers' scheme. The teachers' scheme is administered by the DfES, does not form part of the accounts for the Authority.

The Authority operates its own Pension Fund under the provisions of the LGPS. The accounts of the Fund are shown on pages 63-69. The Authority also has a pension fund managed by London Pensions Fund Authority; there are no longer any employees contributing to this scheme. All schemes provide members with defined benefits related to pay and service.

In respect of the teachers' scheme, the pension charge to the accounts is the contribution rate set by the DfES on the basis of a notional fund. The Pension Fund remains liable for pension entitlements for Magistrates Courts' staff accruing to 31 March 2001.

For other employees in the LGPS the pension costs that are charged to the Authority's accounts in respect of these employees are equal to the benefits earned in the year.

Council Tax continues to be raised on the basis of cash contributions paid to funded pension scheme for these employees. The Government Stakeholder pension scheme is not applicable to the Authority.

### **Capital Receipts**

Disposal of fixed assets of the Authority creates income known as capital receipts. These are held in reserves pending their application to fund new capital expenditure or to redeem loan debt. Capital receipts arise from the sale of assets such as land and council houses. The Government prescribes that 75% of the receipts from the sale of council houses and certain proportions of capital receipts must be pooled and redistributed by the government. The proportion of the amount not pooled is, as stated, held until applied to finance capital expenditure.

### **Current Assets**

*Stocks and Work in Progress* - the Authority maintains several stores. The stores include highways stock, fuel, vehicle spares, provisions and printing and stationery. Issues from stock are valued at latest purchase price. The value of work in progress, which mainly relates to rechargeable works, is recorded in the accounts at historical cost.

### **Other Accounting Policies**

*Provisions* - are included in the accounts for liabilities which are likely to arise or will be incurred as a result of past activities.

*Consolidation of Voluntary Aided Schools* – The accounts for Gunnersbury and Gumley schools have not been consolidated into these accounts. Payments to the schools are incorporated within Education Services in the Consolidated Revenue Account. Formal accounts have been sought as in previous years, but are still awaited from both Gunnersbury and Gumley Schools.

## CORE FINANCIAL STATEMENTS

### INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

This statement shows the gross expenditure, income and net expenditure analysed by service and how it was financed from the Collection Fund, Government grants, contributions from the NDR Pool and reserves. The analysis reflects the requirements of the Best Value Accounting Code of Practice for Local Authorities. This is a change from the Consolidated Revenue Account previously presented which included statutory items that are excluded from UK GAAP.

2005/06		2006/07			
Restated Net Expenditure		Expenditure	Income	Net Expenditure	
£000	Note	£000	£000	£000	
4,563	Central Services to the Public	33,854	(28,969)	4,885	
27,607	Cultural, Environmental and Planning	42,799	(12,133)	30,666	
145,934	Education Services	191,720	(173,475)	18,245	
12,165	Highways, Roads and Transport	24,022	(10,491)	13,531	
(5,566)	Housing Services	167,452	(171,346)	(3,894)	
77,304	Social Services	124,913	(39,592)	85,321	
(9)	Law and Order	11	(1)	10	
7,765	Corporate and Democratic Core	7,462	(11)	7,451	
(86)	Non-distributed costs	2,303	0	2,303	
<b>269,677</b>	<b>Net Cost of Services</b>	<b>594,536</b>	<b>(436,018)</b>	<b>158,518</b>	
(3,850)	Gain/loss on disposal of fixed assets	0	0	0	
6,613	Precepts and Levies	5,724	0	5,724	
(537)	Surplus from Trading Operations	22,183	(23,283)	(1,100)	
17,561	Interest payable and Similar Charges	16,947	0	16,947	
3,565	Pooled Housing capital receipts	3,884	0	3,884	
(3,136)	Interest and Investment Income	0	(1,797)	(1,797)	
8,519	Pension interest cost & expected return on assets	6,969	0	6,969	
<b>298,412</b>	<b>Net Operating Expenditure</b>	<b>650,243</b>	<b>(461,098)</b>	<b>189,145</b>	
(88,834)	Transfers (From) / To the Collection Fund	0	(89,187)	(89,187)	
(205,019)	Government grants not attributable to specific services	0	(85,838)	(85,838)	
<b>4,559</b>	<b>Net General Fund (Surplus) / Deficit</b>	<b>650,243</b>	<b>(636,123)</b>	<b>14,120</b>	

### STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

£000	Note	£000
4,559	Loss for the year on the Income and Expenditure a/c	14,120
(5,708)	Net additional amount required by statute and non-statutory proper practices transferred to the General Fund Balance	(13,172)
<b>(1,149)</b>	<b>(Increase)/Decrease in General Fund Balance for the year</b>	<b>948</b>
(7,842)	Balance on General Fund Brought Forward	(8,991)
<b>(8,991)</b>	<b>Balance on General Fund Carried Forward</b>	<b>(8,043)</b>

## BALANCE SHEET AS AT 31 MARCH 2007

31-Mar-06 £000		Note	31-Mar-07 £000
<b>Operational Assets</b>			
889	Intangible Assets	11 & 17	815
760,494	Council Dwellings	11	811,875
731,648	Other Land and Buildings	11 & 14	733,085
10,563	Vehicles, Plant & Equipment	11	14,961
77,223	Infrastructure Assets	11	85,981
5,250	Community Assets	11	5,918
<b>1,586,067</b>	<b>Non Operational Assets</b>		<b>1,652,635</b>
24,355	Investment Properties		26,721
4,650	Assets under Construction		0
<b>1,615,072</b>	<b>Net Fixed Assets</b>		<b>1,679,356</b>
850	Capital Deferred Charges	12	827
6,625	Revenue Deferred Charges	12	5,249
<b>1,622,547</b>			<b>1,685,432</b>
9	Long Term Investments		9
2,050	Long Term Debtors	20	1,849
<b>1,624,606</b>	<b>Total Long Term Assets</b>		<b>1,687,290</b>
<b>Current Assets</b>			
432	Stocks & Work In Progress		481
91,736	Debtors (Net of Bad Debts Provision)	20	72,010
6,300	Short Term Deposits		10,000
5,903	Cash		3,787
<b>104,371</b>			<b>86,278</b>
<b>Current Liabilities</b>			
105,107	Creditors	21	100,227
10,922	Temporary Borrowing	22	15,627
8,631	Bank Overdraft		4,834
<b>124,660</b>			<b>120,688</b>
<b>(20,289)</b>	<b>Net Current Assets</b>		<b>(34,410)</b>
3,528	Provisions	23	3,665
241,543	Long Term Borrowing	22	240,928
115,831	Government Grants deferred		129,258
242,487	Pension schemes liability	29	216,454
<b>1,000,928</b>	<b>Total Net Assets</b>		<b>1,062,575</b>
<b>Representing</b>			
660	Deferred Capital Receipts	24	515
968,412	Fixed asset restatement account	24	999,841
212,539	Capital financing account	24	223,977
1,222	Other Capital Reserves	24	2,588
354	Usable Capital Receipts Reserve	24	1,191
(242,487)	Pensions reserve	24 & 29	(216,454)
<b>Revenue Balances</b>			
(3,394)	Collection Fund	24	(1,642)
28,633	General Fund Balances	24 & 28	29,605
10,573	Housing Revenue Account	24	6,959
24,416	Other Earmarked Reserves	24	15,995
<b>1,000,928</b>	<b>Total Capital and Revenue Reserves</b>		<b>1,062,575</b>

## CASHFLOW STATEMENT

The Cash Flow Statement shows the payments and receipts of the Authority during the year. Sums accrued for revenue expenditure and income have been excluded. Also excluded are transfers between the various revenue funds of the Authority.

2005/06 £000	Revenue Activities	2006/07 £000
<b>Cash Outflows</b>		
278,077	Cash paid to & on behalf of employees	270,818
283,690	Other operating cash payments	198,955
79,578	Housing Benefit paid out	85,704
122,248	NNDR payments to National Pool	108,633
21,218	Precepts paid	23,664
5,855	Payments to the Capital Receipts Pool	4,271
<b>790,666</b>		<b>692,045</b>
<b>Cash inflows</b>		
(28,351)	Rents (after rebates)	(27,413)
(89,547)	Council Tax receipts	(94,389)
(70,951)	NNDR receipts from National Pool	(67,764)
(113,773)	Non-Domestic Rate receipts	(113,083)
(131,628)	Revenue Support Grant	(12,531)
(97,142)	DWP grants for benefits	(105,308)
(48,714)	Other Government Grants	(200,142)
(227,348)	Cash received for Goods & Services	(117,544)
<b>(807,454)</b>		<b>(738,174)</b>
<b>(16,788)</b>	<b>Net Cash Inflow from Revenue Activities</b>	<b>(46,129)</b>
<b>Servicing of Finance</b>		
17,167	Interest paid	17,246
(3,075)	Interest received	(1,741)
<b>14,092</b>	<b>Net Cash Outflow from Servicing of Finance</b>	<b>15,505</b>
<b>Capital Activities</b>		
83,270	Purchase of Fixed Assets	55,840
2,779	Other Capital Cash Payments	4,437
<b>86,049</b>		<b>60,277</b>
(7,457)	Sale of Fixed Assets	(5,220)
(17,371)	Capital Grants Received	(20,670)
568	Other Capital Cash Receipts	(4,731)
<b>(24,260)</b>		<b>(30,621)</b>
<b>61,789</b>	<b>Net Cash Outflow from Capital Activities</b>	<b>29,656</b>
<b>59,093</b>	<b>Net Cash Outflow/(Inflow) before financing</b>	<b>(968)</b>
<b>Management of Liquid Resources</b>		
(45,600)	Net increase/(decrease) in short term deposits	3,700
<b>Financing</b>		
196,153	Repayment of amounts borrowed	193,881
(204,239)	New loans raised	(198,294)
<b>(8,086)</b>		<b>(4,413)</b>
<b>5,407</b>	<b>Net (Increase)/Decrease in Cash</b>	<b>(1,681)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2005/06		2006/07
£000		£000
4,559	Deficit on the Income and Expenditure Account	14,120
1,598	Surplus or deficit on the Collection Fund	(1,752)
221,273	Surplus or deficit arising on revaluation of fixed assets	(40,988)
12,353	Actuarial gains and losses on pension fund assets and liabilities	(32,835)
<b>239,783</b>	<b>Total recognised gains and losses for the year</b>	<b>(61,455)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1: Prior Period Adjustments

For 2006/07 the arrangements for Government support for the funding of schools changed. Previously funds were provided as part of the council's overall Revenue Support Grant. In 2006/07 the Council received a specific grant – the Dedicated Schools Grant. Therefore £133m has been credited against the education service in the Income and Expenditure Account that would previously have been treated as part of the Revenue Support Grant in corporate income. The difference between the 2006/07 figures and comparative figures for 2005/06 are explained by this change.

### Note 2: Trading Services and Operations

The Authority maintains a number of separate accounts for individual trading units. For the majority of these areas, contracts were entered into following a competitive tendering process. Where surpluses materially affect service expenditure, these have been charged in the service accounts. The financial results of these trading operations were as follows:

2005/6 Surplus		Turnover	Expenditure	Surplus/ (Deficit)
£000		£000	£000	£000
(107)	Catering - Schools & Welfare	5,090	5,079	11
0	Highways Maintenance*	4,012	4,012	0
0	Waste Collection*	2,510	2,510	0
0	Street Cleansing	3,587	3,587	0
49	Vehicle Maintenance	1,120	1,069	51
402	Fleet Management	2,753	2,554	199
(42)	Transport Trading Operations	3,103	3,095	8
178	Other Trading Operations	1,108	277	831
<b>480</b>	<b>Total</b>	<b>23,283</b>	<b>22,183</b>	<b>1,100</b>

\*Services are charged on the basis of actual costs therefore there is no surplus or deficits on these accounts.





## Note 6: Members Allowances and Officer Emoluments

Members' Allowances paid in the year amounted to £727,763 (£742k 2005/06).

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

2005/6		Banding		2006/07
97	50,000	-	59,999	112
21	60,000	-	69,999	32
10	70,000	-	79,999	10
9	80,000	-	89,999	6
6	90,000	-	99,999	10
1	100,000	-	109,999	2
0	110,000	-	119,999	0
1	120,000	-	129,999	0
0	130,000	-	139,999	1

## Note 7: Related Party Transactions

All Councillors and relevant officers are required to complete declarations to meet the requirements of FRS8 (Transactions with Related Parties). Declarations from all Councillors were received from which there were no material declarations to disclose.

The Authority receives substantial sums by way of grants from various Government departments and pays grants and contract payments to a number of independent organisations providing services on its behalf. Material transactions not specified elsewhere in the accounts includes the following:

- Specific grants amounting to £296m including £134m Dedicated Schools Grant (£153m 2005/06) were received from Government departments.
- Grants and Contract Funding amounting to £8.6m (£11.6m 2005/06) were paid to Community Initiative Partnerships and its associated companies.
- Grants amounting to £1.37m (£1.33m 2005/06) were paid to other voluntary organisations.
- Agency funding of £36.2m was paid to Hounslow Homes (£33.57m 2005/06)

## Note 8: Audit Fees

The fees payable to KPMG, the Audit Commission's appointed auditor, in respect of external audit services under the Audit Commission's *Code of Audit Practice* amounted to:

2005/06		2006/07
£000		£000
345	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	321
91	Fees payable to the Audit Commission in respect of statutory inspection	27
111	Audit fees payable to the Audit Commission for the certification of grant claims and returns	90

## Note 10: Reconciliation of Movement on General Fund Balances

2005/06	Amounts included in the Income & Expenditure a/c but required by statute to be excluded when determining the movement on the General Fund Balance	2006/07
£000		£000
(10,992)	Depreciation & Impairment of fixed assets	(11,966)
2,440	Government grants deferred amortisation	2,844
(1,361)	Write downs of deferred charges to be financed from capital resources	(1,478)
1,988	Net gain on disposal of fixed assets	0
(23,105)	Net charges made for retirement benefits in accordance with frs17	(25,849)
(31,030)		(36,449)
	Account but required to be included by statute when determining the Movement on the General fund balance for the year	
2,925	Minimum Revenue Provision for capital financing	3,281
1,152	Capital Expenditure charged in year to the general fund balance	0
(3,565)	Transfer from usable capital receipts for HPCR	(3,884)
17,616	Employers contributions payable to the pension fund and retirement benefits payable direct to pensioners	19,046
(12,902)		(18,006)
	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	
3,259	Transfer of HRA Balances	(1,533)
406	Voluntary revenue provision for capital financing	714
3,529	Net Contribution to Earmarked Reserves	5,653
(5,708)	Net additional amount required to be credited to the General Fund Balance for the year	(13,172)

**Note 11: Summary of fixed assets and financing**

	Intangible Assets	Council Dwellings	Other Land & Buildings	Vehicles Plants & Equipment	Infrastructure Assets	Community Assets	Investment Properties	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Net Book Value 1 April 2006</b>	889	760,494	731,648	10,563	77,223	5,250	24,355	4,650	1,615,072
Expenditure 2006/07	104	0	816	6,560	11,000	764	0	1,703	20,947
Revaluations	0	66,642	5,797	0	0	0	482	0	72,921
Disposals	0	(5,310)	(1,132)	0	0	0	(55)	0	(6,497)
Transfers	0	0	4,510	0	0	(96)	1,939	(6,353)	0
Gross Book Value	993	821,826	741,639	17,123	88,223	5,918	26,721	0	1,702,443
Depreciation	(178)	(9,951)	(8,553)	(2,163)	(2,242)	0	0	0	(23,087)
<b>Net Book Value 31 March 2007</b>	815	811,875	733,086	14,960	85,981	5,918	26,721	0	1,679,356

The capital financing requirement to fund the capital expenditure in year is as follows:

2005/06		2006/07
£000		£000
275,896	Opening Capital Financing Requirement	319,143
	<b>Capital Investment</b>	
82,981	Operational assets	53,702
2,280	Non operational assets	2,239
2,779	Deferred Charges	4,437
	<b>Sources of finance</b>	
(3,885)	Capital Receipts	(3,618)
(17,641)	Government grants and other contributions	(19,252)
(23,267)	Sums set aside from revenue	(29,542)
<b>319,143</b>	<b>Closing capital financing requirement</b>	<b>327,109</b>
	<b>Explanation of Movement</b>	
37,899	Increase in government supported borrowing	5,509
7,366	Increase in unsupported borrowing	6,452
(3,330)	Reduction in debt financed from revenue	(3,995)
1,312	Long Term Liabilities (finance leases)	0
<b>43,247</b>	<b>Increase/decrease in capital financing requirement</b>	<b>7,966</b>

#### Note 12: Deferred Charges

Deferred charges are only included on the balance sheet when direct benefit accrues to Hounslow beyond the date that expenditure is incurred. On this basis, only capitalised termination of employment costs continue to be shown on the balance sheet in recognition of the future revenue savings that they represent. Such costs are amortised to revenue over a 7-year period.

	Improve ment	Capitalised Redundancy/ Pension Fund	Other Grants	Total
	£000	£000	£000	£000
Balance as at 1/4/06	0	850	0	850
Expenditure 2006/07	4,221	193	23	4,437
Amortised 2006/07	(4,221)	(216)	(23)	(4,460)
Balance as at 31/3/07	0	827	0	827

Revenue deferred charges represent discounts and premiums on early redemption of debt. These are being written off over appropriate periods, taking into account of their associated economic benefits.

#### Note 13: Capital Commitments

Major commitments under capital contracts at 31 March 2007 relate to the following schemes:

2005/6		2005/6
£000		£000
	<b>Housing Schemes</b>	
174	Meadowcroft Sheltered Conversions	0
655	Ivybridge Regeneration	155
346	Redwood Estate Over Roofing	0
3,895	Convent Way Regeneration	461
3,019	Other	347
2,869	Housing General Fund - Heatstreets	465
0	Street Management - London Road Bus Priority	245
330	Education -Beavers Children Centre	0
200	Social Services -Looked After Children-Nantley House	0
	-Clifton Gardens Dementia Unit	550
200	-Accommodation Improvements	0
1,500	CED -Lampton Park Conference Centre	150
200	-New Telephones	0
920	-New IT system for HR/Payroll	350
300	Leisure -The Hub Beavers	0
280	-Dukes Meadow	0
<b>14,888</b>		<b>2,723</b>

#### Note 14: Tangible Fixed Assets

Major fixed assets are as follows:

31-Mar-06	Assets	31-Mar-07
	Childrens' Services and Lifelong Learning	
60	Primary and Nursery Schools	60
14	Secondary Schools	14
5	Special Schools	5
8	Education Centres (incl. Youth Centres)	8
5	Community Sports Halls	5
7	Residential and Day Care Establishments	7
	Housing and Community Services	
33	Residential and Day Care Establishments	32
2	Community Centres	2
	Leisure Services	
5	Leisure Centres and Pools	5
2	Museums and Galleries	2
1	Golf Courses	1
9	Cemeteries	9
10	Libraries	10
2	Sports Hall and Outdoor Arena	2
1	Arts and Craft Centre	1
	Other	
2	Council Offices	2
18	Off Street Car Parks	20
1	Western International Market	1
1	Asian Women's Centre	1
13,720	Council Dwellings	13,584
4,271	Houses and Bungalows	4,213
9,463	Flats/ Maisonettes	9,366
	<b>Land</b>	
705 hectares	Parks and Open Spaces	705 hectares
92 hectares	Cemeteries and Allotments	92 hectares
	<b>Infrastructure</b>	
433.9 km	Roads	433.2 km

## Note 15: Leases

The Authority holds vehicles and a financial management system under finance leases, with charges amounting to £385k for the year 2006/07 (£204k 2005/06). The Authority also leases vehicles and computer equipment under operating leases, paying in total £1.8m in 2006/07 (£2m 2005/06).

The Authority has entered into finance leases in respect of data storage and a new financial management system to the value of £1,44m. The gross value is included in Intangible assets; depreciation is not charged in the first year. The outstanding liability for the capital value of these leases at 31 March 2007 is £959k (£729k 2005/06).

Future payments required under these leases are as follows:

31-Mar-06		31-Mar-07
£000	Commitment expires	£000
1,456	within one year	1,099
2,773	between second and fifth year	1,440
0	over five years	0
4,229	Total outstanding commitments	2,539

## Note 16: Fixed Asset Valuation

All the freehold and leasehold properties which comprise the Authority's property portfolio, with the exception of council dwellings, are subject to a rolling formal revaluation over a five year period by the Authority's Asset Registrar and Appointed Valuer – Lee Dawson, ARICS. The Authority's dwelling stock is subject to an annual revaluation.

The bases used for valuation accord with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors, except that not all the housing properties are inspected. This is neither practical nor considered by the valuer to be necessary for the purpose of valuation.

Properties regarded by the Authority as non-operational have been valued on the basis of open market value. Furniture and equipment within operational buildings have been included in the valuation for the building. Intangible assets, infrastructure and Community assets have been valued at historical cost, net of depreciation.

Not all expenditure increases the gross book value of assets. Where expenditure is deemed to not add value such amounts are shown within revaluations and written off to the Fixed Asset Restatement Account.

The basis for the valuation of the housing stock reflects the use of the assets for social housing purposes, and is based on the ratio of rents to private sector rents.

Fixed Assets are depreciated in accordance with the Depreciation policies outlined in the Statement of Accounting Policies on page 25.

## Note 17: Intangible Assets

Software licences for the Agresso Financial System are held, which cost £104k in Year. The cost is being written off over the 5-year life of the licences.

Software Licences		£000
Original Cost		889
Amortisation to 31 March 2006		0
<b>Balance at 1 April 2006</b>		<b>889</b>
Expenditure in year		104
Written off to revenue in year		(178)
<b>Balance at 31 March 2007</b>		<b>815</b>

### Note 18: Analysis of Net Assets Employed

The table below details the net assets (both revenue and capital) employed by the Authority in the year.

2005/06		2006/07
£000		£000
614,942	General Fund	635,706
389,380	Housing Revenue Account	428,511
(3,394)	Collection Fund	(1,642)
<b>1,000,928</b>	<b>Total</b>	<b>1,062,575</b>

### Note 19: Associated Companies

Details of this Authority's subsidiaries are set out in the Group Accounts on pages 57-62. In addition, the Authority, in partnership with certain other London Boroughs and Housing Associations, is operating a joint lettings scheme for housing tenants. A company called Locata Ltd. has been set up for this purpose. This company is a controlled company under the Local Government and Housing Act 1989. At the time of writing the accounts of Locata were not available for 2006/07. The Authority is liable to contribute to the debts and liabilities of the organisation if it was wound up, up to the value of £10. During 2006/07 the Authority paid £174k to Locata Ltd (£119k 2005/06). The company's accounts have not been consolidated into the Authority's accounts.

A copy Locata's accounts can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ or on-line at [www.companies-house.gov.uk](http://www.companies-house.gov.uk).

### Note 20: Long Term and Current Debtors

At 31<sup>st</sup> March 2007 the Council had debts over 365 days of:

31-Mar-06		31-Mar-07
£000	Mortgages	£000
593	Council house sales	418
3	Government Departments	0
11	Local Authorities: Recoupment	10
<b>607</b>		<b>428</b>
Other		
144	Car loans to employees	131
948	Loans to organisations and deferred debtors	942
101	Loans for adaptations	98
250	Loan to Hounslow Homes	250
<b>1,443</b>		<b>1,421</b>
<b>2,050</b>		<b>1,849</b>



And short term debtors of:

31-Mar-06		31-Mar-07
£000		£000
4,300	Housing Rents	4,964
44,012	Government Departments	32,554
1,359	Local Authorities: Recoupment	1,132
2,033	Local Authorities: Other	5,046
11,658	Non Domestic Rate arrears	10,340
27,163	Council Tax arrears	28,250
31,177	Sundry Debtors	26,204
5,022	Payments in advance	2,486
126,724	<b>Sub Total</b>	<b>110,976</b>
(34,988)	<b>Less: Provision for Doubtful Debts</b>	<b>(38,966)</b>
91,736	<b>Total</b>	<b>72,010</b>

### Note 21: Creditors

31-Mar-06		31-Mar-07
£000		£000
6,385	Government Departments	8,743
2,160	Local Authorities: Recoupment	2,284
4	Local Authorities: Other (excluding NHS)	8
68,658	Sundry Creditors	61,078
15,069	Non Domestic Rate prepayments	14,529
4,627	Council Tax prepayments	4,068
8,204	Receipts in advance	9,517
105,107	<b>Total</b>	<b>100,227</b>

### Note 22: Temporary and Long Term Borrowings

31-Mar-06		31-Mar-07
£000		£000
193,673	Public Works Loan Board	193,392
47,000	Money Market	47,000
10,300	Temporary	15,000
1,492	Other Sources	1,163
252,465	<b>Total</b>	<b>256,555</b>

Analysis of loans by maturity:

31-Mar-06		31-Mar-07
£000		£000
7,792	Between 1 and 2 years	1,304
22,580	Between 2 and 5 years	8,765
83,654	Between 5 and 10 years	61,731
127,517	More than 10 years	169,128
241,543	<b>Long Term Borrowing</b>	<b>240,928</b>
10,922	Less than 1 year	15,627
252,465	<b>Total</b>	<b>256,555</b>

## Note 23: Provisions

These monies have been set aside to cover liabilities as at 31 March 2007

31-Mar 2006		Transfers In	Transfers Out	31-Mar 2007
£000		£000	£000	£000
2,798	Provisions for Insurance Claims	1,356	(1,221)	2,933
730	Other Provisions	4	(2)	732
3,528	<b>Total Provisions</b>	1,360	(1,223)	3,665

The Provision for Insurance Claims is a provision for future insurance claims arising from the Authority's self-insurance of liability risks and fire damage. The Authority self-insures against part of its liability risk (i.e. public, employers, land charges, officials' indemnity, libel and slander) by meeting up to the first £135k of every claim. The maximum liability of the provision for this policy year for this risk is £3m. The Authority self-insures against part of its property risk, meeting the first £125k of each and every claim. The liability of the Authority in respect of fire damage is limited to a maximum of £600k in total for this year, after which the insurance company will meet all further insurance claims.

Other provisions include other minor items for which a liability exists and a provision for reimbursement of charges for residential aftercare under Section 117 of the Mental Health Act 1983 following judgement from the House of Lords in May 2002. The provision currently stands at £444k following guidance from the Local Government Ombudsman. The number of claims will determine the amount and timing of payments.

## Note 24: Movement on Reserves

The table overleaf sets out the movements on all reserves; specific reserves include:

- The Parking reserve account represents surpluses set aside from on-street parking income to fund traffic management and transport initiatives as defined by statute. The other funds represent the aggregate of amounts set aside for specific purposes where individually the amounts are non-material.
- The District Heating reserve is funded by contributions from tenants and is used for the repair and maintenance of the District Heating Plant.
- The Market Building Repair Fund was created under the Hounslow Corporation Act 1968 and is required in respect of the Authority's Western International Market.
- The Repairs and Renewals reserve is funded by contributions from services and is used to fund purchases of plant, vehicles and equipment.
- The Commissioning Strategy Reserve contains under spends carried forward from 2006/07 which has been earmarked to fund future expenditure.
- The Community Care Reserve reflects the uncertainty over a range of service issues in social services.

- The Deferred Grant Scheme reserve is in respect of grant received from the Department of Health to fund deferred payments due from older people in respect of care packages in residential accommodation.
- The Major Repairs Reserve funds major repairs to the Authority's Housing stock.

01-Apr-06		Gains/ Losses	Transfers to/from reserves	Other Move- ments	31-Mar-07
£000		£000	£000	£000	£000
8,991	General Fund Non Earmarked	(14,120)	13,172		8,043
9,922	Schools balances		3,540		13,462
9,720	Other general fund reserves		(1,620)		8,100
(3,394)	Collection Fund	1,752			(1,642)
<b>25,239</b>	<b>Total General Fund</b>	<b>(12,368)</b>	<b>15,092</b>	<b>0</b>	<b>27,963</b>
1,392	IT Development Fund		590		1,982
340	Market Building Repair Fund		(114)		226
3,597	Repairs and Renewals		(41)	192	3,748
1,197	Community Care Reserve		500		1,697
0	Budget for Modernisation		2,929		2,929
3,834	Other Earmarked Funds		(163)		3,651
<b>10,360</b>	<b>Total Earmarked</b>	<b>0</b>	<b>3,701</b>	<b>192</b>	<b>14,233</b>
10,573	HRA Balance		(3,614)		6,959
1,394	District Heating		(14)		1,380
10,676	Major Repairs Reserve		(10,676)		0
1,986	Major Works Reserve		(1,604)		382
<b>24,629</b>	<b>Total HRA</b>	<b>0</b>	<b>(15,908)</b>	<b>0</b>	<b>8,721</b>
968,412	Fixed Asset Restatement	40,988	(9,559)		999,841
212,539	Capital Financing Reserve		11,438		223,977
354	Useable capital receipts		837		1,191
660	Deferred capital receipts		(145)		515
1,222	Other capital reserves		1,366		2,588
(242,487)	Pension Fund	32,835	(6,802)		(216,454)
<b>940,700</b>	<b>Total Capital Reserves</b>	<b>73,823</b>	<b>(2,865)</b>	<b>0</b>	<b>1,011,658</b>
<b>1,000,928</b>	<b>Total Reserves</b>	<b>61,455</b>	<b>20</b>	<b>192</b>	<b>1,062,575</b>

During the year a provision for additional costs of social services was re-categorised as an earmarked reserve, this increased the level of reserves at 31<sup>st</sup> March 2006 by £750,000.

#### **Note 25: Authorisation of Accounts**

The Acting Director of Finance authorises the Accounts for issue as at 30<sup>th</sup> September 2007. No events after this date have been recognised in the Statement of Accounts.

#### **Note 26: Post Balance Sheet Events**

There are no post balance sheet events to disclose.

## **Note 27: Trust Funds**

The Authority administers a number of trust funds, not included within the Authority's own financial statements. David Henry Waring Home Trust and Bedfont Lakes Trust accounts are included within the group accounts on pages 57-62. In addition, the Council administers a number of other small Trust Funds, the most significant of which are:

- **Hayburn Bequest** - established when a property was bequeathed for the provision of social housing. As at 31 March 2007 it had assets of £177k with net income of £9k from investments during the year.
- **The Layton Memorial and Museum Trust** – established under the Will of the late Thomas Layton (who died in 1911) for the purpose of maintaining his collection of early British bronze and other implements, and other books, pictures, curios and articles of vertu. At 31 December 2006 the Trust had funds of £132k. Expenditure in 2006 amounted to £25,220.

## **Note 28: Schools Balances**

The earmarked school balances represent the accumulated reserves since the implementation of Local Management of Schools under the Education Reform Act 1988. These are held for the specific use of the school, at 31<sup>st</sup> March the balance held totalled £13.4m.

## **Note 29: Pension Costs**

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to payments made to the pension fund for these benefits.

The Authority participates in three Local Government Pensions Schemes, administered by the London Borough of Hounslow, the Teachers Pension Scheme and the other administered by the London Pension Fund Authority.

### **Transactions relating to Retirement Benefits**

The Authority recognises the cost of retirement benefits in the net cost of services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge required to make against council tax is based on the cash paid to the pension fund in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance.

In 2006/07 the Authority paid an employer's contribution of £16.8m (£16.8m 2005/06) into the Pension Fund representing 21.54% of pensionable pay and added years benefits of £1.3m (£1.7m 2005/06).



31-Mar-06			31-Mar-07	
LBH Fund	LPFA Fund		LBH Fund	LPFA Fund
% per annum	% per annum		% per annum	% per annum
3.0	3.1	Rate of Inflation	3.3	3.2
4.8	4.6	Rate of Increase in salaries	5.1	4.7
3.0	3.1	Rate of Increase in pensions	3.3	3.2
4.9	4.9	Rate of Discount	5.4	5.4

	LBHounslow Fund				LPFA Fund			
	Proportion of Fund		Rate of Return		Proportion of Fund		Rate of Return	
	31-Mar	31-Mar	31-Mar	31-Mar	31-Mar	31-Mar	31-Mar	31-Mar
	2006	2007	2006	2007	2006	2007	2006	2007
	%	%	%	%	%	%	%	%
Equities	68.6	66.4	7.0	7.2	14.0	14.5	7.4	7.8
Gilts	14.6	14.3	4.2	4.4				
Property	5.9	5.9	6.5	6.7				
Bonds	0.4	0.4	4.9	5.4				
Cash	10.5	13.0	4.0	5.0	3.0	1.7	4.6	4.9
Cash Flow Matching					83.0	83.8	4.2	4.5

Assets in the funds are valued at fair value, principally market value for investments, and consist of the following categories by proportion and the expected rate of return assumed for each class as follows:

### Actuarial Gains and Losses

The actuarial gains and losses identified as movements on the pensions reserve can be analysed into the following categories:

LBH FUND	31-Mar-03	31-Mar-04	31-Mar-05	31-Mar-06	31-Mar-07
	£000	£000	£000	£000	£000
Actual Return Less Expected Return on Assets	(67,900)	27,158	18,895	49,662	10,078
Experience Gains and Losses Arising on Liabilities	0	0	22,198	(7,086)	0
Changes in Assumptions Underlying the Present Value of Liabilities	0	(8,165)	(5,394)	(54,978)	22,677
<b>Actuarial Gains/Losses</b>	<b>(67,900)</b>	<b>18,993</b>	<b>35,699</b>	<b>(12,402)</b>	<b>32,755</b>

### Cost of early retirement

In certain cases the Authority makes discretionary enhancements to pension entitlements to staff that retire early. Discretionary enhancements to retirement lump sums paid in 2006/07 amounted to £3,390. Discretionary enhancements to pensions payable to staff retiring during 2006/07 had a notional capital value of £25,989. Discretionary enhancements to pensions paid in 2006/07 to staff who retired in earlier years amounted to £1.23m and had a notional capital value calculated in accordance with Cipfa guidance of £22.1m.

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

### Note 30: Teachers Pension Scheme

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

The Scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2006/07 the Authority paid £9.9m (£9.2m 2005/06) to the DfES in respect of teachers' pension costs, which represents 13.4% of teachers pensionable pay. In addition, the Authority is responsible for all pension payments relating to added years it has awarded, together with the related increases, amounting to £0.3m in 2006/07 (£0.3m 2005/06) equivalent to 0.4% of pensionable pay.

### Note 31: Reconciliation of Income & Expenditure Account to Cashflow

In order to reconcile the various revenue surpluses and deficits shown in the accounts with the net cash inflow on revenue activities the following adjustments are needed:

2005/06		2006/07
£000		£000
	(Surplus) / Deficit on	
(4,497)	General Fund	(972)
1,598	Collection Fund	(1,752)
(1,270)	Housing Revenue Account	3,614
6,783	Other Reserves	8,421
<b>2,614</b>	<b>Net (Surplus)/Deficit on Revenue Accounts</b>	<b>9,311</b>
	Adjustments for non cash transactions	
3,565	Housing capital pool	3,844
(24,267)	Capital Financing Adjustments	(26,427)
0	FRS17 Pension costs	(6,803)
(1,714)	Provisions	(137)
0	Transfers to/from other reserves	2,866
11,082	Debtors	(19,782)
6,586	Creditors	6,100
(168)	Stock	49
(14,486)	Less Net Cash Outflow from Servicing of Finance	(15,150)
<b>(16,788)</b>	<b>Net Cash Inflow from Revenue Activities</b>	<b>(46,129)</b>

**Note 32: Reconciliation of Net Cash Flow to the Movement in Net Debt**

2005/06		2006/07
£000		£000
194,691	Net Debt as at 1 April	248,893
248,893	Net Debt as at 31 March	247,602
<b>54,202</b>	<b>Increase in Net Debt</b>	<b>(1,291)</b>
	Represented by:	
(196,153)	Repayment of amounts borrowed	(194,204)
205,390	New loans raised	198,294
45,600	(Increase)/Decrease in short term deposits	(3,700)
(635)	(Increase)/Decrease in cash	(1,681)
<b>54,202</b>	<b>Total</b>	<b>(1,291)</b>

**Note 33: Reconciliation of Financing and Liquid Resources**

	Short Term Deposits	Temporary Borrowing	Long Term Borrowing	Total
	£000	£000	£000	£000
Balance at 1/4/06	6,300	(10,922)	(241,543)	(246,165)
Loans falling due within one year	0	0	292	292
New Loans raised	3,700	(166,586)	(32,000)	(194,886)
Loans repaid	0	161,881	32,323	194,204
<b>Balance at 31/3/07</b>	<b>10,000</b>	<b>(15,627)</b>	<b>(240,928)</b>	<b>(246,555)</b>

**Note 34: Management of Liquid Resources**

Liquid resources included in the Cash Flow Statement represent short term deposits placed with banks, building societies and other institutions, repayable within 364 days.

**Note 35: Other Government Grants Receivable**

These can be analysed (reflecting grants due but not necessarily received in the year) as follows:

2005/06		2006/07
£000		£000
30,769	Life Long Learning and children's services	170,256
92,394	Housing and Community Services	96,324
7,737	Housing Revenue Account	5,763
22,164	Chief Executive's Directorate	20,110
480	Street Management and Public Protection	700
<b>153,544</b>	<b>Total</b>	<b>293,153</b>

**Note 36: Single European Currency**

The Accounting Code of Practice requires the Authority to disclose any action taken in respect of the single European Currency. The Authority has in place a Euro bank account in which payments are received and continues to prepare for the possible



introduction of the single European Currency. Costs and work have been kept to a minimum until such times as a firmer timescale for the introduction of the single European currency are established.

### Note 37: Dedicated Schools Grant

The Council's expenditure on schools is funded by a grant from the Department for Education and Skills (DFES) – 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 under spends on the two elements are required to be accounted for separately.

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools Budget for the current year in the authority's budget	15,982	118,208	134,190
Adjustment to finalised grant allocation	0	516	516
<b>DSG Receiveable for the year</b>	<b>15,982</b>	<b>118,724</b>	<b>134,706</b>
Actual expenditure in year	15,422	118,724	134,146
<b>(Over)/Under spend for the year</b>	<b>(560)</b>	<b>0</b>	<b>(560)</b>

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the management maintenance of the Authority's houses and flats. The account has to be self-financing and there is a legal prohibition on cross subsidy to or from Council Tax payers. The Authority has transferred responsibility for the management of its Housing stock to Hounslow Homes, an arms length management company, wholly owned by the Authority. In 2006/7 the turnover of Hounslow Homes amounted to £78.8m. The Authority retains ownership of the housing stock and has statutory responsibility for the Housing Revenue account. The company's transactions are already incorporated in the Authority's accounts in the form of payments to and receipts from the company. The accounts of the company are consolidated into the Authority's accounts.

2005/06 £000		Notes	2006/07 £000
47,459	Dwelling rents	1	49,484
1,630	Non-dwelling rents		1,686
4,404	Charges for services and facilities		5,296
2,459	Lessees' contributions towards expenditure		3,330
7,737	HRA subsidy	6	5,763
<b>63,689</b>	<b>Total Income</b>		<b>65,559</b>
14,962	Repairs and maintenance		16,056
11,563	General management		13,765
11,362	Special services		11,840
1,019	Rents, Rates, Taxes and Other Charges		785
77	Rent rebates		0
334	Provision for bad and doubtful debts	7	(35)
11,066	Depreciation of Fixed Assets	5	11,120
102	Debt Management costs		127
<b>50,485</b>	<b>Total Expenditure</b>		<b>53,658</b>
<b>(13,204)</b>	<b>HRA Net Cost of Services</b>		<b>(11,901)</b>
(2,132)	Gain or loss on sale of HRA fixed assets		0
13,285	Interest payable and similar charges		14,209
(1,208)	Interest and Investment income		(774)
<b>(3,259)</b>	<b>Surplus/(deficit) for the year</b>		<b>1,534</b>

## STATEMENT OF MOVEMENT ON HRA BALANCE

2005/06 £000		2006/07 £000
(3,259)	Surplus/deficit for the year	1,534
<b>Additional Items required by statute and non-statutory proper practices to be taken into account in determining the movement on the HRA Balance</b>		
2,132	Gain or loss on sale of HRA fixed assets	0
604	Capital Expenditure funded by HRA	2,112
(878)	Transfer from Major Repairs Reserve	(1,170)
537	Transfer to Major Works Reserve	1,152
(406)	Net contribution to District Heating Reserve	(14)
<b>(1,270)</b>	<b>Sub-total</b>	<b>3,614</b>
<b>(9,303)</b>	<b>Balance brought forward</b>	<b>(10,573)</b>
<b>(10,573)</b>	<b>Balance carried forward</b>	<b>(6,959)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### Note 1: Rent of Dwellings

This is the total rent income collectable for the year after allowance is made for empty properties. During the year 2006/07 1.43% (1.21% 05/06) of lettable properties were vacant.

### Note 2: Housing Stock

The Authority was responsible for managing on average 13,650 dwellings during 2006/07 (13,770 05/06). The stock numbers at the year-end were made up as follows:

2005/06		2006/07
Number		Number
4,270	Houses/Bungalows	4,213
9,450	Flats/Maisonettes	9,366
<b>13,720</b>	<b>Stock as at 31 March</b>	<b>13,579</b>

The change in stock can be summarised as follows:

2005/06		2006/07
Number		Number
13,821	Stock at 1 April	13,720
(46)	Less: Sales	(30)
(55)	Less: Demolitions, Conversions etc.	(41)
	Less: Demolitions, Conversions etc re 05-06 not previously reported	(70)
<b>13,720</b>	<b>Stock as at 31 March</b>	<b>13,579</b>

The balance sheet value of the land, houses and other property within the HRA is as follows:

2005/06		2006/07
£000		£000
	<b>Operational Assets</b>	
760,494	Dwellings	811,875
12,539	Other land and buildings	12,545
	<b>Non-operational Assets</b>	
0	Dwellings	0
4,188	Other land and buildings	4,053
<b>777,221</b>	<b>Total</b>	<b>828,473</b>

### Note 3: Major Repairs Reserve

HRA Resource Accounting requires the maintenance of a Major Repairs Reserve (MRR). This represents the balance of the Major Repairs Allowance not used to fund major repairs to Housing stock. The statement below analyses the movement in this reserve.

2005/06		2006/07
£000		£000
17,536	Balance as at 1 April	10,676
11,066	Amount transferred in	11,120
(878)	Amount transferred out	(1,170)
	Amount in respect of capital expenditure:	
(15,670)	Houses	(20,626)
(1,378)	Other Property	0
<b>10,676</b>	<b>Balance as at 31 March</b>	<b>0</b>

## Note 4: Capital Expenditure and Financing

### (i) Capital Expenditure

The following statement summarises the total capital expenditure on land, houses and other property within the HRA and how it was funded.

2005/06				2005/06		
Houses	Other Property	Total		Houses	Other Property	Total
£000	£000	£000		£000	£000	£000
34,128	1,146	35,274	Borrowing	0	2,822	2,822
1,288	712	2,000	Usable capital receipts	0	93	93
0	604	604	Revenue contributions	0	2,111	2,111
60	840	900	Leaseholder reserves	71	2,685	2,756
15,475	1,378	16,853	Major Repairs Reserve	20,626	0	20,626
38	0	38	Section 106	70	10	80
0	0	0	Grants/other contributions		264	264
<b>50,989</b>	<b>4,680</b>	<b>55,669</b>	<b>Capital payments on a cash basis</b>	<b>20,767</b>	<b>7,985</b>	<b>28,752</b>
195	0	195	Accruals Adjustment	0	0	0
<b>51,184</b>	<b>4,680</b>	<b>55,864</b>	<b>Expenditure in Year</b>	<b>20,767</b>	<b>7,985</b>	<b>28,752</b>

### ii) Capital Receipts

The following statement summarises the total capital receipts from disposals of land, houses and other property within the HRA during 2006/07.

2005/06			2006/07	
£000			£000	
5,178	Sale of 15 x houses (23 05/06) & 15 x flats (20 05/06)		4,429	
0	Land Sales		10	
0	Other receipts		871	
<b>5,178</b>	<b>Total</b>		<b>5,310</b>	

## Note 5: Depreciation

Depreciation on dwellings and other assets is charged to operational expenditure as set out on Page 25. An amount equal to the depreciation on dwellings is then set-aside in the Major Repairs Reserve in order to fund major repairs as set out in Note 3.

2005/06			2006/07	
£000			£000	
10,188	Houses		9,950	
878	Operational assets		1,170	
<b>11,066</b>	<b>Expenditure in Year</b>		<b>11,120</b>	

## Note 6: Housing Subsidy

The Government pays a subsidy to the Housing Revenue Account. It is based on a notional account representing the Government's assessment of what the Authority should be collecting and spending. The following statement provides a breakdown of the amount of HRA subsidy payable in the year.

31-Mar-06		31-Mar-07
£000		£000
23,799	Management and maintenance	25,020
10,318	Charges for capital	10,340
83	Admissible Allowance	42
7,976	ALMO Allowance	7,976
(44,566)	Notional rent	(47,504)
(62)	Interest on receipts	(44)
10,189	Major repairs allowance	9,951
0	Prior year adjustment	(18)
<b>7,737</b>	<b>Total</b>	<b>5,763</b>

## Note 7: Rent Arrears

The gross rent arrears at the 31 March 2007 was £3.49m (£2.66m 2005/06). A bad debt provision in respect of current and former tenant arrears has been made in the accounts in respect of potentially uncollectable rent arrears. This provision amounted to £2.19m at 31 March 2007 (£1.98m 31 March 2006).

## Note 8: District Heating

Special Services includes the District Heating Account, which is self-financing and contains the expenditure and income associated with providing communal district heating plant on some of the Authority's housing estates. During 2006/07 expenditure of £2.317m was financed by customer and client receipts of £2.303m and there was a contribution from the district heating reserve of £0.014m (see Note 24 to the main statements).

## Note 9: Major Works Reserve

The Major Works Reserve has been set up to account for contributions received from leaseholders to fund major works to their homes but which was not yet been required to fund the capital programme. In 2006/07 £2.756m was utilised to fund the capital programme. Any remaining balance will be used to fund the capital programme in 2007/08 or future years but is not available for funding revenue expenditure.

## COLLECTION FUND

These statements represent the transactions of the statutory Collection Fund. The Fund accounts independently for income relating to the Council Tax and Non-Domestic Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. Administration costs are borne by the General Fund.

### INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2007

2005/06	Note	2006/07
£000		£000
110,050	1	115,304
109,999	2	112,305
<b>220,049</b>		<b>227,609</b>
110,275	3	115,900
(223)	4	(3,048)
1,596		700
109,582	2	111,893
417		412
<b>221,647</b>		<b>225,857</b>
<b>(1,598)</b>		<b>1,752</b>
(1,796)		(3,394)
<b>(3,394)</b>		<b>(1,642)</b>

## NOTES TO THE COLLECTION FUND

### Note 1: Council Tax

The Council Tax Base set by the Authority for 2006/07 was 84,030.21, approved by Executive on 17<sup>th</sup> January 2006. The number of properties and tax set for each property band is shown below:

	No of Properties	Band D Equivalents	Tax Set £ p
Band A	992	662	919.51
Band B	6,909	5,373	1,072.76
Band C	19,723	17,531	1,226.01
Band D	31,933	31,933	1,379.26
Band E	12,753	15,587	1,685.76
Band F	4,791	6,921	1,992.26
Band G	3,394	5,656	2,298.77
Band H	722	1,443	2,758.52
Relevant Amount		85,106	
Adjusted for Collection Rate 98.6%		83,915	
Defence Property		115	1,293.97
<b>Total</b>	<b>81,217</b>	<b>84,030</b>	

Actual collectable income from Council Tax was:

2005/06		2006/07
£000		£000
91,942	Billed to Tax Payers	96,035
18,108	Council Tax Benefit Paid by General Fund	19,269
<b>110,050</b>	<b>Total Income</b>	<b>115,304</b>

The cumulative arrears of Council Tax including costs at 31 March 2007 were £28,250k and £1,238k was written off during the year.

## Note 2: Non-Domestic Rates (NDR)

Non-domestic rates are organised on a national basis. The Government specifies the rate 43.3p (2006/07 42.2p) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The total rateable value applicable to Hounslow as at 31 March 2007 was £340,556k. The Authority is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NDR Pool administered by the Government.

The Government redistributes the sums paid into the Pool back to local authorities on the basis of a fixed amount per head of adult population.

The amounts collected on behalf of the Government and paid into the Pool can be analysed as follows:

2005/06		2006/07
£000		£000
111,221	NNDR Bills Issued	112,400
(503)	Discretionary Reliefs and Remissions	(348)
281	General Fund Contribution to Reliefs and Remissions	253
(1,000)	Debts Written Off or provided for	0
<b>109,999</b>	<b>Net NDR Income</b>	<b>112,305</b>
(417)	Cost of Collection Allowance	(412)
<b>109,582</b>	<b>Total</b>	<b>111,893</b>

## Note 3: Precepts and Demands

The London Borough of Hounslow makes a demand and the Greater London Authority precepts on the Collection Fund.

2005/06		2006/07
£000		£000
89,014	London Borough of Hounslow	91,648
21,261	Greater London Authority	24,252
<b>110,275</b>	<b>Total</b>	<b>115,900</b>

#### Note 4: Estimated Surplus and Deficit

An adjustment is also made for each Authority in respect of the estimated surplus or deficit for the previous year on the Collection Fund.

2005/06		2006/07
£000		£000
(180)	London Borough of Hounslow	(2,460)
(43)	Greater London Authority	(588)
(223)	Total	(3,048)



## GROUP ACCOUNTS

The 2003 Statement of Recommended Practice for Local Authorities requires the preparation of group accounts for all local authorities that have interests in subsidiaries, associated companies and joint ventures that are material in aggregate.

Many authorities now provide services through partner organisations, which operate under the control of the authority; in these cases the financial statements of the reporting authority alone do not fully present the full picture of its activities and financial position. Group financial statements are therefore required to reflect the extended service delivery carried out by these separate legal entities on behalf of the authority.

The Authority has reviewed the relationships it has with its partner organisations to determine the scope of the of the local authority group. There are three organisations that the Authority considers fall within the legal definitions of group. These are:

- Hounslow Homes Ltd
- David Henry Waring Home Trust
- Bedfont Lakes Trust

These organisations are all subsidiaries of the Authority, who own 100% of the voting rights. There are no minority interests in these organisations or acquisitions in new subsidiaries during the year.

The activities and performance of each of the subsidiaries during the year 2006/07 is set out below:

**David Henry Waring Home Trust** – providing 26 units of sheltered accommodation. At 31 March 2007, net current assets amounted to £1.8m and expenditure in 2006/07 was £150k financed from rents and investment income.

**Bedfont Lakes Trust** – established with the object of promoting public recreation by the provision of resources for the maintenance, improvement, management and preservation of the Bedfont Lakes Country Park. At 31 March 2007 the Trust had investments valued at £4.5m, the income from these being used to finance expenditure on the park, estimated at £197k in 2006/07.

**Hounslow Homes** - The Authority transferred responsibility for the management of its housing stock to Hounslow Homes on 1st April 2002. In 2006/07 the turnover of Hounslow Homes amounted to £65m and net liabilities were valued at £3.3m including the pension liability. The Authority is liable to contribute to the debts and liabilities of the organisation if it was wound up to the value of £1.

The performance in 2006/07 of the group including subsidiaries before consolidation was as follows:

2005/06	(Surplus)/Deficit	2006/07
£000		£000
4,559	London Borough of Hounslow	14,120
(239)	Hounslow Homes	221
17	David Henry Waring Home Trust	6
(2)	Bedfont Lakes Trust	(21)
4,335	<b>Total group (surplus)/deficit in year</b>	14,326

The accounts of these organisations have been consolidated with, the financial statements of the London Borough of Hounslow in the following group accounts as subsidiaries, using the merger basis of consolidation. Intra group transactions between the entities have been eliminated from these statements.

### **Group Financial Statements**

The Authority is required to prepare the key statements to the accounts together with the relevant notes where they are materially different to the reporting authority's accounts.

The following Statements have been prepared:

- Group Income and Expenditure Account – Incorporating the London Borough of Hounslow (LBH) income and expenditure account together with profit and loss accounts of the three subsidiaries excluding intra-group transactions.
- Group Statement of Recognised Gains and Losses – consolidates the statements of all four organisations.
- Group Balance Sheet – Consolidates the balance sheets of all four entities.
- Group Cash flow Statement – consolidates the cash flows of LBH and Hounslow Homes only. Both Bedfont Lakes Trust and David Henry Waring Home are not required to produce a cash flow statement due to the size of the organisation. Therefore, this would also not be material in the group statements.

### **Accounting Policies**

The same accounting policies have been adopted by the subsidiaries as that of the London Borough of Hounslow, as set out on pages 24-28, with the exception of the method of depreciation used in David Henry Waring Home. Assets owned by David Henry Waring are depreciated over 50 years.

This policy has not been changed to match the Authority's methodology because the change would not be material to the group. The depreciation charge on the Income and Expenditure account for 2006/07 for David Henry Waring Home was £16k.

The basis of consolidation of the group is line-by-line, in accordance with FRS2.

### **Notes to the Accounts**

The notes to each of the accounting statements have been re-produced only where they are materially different to the notes previously provided.

## GROUP INCOME AND EXPENDITURE ACCOUNT

This statement shows the expenditure and income for the group analysed by service and how it was financed. The analysis reflects the requirements of the Best Value Accounting Code of Practice for Local Authorities.

2005/06		2006/07		
Restated Net Expenditure		Expenditure	Income	Net Expenditure
£000		£000	£000	£000
4,569	Central Services to the Public	33,854	28,963	4,891
	Cultural, Environmental and Planning Services			
27,804		42,825	11,981	30,844
145,934	Education Services	191,720	173,475	18,245
12,165	Highways, Roads and Transport Services	24,022	10,491	13,531
(5,903)	Housing Services	168,601	171,976	(3,375)
77,397	Social Services	125,048	39,639	85,409
(9)	Law and Order*	11	1	10
7,765	Corporate and Democratic Core	7,462	11	7,451
(86)	Non-distributed costs	2,303	0	2,303
<b>269,636</b>	<b>Net Cost of Services</b>	<b>595,846</b>	<b>436,537</b>	<b>159,309</b>
(3,850)	Gain or loss on disposal of fixed assets	0	0	0
6,613	Precepts and Levies	5,724	0	5,724
(537)	Surplus from Trading Operations	22,183	23,283	(1,100)
17,561	Interest payable and Similar Charges	16,947	0	16,947
	Contribution to Housing Pooled capital receipt			
3,565		3,884	0	3,884
(3,432)	Interest and Investment Income	0	2,099	(2,099)
8,549	Pension interest cost & return on assets	6,969	202	6,767
83	Corporation Tax	(81)	0	(81)
<b>298,188</b>	<b>Net Operating Expenditure</b>	<b>651,472</b>	<b>462,121</b>	<b>189,351</b>
	Transfers (From) / To the Collection Fund in Respect of Surpluses / Deficits			
(88,834)		0	89,187	(89,187)
	Government grants not attributable to specific services			
(205,019)		0	85,838	(85,838)
<b>4,335</b>	<b>Net General Fund (Surplus) / Deficit</b>	<b>651,472</b>	<b>637,146</b>	<b>14,326</b>

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2005/06		2006/07	
£000		£000	
4,335	Surplus or deficit on the Income and Expenditure Account	14,326	
1,598	Surplus or deficit on the Collection Fund	(1,752)	
(272,295)	Surplus or deficit arising on revaluation of fixed assets	(41,071)	
12,870	Actuarial gains and losses on pension fund assets and liabilities	(35,136)	
<b>(253,492)</b>	<b>Total recognised gains and losses for the year</b>	<b>(63,633)</b>	

## GROUP BALANCE SHEET AS AT 31 MARCH 2007

2005/06		2006/07		
Group £000	Operational Assets	LBH £000	Subsidiaries £000	Group £000
889	Intangible Assets	815	0	815
760,494	Council Dwellings	811,875	0	811,875
733,159	Other Land and Buildings	733,085	1,504	734,589
10,575	Vehicles, Plant & Equipment	14,961	0	14,961
77,223	Infrastructure Assets	85,981	0	85,981
5,250	Community Assets	5,918	0	5,918
<b>Non Operational Assets</b>				
24,355	Non Operational Assets	26,721	0	26,721
4,650	Investment Properties	0	53	53
<b>1,616,595</b>	<b>Net Fixed Assets</b>	<b>1,679,356</b>	<b>1,557</b>	<b>1,680,913</b>
7,475	Capital and Revenue Deferred Charges	6,076	0	6,076
<b>1,624,070</b>		<b>1,685,432</b>	<b>1,557</b>	<b>1,686,989</b>
4,945	Long Term Investments	9	5,020	5,029
1,800	Long Term Debtors	1,599	0	1,599
<b>1,630,815</b>	<b>Total Long Term Assets</b>	<b>1,687,040</b>	<b>6,577</b>	<b>1,693,617</b>
<b>Current Assets</b>				
646	Stocks & Work In Progress	481	169	650
88,481	Debtors (Net of Bad Debts Provision)	67,157	843	68,000
8,174	Short Term Deposits	10,000	1,774	11,774
10,278	Cash	3,787	2,431	6,218
<b>107,579</b>		<b>81,425</b>	<b>5,217</b>	<b>86,642</b>
<b>Current Liabilities</b>				
106,055	Creditors	94,558	3,123	97,681
10,922	Temporary Borrowing	15,627	0	15,627
8,631	Bank Overdraft	4,834	0	4,834
<b>125,608</b>		<b>115,019</b>	<b>3,123</b>	<b>118,142</b>
<b>(18,029)</b>	<b>Net Current Assets / (Liabilities)</b>	<b>(33,594)</b>	<b>2,094</b>	<b>(31,500)</b>
3,709	Provisions	3,665	861	4,526
241,543	Long Term Borrowing	240,928	0	240,928
115,831	Government Grants deferred	129,258	0	129,258
248,028	Pension schemes liability	216,454	3,451	219,905
<b>1,003,675</b>	<b>Total Net Assets</b>	<b>1,063,141</b>	<b>4,359</b>	<b>1,067,500</b>
<b>Representing</b>				
660	Deferred Capital Receipts	515	0	515
968,697	Fixed asset restatement account	999,841	312	1,000,153
212,539	Capital financing account	223,977	0	223,977
2,331	Other Capital Reserves	3,779	755	4,534
(248,403)	Pensions reserve	(216,454)	(3,614)	(220,068)
<b>Revenue Balances</b>				
(3,394)	Collection Fund	(1,642)	0	(1,642)
34,849	General Fund Balances	29,605	5,970	35,575
10,573	Housing Revenue Account	6,959	0	6,959
25,823	Other Earmarked Reserves	15,995	1,502	17,497
<b>1,003,675</b>	<b>Total Capital and Revenue Reserves</b>	<b>1,062,575</b>	<b>4,925</b>	<b>1,067,500</b>

## GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

2005/06 £000	Revenue Activities	2005/06 £000
(16,788)	Net Cash Inflow from Revenue Activities	(44,100)
	<b>Servicing of Finance</b>	
17,167	Interest paid	17,246
(3,075)	Interest received	(1,744)
14,092	Net Cash Outflow from Servicing of Finance	15,502
	<b>Capital Activities</b>	
83,270	Purchase of Fixed Assets	55,893
2,779	Other Capital Cash Payments	4,446
86,049		60,339
(7,457)	Sale of Fixed Assets	(5,220)
(17,371)	Capital Grants Received	(20,670)
568	Other Capital Cash Receipts	(4,731)
(24,260)		(30,621)
61,789	Net Cash Outflow from Capital Activities	29,718
59,093	Net Cash Outflow/(Inflow) before financing	1,120
	<b>Management of Liquid Resources</b>	0
(45,600)	Net increase/(decrease) in short term deposits	3,700
	<b>Financing</b>	0
196,153	Repayment of amounts borrowed	193,881
(204,239)	New loans raised	(198,294)
(8,086)		(4,413)
5,407	Net (Increase)/Decrease in Cash	407

## NOTES TO THE GROUP STATEMENTS

The notes to the group statements have been re-produced only where there is a material difference from those in the London Borough of Hounslow's Accounts. The main changes are:

### Subsidiary Income and Expenditure

- Inclusion of Hounslow Homes costs within Housing Services (net expenditure of £454k)
- Inclusion of David Henry Waring Home in Social Services (net cost £88k)
- Inclusion of Bedfont Lakes in Cultural & Environmental Services (net cost £12k)
- Inclusion of corporation tax, and pensions interest cost and return on assets for Hounslow Homes

## Pension Costs

The employees of London Borough of Hounslow, Hounslow Homes and David Henry Waring are all eligible to join the local government pension scheme. Hounslow Homes pension fund is a prescribed body within the LBH pension fund. The cost of pension benefits earned during the year were:

Movement on Income & Expenditure				
2005/06	Account	LBH	HH	Total
£000		£000	£000	£000
<b>Net Cost of Services</b>				
(17,518)	Current Service Cost	(18,600)	(3,502)	(22,102)
(75)	Past Service Cost	(28)	0	(28)
(268)	Settlement/curtailments	(252)	(234)	(486)
<b>(17,861)</b>	<b>Net Operating Expenditure</b>	<b>(18,880)</b>	<b>(3,736)</b>	<b>(22,616)</b>
21,482	Expected Return on Pension Scheme Assets	23,212	2,782	25,994
(30,031)	Interest on Pension Scheme Liabilities	(30,181)	(2,580)	(32,761)
<b>(26,410)</b>	<b>Net charge to the Income &amp; Expenditure Account</b>	<b>(25,849)</b>	<b>(3,534)</b>	<b>(29,383)</b>
Movement on General Fund Balances				
2005/06		LBH	HH	Total
£000		£000	£000	£000
(26,410)	Reversal of net charges made for retirement benefits in accordance with FRS17	(25,849)	299	(25,550)
21,183	Employers contributions payable to the scheme	19,046	3,235	22,281
<b>(5,227)</b>	<b>Net charge to the Statement of Movement on General Fund Balance</b>	<b>(6,803)</b>	<b>3,534</b>	<b>(3,269)</b>

The assets and liabilities at 31<sup>st</sup> March 2007 as estimated by the Actuary Barnett Waddingham were:

31 Mar 06		31-Mar-07		
Total		LBH Pension Funds	Hounslow Homes	Total
£m		£m	£m	£m
657.1	Estimated Liabilities	633.4	53.8	687.2
406.8	Estimated Assets	417.0	50.3	467.3
<b>250.3</b>	<b>Net Liability</b>	<b>216.4</b>	<b>3.5</b>	<b>219.9</b>

## Debtors and Creditors

The intra-group transactions have been removed from sundry debtors in both the subsidiaries and reporting authority. There were no movements on other types of debtors and creditors. All the debtors and creditors of the subsidiaries were classed as sundry debtors. The outstanding sundry debtors and creditors at 31<sup>st</sup> March for the Group were:

31 Mar 06		31-Mar-07				
Total		LB Hounslow	Hounslow Homes	DHW	Bedfont Lakes	Total
£000		£000	£000	£000	£000	£000
27,922	Sundry Debtors	21,351	688	32	123	22,194
69,656	Sundry Creditors	55,409	3,079	4	40	58,532

## PENSION FUND

The Pension Fund provides for the payment of pensions and other benefits to former employees of the Authority and certain admitted and scheduled bodies. A separate annual report is published and is sent to all Pension Fund pensioners, people with deferred benefits and employees of the Authority who are members of the pension scheme. The annual report sets out the Fund's Statement of Investment Principles. A separate Annual General Meeting for the fund is also held.

Responsibility for the overall direction of the Fund's investment policy rests with the Authority's Pension Fund Investments Panel. In implementing the Fund's investment policy, the Authority has appointed two investment managers (Aberdeen Asset Managers Ltd and Black Rock Investment Management Ltd) to deal at discretion within broad investment objectives laid down by the Authority. The Authority's Corporate Property Division manages the property portfolio.

### REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

2005/06 £000		Notes	2006/07 £000
<b>Income</b>			
	Contributions		
21,836	Employers	13	23,176
6,339	Employees	13	6,661
6,264	Transfers from other schemes		4,238
<b>34,439</b>	<b>Total Income</b>		<b>34,075</b>
<b>Expenditure</b>			
	Benefits payable:	13	
15,061	Pensions		15,818
1,885	Lump sums		2,884
310	Death Benefits		462
40	Refunds		32
5,443	Transfers to other schemes		2,669
1,008	Administrative Expenses	2	1,054
57	Other		23
<b>23,804</b>	<b>Total Expenditure</b>		<b>22,942</b>
<b>10,635</b>	<b>Net additions (withdrawals) from dealing with members</b>		<b>11,133</b>
<b>Returns on Investments</b>			
11,040	Investment income	3	12,314
67,800	Change in market value of realised and unrealised investments		20,049
(499)	Investment management expenses		(538)
(157)	Property expenses		(151)
<b>78,184</b>	<b>Net returns on investments</b>		<b>31,674</b>
<b>88,819</b>	<b>Net increase (decrease) in the Fund during the year</b>		<b>42,807</b>
319,457	Opening net assets of the scheme at 1 April		408,276
<b>408,276</b>	<b>Closing net assets of the scheme at 31 March</b>		<b>451,083</b>

## NET ASSETS STATEMENT AS AT 31 MARCH 2007

2005/06 £000		Notes	2006/07 £000
<b>Investments</b>			
243,505	Equity investments	4	271,008
51,504	Fixed equity securities	5	57,495
57,585	Unit trusts	6	62,380
25,286	Property	7	25,420
4,800	Private equity		5,749
14,706	Short term deposits		26,267
<b>397,386</b>	<b>Total Investments</b>		<b>448,319</b>
<b>Current Assets and Current Liabilities</b>			
488	Debtors		0
10,550	Balance due from General Fund		2,895
(148)	Creditors	8	(131)
<b>10,890</b>	<b>Net Current Assets</b>		<b>2,764</b>
<b>408,276</b>	<b>Net Assets</b>		<b>451,083</b>

## NOTES TO THE PENSION FUND ACCOUNTS 2006/07

### Note 1: Accounting Policies

**Accounting Standards** – The Authority’s accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting except as disclosed below.

**Basis of Preparation** - except where otherwise stated, the accounts have been prepared on the accruals basis.

**Investments** – are shown in the accounts at market value with the exception of private equity, which is shown at historic cost. Market value has been determined as follows:

- Listed securities and securities on the Unlisted Securities Market (USM) are shown by reference to mid market price at the close of business on 31 March 2007.
- Other unlisted securities are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Unit Trust investments are stated at the mid point of the latest prices quoted by their respective managers prior to 31 March 2007.
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2007.
- Freehold properties are included on the basis of their open market value. There are no leasehold properties. The property portfolio was valued as at 31 March 2007 by George Trollope, an established firm of property consultants and chartered surveyors.



- **Contributions** – represent those amounts receivable from the various employing authorities in respect of their own contributions and those of their pensionable employees. The Actuary on the basis of periodic valuations of the Fund's assets and liabilities determines the employers' contributions. Employees' contributions have been included at rates required by the Superannuation Regulations 1995.

**Actuarial Valuations** - the accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

The Authority's Actuary carries out valuations of the Fund's assets and liabilities at three yearly intervals. The last valuation was carried out by Punter Southall (now Barnett Waddingham) as at 31 March 2004 and was effective from 1 April 2005.

The common rate of contribution for all scheduled bodies from 1 April 2005 is 160% of employees' contributions. The common rate of contributions is the rate that, in addition to contributions paid by members, is sufficient to meet 100% of the liabilities arising in respect of service after the valuation.

Adjustments to contributions by individuals are required to make good the deficiency resulting from the change in funding requirement, i.e. £131.9 million as at the date of the actuarial valuation. The Authority has agreed a phased increase in the employer's contribution to meet the 100% funding requirement over a fifteen-year period.

The actuarial market value of the Fund's assets at the valuation date (31 March 2004) was £281.8m, which represented 68% of the Fund's accrued liabilities, allowing for future pay and pension increases. This differs from the market value shown in the accounts because instead of taking the market price, the actuary makes assumptions about the expected future return on assets based on dividend yields and an allowance for real capital growth in asset values, which smoothes out fluctuations in market prices.

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:

- Rate of general pay increases 4.6% pa
- Rate of increase of non GMP pensions in payment 2.8% pa
- The increases in the flow of income from ordinary shares, unit trusts and property 5.7% pa

**Benefits, Refunds of Contributions and Transfer Values** - benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year. Transfer values are those sums paid by, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have not been accrued but have been included in the accounts on the basis of the date when payments were made and receipts received.

**Investment Income** - rents, dividends and interest on Government stocks, loans and deposits have been accounted for on a receipts basis which is common practice but

does not comply with SSAP2. Foreign income has been translated into sterling at the date of the transaction.

**Investment Management and Administration** - The Authority is permitted to charge administration costs of the scheme to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment related business. The fees of the Fund's general investment managers have been accounted for on the basis contained within their respective management agreements.

**Interest Payable/Receivable** - interest payable/receivable on sums borrowed/lent from/to the Authority's General Fund is calculated using the average 7-day rate for deposit in the London Money Market.

## Note 2: Administration

2005/06		2006/07
£000		£000
962	Scheme Administration	1,048
9	Actuary Fees	6
37	Annual Meeting and Report	0
<b>1,008</b>	<b>Total costs</b>	<b>1,054</b>

## Note 3: Investment Income

2005/06		2006/07
£000		£000
(99)	Currency Profit / (Loss)	(91)
697	Interest	1,611
9,006	Dividends	9,235
1,436	Rents	1,558
0	Underwriting Commission	0
<b>11,040</b>		<b>12,313</b>

## Note 4: Equity Investments

31-Mar-06		31-Mar-07
£000		£000
160,902	<b>UK Investments (listed)</b>	178,023
	<b>Overseas Investments (listed):</b>	
20,940	North America	24,335
10,779	Japan	10,836
35,687	Europe	38,738
15,197	Other	19,076
<b>243,505</b>		<b>271,008</b>

## Note 5: Fixed Interest Securities

31-Mar-06		31-Mar-07
£000		£000
	<b>UK Securities</b>	
28,147	Government Bonds	34,375
20,038	Government Indexed Linked	19,042
1,255	Other fixed interest stocks	886
2,064	<b>Overseas Securities</b>	3,192
<b>51,504</b>		<b>57,495</b>

## Note 6: Unit Trusts

31-Mar-06		31-Mar-07
£000		£000
	<b>UK Unit Trusts</b>	
20,484	Cash Fund	22,114
7,343	Index Linked	7,323
0	Mid Cap Companies	2,654
321	Property	577
	<b>Overseas Unit Trusts</b>	
1,964	Fixed Interest	2,643
27,473	Equity	27,069
<b>57,585</b>		<b>62,380</b>

## Note 7: Property

31-Mar-06		31-Mar-07
£000		£000
25,286	<b>UK Property Investments: Freehold</b>	25,420
<b>25,286</b>		<b>25,420</b>

## Note 8: Creditors

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2006/07 but for which payment had not been made by 31 March 2007.

## Note 9: Taxation

**UK Tax** – the Fund is an exempt approved fund and is therefore not liable to UK income tax on interest, property income or to capital gains tax. However, from 2 July 1997 the Government withdrew the ability for pension funds to reclaim tax credits on UK dividends. The impact of this change is reflected in the actuarial valuation.

As a local authority is the administering authority for the Fund, VAT input tax is recoverable on all fund activities including expenditure on investment and property expenses.

**Overseas Tax** – income earned from investments in stocks and securities in the United States is exempt from tax. Similar arrangements exist with Australia and Hong Kong whereby investment income is transmitted to Britain, gross of foreign income tax. Taxation agreements exist between Britain and certain EC and other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the time scale involved vary from country to country.

## Note 10: Membership of the Fund

The following summarises the membership of the Pension Fund as at 31 March 2007:

31-Mar-06		31-Mar-07	
6,014	Contributors	5,888	
4,283	Pensioners	4,454	
4,423	Deferred Pensioners	4,699	
14,720	Total	15,041	

## Note 11: Investment Activity

During the year the following transactions were carried out:

31-Mar-06		31-Mar-07	
£000		£000	
177,195	Sales	171,174	
194,339	Purchases	190,567	
17,144	Net Investment Activity	19,393	

A comparison of book cost and market value of investments held excluding cash is as follows:

31-Mar-06		31-Mar-07	
£000		£000	
306,635	Book cost at year end	354,632	
382,680	Market value at year end	422,052	
(76,045)	Difference between book cost and market value	(67,420)	

## Note 12: Funds Management

A comparison of the total investments and amount of funds managed by each fund manager at market value is as follows:

31-Mar-06		31-Mar-07	
£000	%	£000	%
159,304	40	181,649	41
203,693	51	230,781	51
34,389	9	35,889	8
397,386	100	448,319	100
	Total		

## Note 13: Scheduled and Admitted Bodies

The scheduled bodies contributing to the fund are:

- Hounslow Magistrates' Courts Committee
- West Thames College
- Gunnersbury Park
- Cranford Park
- Hounslow Homes

There were also 11 Admitted Bodies making contributions of £1.4m (£1.6m 2005/06).

The total contributions receivable and benefits payable are as follows:

31-Mar-06			31-Mar-07	
Contributions Receivable	Benefits Payable		Contributions Receivable	Benefits Payable
£000	£000		£000	£000
21,818	15,688	London Borough of Hounslow	23,461	17,084
4,799	920	Scheduled Bodies	5,016	962
1,558	688	Admitted Bodies	1,360	1,150
28,175	17,296	<b>Total</b>	29,837	19,196

From 1 April 2001 following creation of the Greater London Magistrates Courts Authority future pension provision moved from the Authority. The Pension Fund remains liable for pensions entitlement accruing to 31 March 2001.

#### **Note 14: Statement of Investment Principles**

The Statement of Investment Principles for the Pension Fund is available on request from the Director of Finance.

## GLOSSARY

### **Accounting Policies**

The rules and practices adopted by the Authority that dictate how transactions and events are shown or costed.

### **Actuarial Gains/Losses**

The profits and losses on the pension scheme as calculated by the Actuary because the assumptions made were not the same as the actual performance (e.g. if interest rates were less than anticipated).

### **Capital Charge**

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services made up of interest and depreciation.

### **Capital Expenditure**

Expenditure on the acquisition of a fixed asset or expenditure that adds to and not merely maintains the value of an existing fixed asset.

### **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

### **Consolidation**

The process of adjusting and combining financial information from the individual financial statements of a reporting authority and its subsidiaries to prepare consolidated financial statements that present financial information for the group as a single economic entity.

### **Contingent Liability**

A contingent liability is either:

- (i) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control (e.g. the outcome of a court case); or
- (ii) A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

### **Corporate and Democratic Core**

These are activities that local authorities engage in specifically because they are elected, multi-purpose authorities. These costs would not be incurred by a single-purpose organisation and therefore should not be apportioned to services.

### **Current Service Cost (Pensions)**

The increase in value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

### **Deferred Charges**

Expenditure which may properly be deferred, but which does not result in, or remain matched with tangible assets.

### **Defined Benefit Scheme**

A pension or retirement benefit scheme into which an employee pays regular contributions fixed as an amount or as a percentage of pay and will have no legal obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### **Depreciation**

The reduction in the value of an asset due to wear and tear or obsolescence.

### **Emoluments**

All sums paid to or receivable by an employee including salary, expenses, and allowances and the monetary value of any other benefits received other than cash. Pension contributions payable by either employer or employee are excluded.

### **Finance Lease**

A lease that transfers the risks and rewards of ownership to the lessee, but ownership of the asset is retained by the lessor.

### **Fixed Assets**

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

### **Government Grants**

Assistance by the government and their agencies in the form of cash or transfer of assets to an authority, which may be in return for past or future compliance with certain conditions relating to the activities of the authority.

### **Impairment**

A reduction in the value of a fixed asset, below the amount it is included at on the balance sheet.

### **Infrastructure Assets**

Fixed assets that are recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

### **Investment Properties**

Interest in land and/or buildings that are held for their investment potential or rental income.

### **Liquid Resources**

Investments that can be readily converted to cash without disrupting the business of the organisation.

### **Merger Accounting**

A method of accounting for acquisitions of subsidiaries in which the carrying values of the assets and liabilities of the subsidiary are not required to be adjusted to fair value.

### **Minority Interest**

The interest in an entity included in the consolidation that is attributable to the shares held by persons other than the reporting authority and its subsidiary entities.

### **Net Book Value**

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

### **Net Current Replacement Cost**

The cost of replacing an asset in its existing condition and for its existing use i.e. the cost of buying the item or the nearest equivalent asset.

### **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.

### **Non distributable Costs**

These are overheads for which no user benefits and should not be apportioned to services.

### **Non-Operational Assets**

Fixed assets held by an authority that are not directly occupied, used or consumed in providing services. Examples of non-operational assets are investment properties and assets pending sale or redevelopment.

### **Operating Leases**

A lease that stipulates the asset can never become the property of the lessee.

### **Operational Assets**

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of services.

### **Past Service Cost**

For a defined benefit scheme, the increase in the value of benefits payable that were earned in prior years arising because of an improvement to retirement benefits.

### **Related Party Transaction**

A related party transaction is 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. Members are required to declare if they have entered into any such transactions and any relationships of influence with any organisations associated with the Authority. Examples of related party transactions include:



## **Stocks**

The amount of unused or unconsumed goods held in expectation of future use within one year. Stocks are valued at the end of each financial year and carried forward to be matched to the use or consumption when it arises. Stock comprises the following categories:

- (i) Goods or other assets purchased for resale.
- (ii) Raw materials and other components purchased for the incorporation into products for resale
- (iii) Products and services partially or fully completed

## **Subsidiary**

An entity is a subsidiary of the reporting authority if:

- The authority is able to exercise control over the operating and financial policies of the entity, and
- The authority is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.