

# City of London

## Statement of Accounts for the City Fund & Pension Funds

*year ended 31 March 2007*



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## Explanatory Foreword

### Introduction

1 The City of London Corporation has four main accounts, City Fund, City's Cash, Bridge House Estates and the City of London Pension Fund. These accounts are not consolidated. This document sets out the 2006/07 City Fund accounts which cover the City's activities as a local authority, police authority and port health authority together with the accounts of the City of London Pension Fund and the Police Pension Fund.

2 The document comprises

**City Fund Income and Expenditure Account** - which summarises all of the resources that the City has generated, consumed or set aside in providing services during the year – page 11.

**Statement of the Movement on the City Fund Unallocated Reserve** – reconciling the balance of resources generated/consumed in the year with statutory requirements for raising Council Tax – page 13.

**Statement of Total Recognised Gains and Losses** – demonstrating how the movement in net worth in the Balance Sheet is linked to the Income and Expenditure Account and to other unrealised gains and losses – page 15.

**City Fund Balance Sheet** – setting out its financial position – page 16.

**Cash Flow Statement** – summarises the City Fund capital and revenue inflows and outflows of cash – page 17.

**Housing Revenue Account** – showing its ring-fenced income and expenditure – page 42.

**Collection Fund Revenue Account** – income from Non-Domestic Rates and Council Tax and its distribution to the City Fund, precepting authorities and the National Non-Domestic Rates Pool – page 48.

**The Accounts for the City of London Pension Fund** – showing its income and expenditure for the year and the disposition of the Fund's assets – page 51.

**The Police Pension Fund Account** – showing income and expenditure for the year – page 60.

**The Statement of Responsibilities for the Statement of Accounts** – setting out the respective responsibilities of the City of London and the Chief Financial Officer – page 62.

**Statement on Internal Control** – setting out the framework for the continuous review and improvement of the effectiveness of internal control and risk management systems – page 63.

**Adoption of the Statement of Accounts** – by the Chairman and Deputy Chairman of the Finance Committee – page 70.

**Report of the Auditors** – giving their opinion on the City Fund accounts – page 71.

**Glossary of Terms** – page 75.

3 The City Fund accounts are supported by the Statement of Accounting Policies on pages 7 to 10 which explains the basis for recognition, measurement and disclosure of transactions and other events in the accounts.

In addition, various notes accompany the financial statements.

## New Statements

4 For 2006/07 local authorities, including the City of London, are required to produce their financial statements in a new format. The Consolidated Revenue Account, which had the dual role of setting out the authority's financial performance for the year and determining the net expenditure to be charged against the Council Tax in the year, has been replaced by two new statements: the Income and Expenditure Account and the Statement of the Movement on the City Fund Unallocated Reserve. In addition, the Statement of Total Movement on Reserves is replaced by the Statement of Total Recognised Gains and Losses.

5 The Income and Expenditure Account measures the City of London's financial performance in terms of resources consumed and generated in providing services during the year. It is prepared using essentially the same accounting conventions that a company would use to produce its profit and loss account. However, this accounting basis does not reflect certain items which the City of London, as a local authority, is required by statute and non-statutory proper practices to debit or credit to the City Fund. For example, statute allows capital expenditure to be directly funded from revenue but generally accepted accounting practice excludes this from the Income and Expenditure Account: generally accepted accounting practice also requires depreciation of fixed assets to be included in the Income and Expenditure Account whereas statute precludes depreciation being charged to the City Fund. Therefore, although the outturn on the Income and Expenditure Account is important, to give a full presentation of the City of London's financial performance, the impact of statutory requirements and non-statutory proper practices have to be considered.

6 The Statement of the Movement on the City Fund Unallocated Reserve provides a reconciliation between the outturn on the Income and Expenditure Account and the balance established under the relevant statutory provisions and non-statutory proper practices. The movement on the City Fund Unallocated Reserve is the equivalent of the surplus or deficit on the previous Consolidated Revenue Account and it is this movement which indicates whether reserves were drawn upon or added to for the year and hence the actual spending power carried forward to future years.

7 The Statement of Total Recognised Gains and Losses brings together the operational gains and losses for the year recognised in the Income and Expenditure Account and other gains and losses which are only recognised in the Balance Sheet, for example the revaluation of fixed assets or pension actuarial gains or losses, to show the total movement in the City Fund's net worth for the year.

## Overall Financial Position on the City Fund

8 The following table shows that after taking into account those items which the City of London, as a local authority, is required by statute and non-statutory proper practices to debit or credit to the City Fund, the movement on the Unallocated Reserve for 2006/07 was a reduction of £4m compared to an £8m reduction in 2005/06.

	2006/2007 £m	2005/2006 £m
Net operating expenditure	145	143
Government grants and local taxes	(107)	(122)
Income and Expenditure Account deficit for the year	38	21
Net additional amount required by statute and non-statutory proper practices to be credited to the City Fund Unallocated Reserve	(34)	(13)
<b>Decrease in City Fund Unallocated Reserve</b>	<b>4</b>	<b>8</b>

9 Cash backed reserves have decreased to £158m at 31 March 2007 compared with £173m a year earlier.

	2006/2007 £m	2005/2006 £m
Cash backed reserves – revenue	119	126
– capital	39	47
<b>Total cash backed reserves</b>	<b>158</b>	<b>173</b>

10 The £7m reduction in cash backed revenue reserves relates to the £4m decrease in the unallocated reserve and £3m of expenditure met from earmarked reserves. The £8m decrease in cash backed capital reserves is the result of sums applied to finance capital expenditure, partly offset by the proceeds of disposals during the year.

## Revenue expenditure

11 Set out below is a summary of the movement on the City Fund Unallocated Reserve, comparing actual expenditure for the year with the latest budget approved by the Court of Common Council in March 2007.

	Budget £m	Actual £m	Variation £m
Net Cost of Services	168	162	(6)
Interest Income	(12)	(13)	(1)
Investment Properties	(27)	(28)	(1)
Pension Interest Costs	23	23	-
Other Operating Costs	1	1	-
Net Operating Expenditure	153	145	(8)
Income from Government Grants and Local Taxpayers	(107)	(107)	-
Deficit for the year on the Income and Expenditure Account	46	38	(8)
Net additional amount required by statute to be credited to the Unallocated Reserve	(36)	(34)	2
<b>Reduction in Unallocated Reserve</b>	<b>10</b>	<b>4</b>	<b>(6)</b>

12 The major changes between the anticipated reduction of £9.8m in the Unallocated Reserve and the actual reduction of £4.3m were as follows

	£m	
Transfers from revenue reserves	5.4	A smaller net transfer from reserves primarily as a result of lower expenditure on Police and capital schemes.
Police	(2.5)	Increased income from specific government grants, reimbursements and fees and charges together with lower expenditure against a number of budgets but particularly employees and supplies and services.
Interest and Investment Income	(1.7)	Increased income from investment properties together with a net increase in interest on cash balances as a result of changes in interest rates and cashflow.
Planning	(1.5)	Increased income mainly in relation to planning fees, on-street parking and contributions to streetscene projects together with lower expenditure mainly on repairs and maintenance.
Central contingencies	(1.5)	Not all of the contingencies were required.
Cost of Collection	(1.3)	Lower expenditure mainly as a result of penalty notices for failure to achieve performance targets and of unpaid bonuses to the contractor.
Capital expenditure to be financed from reserves	(1.0)	Lower than anticipated due to slippage and rephasing of highways and streetscene schemes.
Environmental Services	(0.8)	Increased income from the sale of Landfill Allowances together with reduced expenditure mainly on premises.
Barbican Centre	(0.3)	Improved trading results.
Barbican Estate	(0.2)	Repairs and maintenance expenditure was lower than anticipated together with increased rental income.
General reduced requirement	(0.4)	The aggregate of smaller variations on other services.
Reduced requirement in net expenditure	(5.8)	
Transfers from unallocated to earmarked reserves	0.3	Transfers to the Landfill Allowances and Energy Savings Scheme Reserves
Total reduction in Unallocated Reserve	(5.5)	

### City Fund capital expenditure

13 The approved capital budget for 2006/07 totalled £37.5m. Actual capital expenditure during the year was £30m, an underspend of £7.5m compared with the budget. This net underspend was mainly due to slippage and/or rephasing of expenditure on a number of schemes, largely relating to streetscene and corporate projects.

## City Fund Total Assets and Liabilities

14 As at 31 March 2007, the City Fund Balance Sheet indicates that total assets exceed total liabilities (i.e. net assets) by £1,145m, an increase of £164m compared to the previous year. The net assets are represented by capital and revenue reserves of £1,503m and £125m respectively, partly offset by the negative pension reserve of £483m which primarily relates to the Police Scheme. The main reason for the increase in net assets is the revaluation of investment and operational properties partly offset by an increased liability for police pensions as calculated in accordance with the requirements of Financial Reporting Standard (FRS) 17 and a reduction in net current assets. The bulk of the reserves relate to the method of capital accounting by local authorities and are not 'cash backed'. Consequently, only those reserves indicated in paragraph 9 are available to finance future expenditure.

## Risk identification

15 The City of London has established a programme of risk management as an element of its strategy to preserve its assets, enhance productivity for service users and members of the public, and protect its employees.

16 The Risk Management Group has a remit to ensure that risk management policies are applied, that there is an ongoing review of risk management activity and that appropriate advice and support is provided to Members and officers.

17 A Statement on Internal Control is set out on pages 63 to 69.

## Statement of Responsibilities for the Statement of Accounts

18 Local Authorities are required to include in their statement of accounts a Statement of Responsibilities which sets out the respective responsibilities of the authority and relevant financial officer for the accounts. These respective responsibilities are set out on page 62.

## Statement of Accounting Policies

**1 General** The Accounts have been prepared in accordance with the Accounts and Audit Regulations 2003, Section 21 of the Local Government Act 2003 and the Code of Practice on Local Authority Accounting 2006 A Statement of Recommended Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**2 Accruals** The accounts of the City of London are maintained on an accruals basis. Consequently, sums due to or from the City of London during the year are included, whether or not the cash was actually received or paid in the year.

**3 Tangible Fixed Assets** Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised provided that the asset yields benefits to the City of London, and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to service accounts.

- Properties regarded as operational have been valued at their Open Market Value in Existing Use, or where this could not be assessed because there was no market for the subject asset, the Depreciated Replacement Cost. In some cases, specialist properties have required specialist valuation assumptions or alternative use valuations have been carried out.
- Investment properties are based on market value.
- Non-operational assets under construction are included at historic cost.
- Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.
- Vehicles, plant, equipment and intangible assets are included at cost, net of depreciation, as a proxy for current value.
- Property asset values used in the accounts are based upon valuations prepared by the City Surveyor, apart from specialist and most investment properties which are valued by external valuers. Since 1 April 1994, when all properties were originally valued, a rolling programme of revaluation has operated. All properties are revalued within a five year period with subsequent additions being included in the accounts at their cost of acquisition.

*Revaluations and Impairment* Where a fixed asset increases in value, the difference between the latest value and the amount at which the asset was included in the balance sheet immediately prior to the (re)valuation is credited to the Fixed Asset Restatement Account.

Where a reduction in value of a fixed asset is caused by a general fall in prices, the loss is recognised in the Fixed Asset Restatement Account. A reduction in value caused by a clear consumption of economic benefits (i.e. if the loss is similar in nature to depreciation) is an impairment loss. This loss is recognised in the Income and Expenditure Account but is reversed out through the Statement of the Movement on the City Fund Unallocated Reserve so as not to impact on Council Tax. Should a reversal of a reduction in value be required, the accounting follows the original treatment applied. Where a fixed asset (other than freehold land) is not depreciated or has a life of more than 50 years, an annual impairment review is carried out.



*Disposals* Upon disposal, where there is a material difference between the carrying value and the sale proceeds, assets held at current value are revalued to reflect the new evidence. Proceeds from the disposal of fixed assets are credited to the Usable Capital Receipts Reserve. Where a fixed asset is disposed of for other than a cash consideration, or receipt is deferred, an equivalent asset is recognised and included in the Balance Sheet at its fair value. Upon disposal the net book value of the asset is written off against the Fixed Asset Restatement Account.

**4 Intangible Fixed Assets** Intangible fixed assets include computer software licences, which are capitalised at cost. They are not revalued and are amortised over their useful life.

**5 Depreciation** Depreciation is provided for on all fixed assets with a finite useful life, other than freehold land and investment properties. The depreciation charge is calculated by allocating the Balance Sheet value of the asset, less its residual value, to the periods expected to benefit from their use; generally the straight line method has been adopted over the following indicative periods:

General operational buildings	50 years
Certain 'listed' operational buildings	75-100 years
Infrastructure	10 years
Cars and light vans	5 years
Heavy vehicles and plant	7 years
Equipment	5-12 years
Computer systems	3-7 years

**6 Deferred Charges** These represent expenditure that has been properly capitalised, but does not result in a fixed asset in the City Fund's ownership. This expenditure is written out in the year in which it is incurred.

**7 Basis of Revenue Charges for Capital** Service revenue accounts are charged with depreciation or amortisation (where appropriate) for all fixed assets used in the delivery of services. Where the effects of major additions or disposals occurring during the year are material, these are also reflected in capital charges to service revenue accounts. Investment properties are not directly used in the delivery of services and therefore do not attract a charge for capital; likewise, assets under construction are not depreciated.

**8 Government Grants** Government grants for revenue purposes are credited to the appropriate revenue account. Capital grants relating to fixed assets are credited to a Government Grants Deferred Account. Amounts are released from this account and written off to revenue over the useful life of the asset to match the depreciation of the asset to which the grant relates.

**9 Capital Receipts** Capital receipts arise from the sale of assets such as land and council houses. Legislation requires that a proportion of Housing Revenue Account (HRA) capital receipts are paid to a Government pool. The amount of capital receipts remaining after 'pooling' payments is held in the Usable Capital Receipts Reserve, to be used for financing capital expenditure.

**10 Stocks** Stocks are valued at the lower of average cost and net realisable value.

**11 Intangible Current Assets** Intangible current assets, which are represented by unused landfill allowances, are valued at the weighted average value at which 2006/07 allowances have traded during the year.

**12 Overheads** The costs of support service overheads, with the exception of expenditure on the corporate and democratic core, are generally apportioned between all revenue accounts on the basis of employee time spent or other resources consumed on behalf of user services. Similarly, with the exception of vacant properties, the costs of support service buildings (including capital charges) are apportioned on the basis of the office area utilised by each service.

**13 Provisions** The City of London sets aside provisions for any liabilities of uncertain timing or amount that have been incurred. Provisions are made when:

- (a) the City of London has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation

Details of the operation of the provisions are set out in note 23 to the financial statements.

**14 Reserves** A number of specific reserves have been established for purposes falling outside the definition of provisions. Details of the City of London's reserves are set out in the Summary of Movement in Reserves in note 25 to the financial statements.

**15 Interest Income** Interest is credited to the City Fund and Housing Revenue Account based upon average cash balances held by the Chamberlain of London, and invested by him in the London Money Markets.

**16 Non Property Investments** Non-property investments are shown in the City Fund Balance Sheet at the lower of historic cost and net realisable value.

**17 Property Investments** The net income from investment properties is credited to the Income and Expenditure Account below the net cost of services.

**18 Leases** Rentals payable under operating leases are charged to the appropriate service revenue account.

**19 Pension Costs – City of London Staff** With the exception of serving police officers and teachers, City of London staff are eligible to contribute to the City of London Pension Fund, which is a funded defined benefits scheme.

For the purposes of FRS 17, the City of London Pension Scheme is treated as defined contribution. This recognises that the City Fund does not have an exclusive relationship with the City of London Pension Fund and that the scheme's assets and liabilities cannot be identified to each of the City of London's funds.

Charges are made to revenue for pension costs based on the recommendations of the Fund's actuary so as to spread the full cost of retirement benefits to be met by the Fund over the estimated average service lives of the City of London's staff.

The estimated capital liability for discretionary pension benefits provided to employees previously engaged on City Fund activities has been determined by independent actuaries. The costs are recognised in full in the year the benefits are agreed. In the Income and Expenditure Account the liability is debited to the net cost of services. However, the charge required to be made against the Council Tax is based on the amount payable for the year, so the FRS 17 costs are reversed out in the Statement of Movement on the City Fund Unallocated Reserve as a transfer to the negative pension reserve. In the Balance Sheet the negative pension reserve is matched by a pension liability.

**20 Pension Costs - Police Officers and Judges** Prior to 1 April 2006 each police authority was responsible for paying the pensions of its own former employees on a pay as you go basis. Under new arrangements the schemes remain unfunded but are no longer on a pay as you go basis as far as individual police authorities are concerned. The City no longer meets pension costs directly; instead it contributes a percentage of police pay into the Police Pension Fund. At the year end the Police Pension Fund is balanced to zero by either receiving a pension top up grant from the Home Office equal to the amount by which the amounts payable from the Pension Fund for the year exceed the amounts receivable or, by paying to the Home Office the amount by which sums receivable by the Fund for the year exceed the amounts payable.

The estimated liability on the Police Pension Scheme is determined by independent actuaries in accordance with FRS 17. The net cost of service includes the current service cost rather than payments to pensioners, and net operating expenditure includes a pension interest cost. However, the charge required to be made against the Council Tax is based on the amount payable for the year, so the FRS 17 costs are reversed out through an appropriation to the negative pension reserve. In the Balance Sheet the negative pension reserve is matched by a pension liability.

The payment of pensions to former judges is the responsibility of the Treasury with the City of London reimbursing the Treasury for its share of the liability. The City of London's estimated liability has been determined by independent actuaries in accordance with FRS 17. The accounting treatment for the estimated liability is similar to that outlined above for the Police Pension Scheme.

**21 Pension Costs - Teachers** The payment of pensions to former teachers is the responsibility of the Teachers' Pensions Agency. Consequently the teachers' pension fund contributions together with the employer's contributions are paid by the City of London to that Agency.

**22 Social Security Deductions** The City of London accounts centrally for social security deductions as its registration also includes other activities that do not form part of the City Fund. Consequently, current assets and liabilities do not include social security deductions.

## Income and Expenditure Account

for the year ended 31 March 2007

Notes	2006/2007			2005/2006 As Restated
	Gross expenditure £000	Gross income £000	Net expenditure £000	Net expenditure £000
<b>Services</b>				
<b>Education</b> <span style="float: right;">2</span>	7,395	(6,043)	1,352	3,749
<b>Social services</b>	12,817	(4,169)	8,648	8,245
<b>Housing Revenue Account (HRA)</b>	11,763	(11,944)	(181)	(1,001)
<b>Housing (non HRA)</b>	17,617	(17,578)	39	302
<b>Highways</b>	30,396	(16,561)	13,835	13,708
<b>Police</b>	84,245	(23,145)	61,100	75,612
<b>Planning and economic development</b>	12,671	(9,194)	3,477	6,720
<b>Recreation and tourism</b>				
Libraries	13,900	(736)	13,164	12,461
Museums and Galleries	6,603	(68)	6,535	6,368
Barbican Centre	42,436	(14,920)	27,516	24,556
Other	3,377	(514)	2,863	2,944
<b>Environmental health</b>	15,072	(7,610)	7,462	8,108
<b>Refuse collection and disposal</b>	9,271	(5,702)	3,569	3,002
<b>Other services</b>				
Courts Services	7,212	(5,266)	1,946	1,936
Probation	70	-	70	66
Security and contingency planning	1,568	(774)	794	716
Coroner's court	93	-	93	102
Rates and council tax collection	1,946	(1,884)	62	615
Registration and election expenses	246	(8)	238	261
Corporate and democratic core	12,461	(3,362)	9,099	9,160
Miscellaneous <span style="float: right;">3</span>	578	(720)	(142)	(867)
<b>Non distributed costs</b>				
Past Service Costs - Police	-	-	-	708
<b>Net cost of services C/F</b>	<b>291,737</b>	<b>(130,198)</b>	<b>161,539</b>	<b>177,471</b>

All activities are continuing in the current year.

Notes	2006/2007			2005/2006 As Restated
	Gross expenditure £000	Gross income £000	Net expenditure £000	Net expenditure £000
<b>NET COST OF SERVICES B/F</b>	<b>291,737</b>	<b>(130,198)</b>	<b>161,539</b>	<b>177,471</b>
(Gain) or Loss on Disposal of Fixed Assets	7,286	(8,245)	(959)	(15,013)
Precepts to Inner and Middle Temples	230	-	230	220
Contribution to or (from) Trading Services	5,423	(6,052)	(629)	(571)
Housing capital receipts to Government Pool	677	-	677	150
Investment properties	10,377	(38,744)	(28,367)	(28,718)
Exceptional item - investment loss	2,346	-	2,346	-
Interest on balances	-	(13,110)	(13,110)	(13,202)
Pension interest cost	22,911	-	22,911	22,391
<b>NET OPERATING EXPENDITURE</b>			<b>144,638</b>	<b>142,728</b>
Collection Fund - Council Tax and precept adjustment			(4,775)	(5,619)
Contribution from Non-Domestic Rate Pool			(62,734)	(2,811)
Revenue Support Grant			(12,110)	(74,087)
Police Grant			(21,644)	(35,629)
Additional formula grant			(87)	-
Non-Domestic Rate Premium			(5,502)	(4,000)
<b>DEFICIT FOR YEAR</b>			<b>37,786</b>	<b>20,582</b>

## Statement of the Movement on the City Fund Unallocated Reserve

for the year ended 31 March 2007

	Notes	2006/2007 £000	2005/2006 £000
<b>Deficit for the year on the Income and Expenditure Account</b>		37,786	20,582
Net additional amount required by statute and non-statutory proper practices to be credited to the City Fund Unallocated Reserve for the year	<b>A</b>	(33,495)	(12,619)
Decrease in the City Fund Unallocated Reserve for the year	<b>B</b>	4,291	7,963
City Fund Unallocated Reserve brought forward		(53,077)	(61,040)
<b>City Fund Unallocated Reserve carried forward</b>		<b>(48,786)</b>	<b>(53,077)</b>

**A. Note of reconciling items for the Statement of Movement on the City Fund Unallocated Reserve**

	Notes	2006/2007		2005/2006
		£000		£000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the City Fund Unallocated Reserve for the year				
Depreciation and impairment of fixed assets (excluding Housing Revenue Account)		(15,076)		(9,248)
Excess of Major Repairs Allowance element of Housing Subsidy over depreciation charged to HRA services		724		829
Government grants deferred		5,989		4,607
Deferred charges		(4,186)		(3,799)
Movement in pension liabilities		(21,662)		(20,430)
Net gain or loss on sale of fixed assets		959		15,013
			(33,252)	(13,028)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the City Fund Unallocated Reserve for the year				
Capital expenditure charged in-year to the City Fund Unallocated Reserve	6	3,124		3,575
Provision for credit liabilities		(62)		(73)
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool		(677)		(150)
			2,385	3,352
Exclusion of Housing Revenue Account Balance		(477)		38
Net transfer to or (from) earmarked reserves		(2,151)		(2,981)
			(2,628)	(2,943)
<b>Net additional amount required to be credited to the City Fund Unallocated Reserve for the year</b>			<b>(33,495)</b>	<b>(12,619)</b>

**B. Analysis of Decrease in the City Fund Unallocated Reserve**

	2006/2007 £000	2005/2006 £000
Net City Fund Requirement for the year	3,956	7,963
Transfers from Unallocated Reserve to:		
Landfill Allowances Reserve	305	-
Energy Savings Scheme Reserve	30	-
<b>Total Decrease in Unallocated Reserve</b>	<b>4,291</b>	<b>7,963</b>

## Statement of Total Recognised Gains and Losses

	Notes	2006/2007 £000	2005/2006 £000
<b>Deficit for the year on the Income and Expenditure Account</b>		<b>37,786</b>	<b>20,582</b>
Surplus arising on revaluation of fixed assets	15	(188,618)	(166,640)
Actuarial (gains)/losses on Pension Fund assets and liabilities		(13,275)	31,271
Collection Fund deficit		330	1,306
<b>Total recognised (gains) and losses for the year</b>		<b>(163,777)</b>	<b>(113,481)</b>



## Balance Sheet

at 31 March 2007

	Notes	31 March 2007		31 March 2006
		£000	£000	£000
<b>Tangible fixed assets</b>	<b>15</b>			
<b>Operational</b>				
Council dwellings		192,602		188,666)
Other land and buildings		345,032		333,793)
Leasehold improvements		9,660		9,950)
Vehicles, plant and equipment		15,160		16,240)
Infrastructure assets		17,983		14,520)
Community assets		8,959		8,947)
			589,396	572,116
<b>Non-Operational</b>				
Investment properties			879,350	706,255
<b>Work in Progress</b>			651	-
			1,469,397	1,278,371
<b>Intangible fixed assets</b>	<b>15,16</b>		1,264	1,000
<b>Long term investments</b>			23	23
<b>Long term debtors</b>	<b>17</b>		3,574	3,724
<b>Current assets</b>				
Stocks		485		523
Intangible Current Assets	18	773		914)
Debtors and Payments in Advance	19	36,218		106,027
Cash and Bank		234,483		218,637
			271,959	326,101
<b>Less current liabilities</b>				
Creditors and Receipts in Advance	20		(98,627)	(138,271)
<b>Total assets less current liabilities</b>			<b>1,647,590</b>	<b>1,470,948</b>
<b>Long term borrowing</b>	<b>21</b>		(1,000)	(1,000)
<b>Deferred credits</b>	<b>22</b>		(87)	(121)
<b>Provisions</b>	<b>23</b>		(986)	(986)
<b>Grants and contributions deferred account</b>	<b>24</b>		(17,051)	(12,539)
<b>Pension liability</b>			(483,182)	(474,795)
<b>Total assets less liabilities</b>			<b>1,145,284</b>	<b>981,507</b>
<b>Capital reserves</b>	<b>25</b>		1,503,146	1,323,733
<b>Pension reserve</b>	<b>25</b>		(483,182)	(474,795)
<b>Revenue reserves</b>	<b>25</b>			
Unallocated			48,786	53,077
Other revenue reserves			76,534	79,492
<b>Total equity</b>			<b>1,145,284</b>	<b>981,507</b>



## Cash Flow Statement

	2006/2007			2005/2006
	£000	£000	£000	£000
<b>REVENUE ACTIVITIES</b>				
<b>Cash outflows</b>				
Cash paid to and on behalf of employees	133,284			139,447
Other operating cash payments	144,896			141,322
Housing benefit paid to tenants not in council housing	2,273			2,111
Non-domestic rate payments to national pool	508,076			574,295
Precepts to GLA and Temples	466			661
		788,995		857,836
<b>Cash inflows</b>				
Rents (after deducting rebates)	(55,401)			(56,750)
Non-domestic rates receipts	(547,745)			(568,393)
Council tax income	(4,690)			(4,307)
NNDR receipts from national pool	(62,734)			(2,811)
Government grants – Revenue Support and Police	(33,754)			(109,716)
Government grant for housing benefit paid to tenants not in council housing	(2,943)			(2,929)
Other government grants	(29,619)			(18,391)
Fees, charges and other income	(70,487)			(77,926)
		(807,373)		(841,223)
<b>Revenue activities net cash outflow (inflow)</b>			(18,378)	16,613
<b>SERVICING OF FINANCE</b>				
Interest received			(13,110)	(13,202)
<b>CAPITAL ACTIVITIES</b>				
<b>Cash outflows</b>				
Purchase of fixed assets		32,043		60,518
<b>Cash inflows</b>				
Sale of fixed assets	(7,699)			(30,292)
Reimbursements	(2,358)			(1,493)
Capital grants received	(6,344)			(6,629)
		(16,401)		(38,414)
<b>Capital activities net cash outflow (inflow)</b>			15,642	22,104
<b>Decrease/(increase) in cash</b>			<b>(15,846)</b>	<b>25,515</b>

## Notes to the Cash Flow Statement

	2006/2007 £000	2005/2006 £000
(1) Reconciliation between net deficit/(surplus) on Income and Expenditure Account to the revenue activities net cash flow.		
Net deficit Income and Expenditure Account	37,786	20,582
Interest	13,110	13,202
Non-cash transactions:		
Contribution from (to) reserves and provisions	(31,669)	(9,572)
Increase / (decrease) in intangible current assets	(141)	914
Contribution to Capital	(5,937)	(4,389)
Items on an accruals basis		
Increase / (decrease) in stock	(38)	15
Increase / (decrease) in debtors	(71,026)	64,487
Decrease / (increase) in creditors	39,538	(68,626)
<b>Net cash outflow/(inflow) from revenue activities</b>	<b>(18,378)</b>	<b>16,613</b>
(2) Movement in cash balances		
Balance 1 April	218,637	244,152
Balance 31 March	234,483	218,637
<b>Cash outflow / (inflow)</b>	<b>(15,846)</b>	<b>25,515</b>
(3) Government grants		
Revenue Support grant	12,110	74,087
Police grant	21,644	35,629
Non Domestic Rate Receipts from National Pool	62,734	2,811
	<b>96,488</b>	<b>112,527</b>

## NOTES TO THE FINANCIAL STATEMENTS

1. **Prior Period Adjustments** In the 2006/07 Statement of Accounts three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account have been adopted:

- interest charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts.
- release of deferred government grants and reimbursements are now credited to service revenue accounts, support services and trading accounts rather than treated as corporate income.
- gains and losses on the disposals of fixed assets are recognised in the Income and Expenditure Account.

The other adjustments included in the table below relate to the re-classification of the HRA share of corporate and democratic core costs from the HRA to other services and the inclusion of other net transfers on the balance sheet through the Income and Expenditure Account.

	2005/06 Consolidated Revenue Account	Removal of Fixed Asset Interest Charges	Relocation of the release of Government Grants and Reimbursements	Recognition of Gains and Losses on Disposals of Fixed Assets	Other adjustments	2005/06 Comparatives in 2006/07 Income and Expenditure Account
	£000	£000	£000	£000	£000	£000
Education	4,369	(542)	(78)	-	-	3,749
Social Services	8,282	(11)	(26)	-	-	8,245
Housing Revenue Account (HRA)	4,711	(5,659)	-	-	(53)	(1,001)
Housing (Non-HRA)	2,689	(1,842)	(545)	-	-	302
Highways	17,884	(1,196)	(2,980)	-	-	13,708
Police	73,682	(930)	(799)	-	3,659	75,612
Planning and Economic Development	7,251	(531)	-	-	-	6,720
Recreation and Tourism	50,535	(4,192)	(14)	-	-	46,329
Environmental Health	8,466	(358)	-	-	-	8,108
Refuse Collection & Disposal	3,127	(125)	-	-	-	3,002
Other Services	13,729	(1,628)	(165)	-	53	11,989
Non Distributed Costs	708	-	-	-	-	708
<b>Impact on Net Cost of Services</b>	<b>195,433</b>	<b>(17,014)</b>	<b>(4,607)</b>	<b>-</b>	<b>3,659</b>	<b>177,471</b>
Gains or Losses on Disposal of Fixed Assets	-	-	-	(15,013)	-	(15,013)
Precepts	220	-	-	-	-	220
Contribution from trading services	(174)	(397)	-	-	-	(571)
Housing capital receipts to Government Pool	150	-	-	-	-	150
Investment Properties	(28,718)	-	-	-	-	(28,718)
Interest on Balances	(13,202)	-	-	-	-	(13,202)
Pension Interest Costs	22,391	-	-	-	-	22,391
Asset Management Revenue Account	(18,792)	17,411	1,381	-	-	-
<b>Impact on Net Operating Expenditure</b>	<b>157,308</b>	<b>-</b>	<b>(3,226)</b>	<b>(15,013)</b>	<b>3,659</b>	<b>142,728</b>

**2. Dedicated Schools Grant** From 2006/07, the arrangements for Government support for the funding of schools changed. Previously funds were provided as part of the City of London's overall Revenue Support Grant. In 2006/07, the City of London has received a specific grant - the Dedicated Schools Grant (DSG). £1.522m has therefore been credited against the Education service outturn in the Income and Expenditure Account that would previously have been treated as part of Revenue Support Grant in corporate income. 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 School Budget. Over and underspends on the two elements are required to be accounted for separately.

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

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure	Individual School Budget	Total
	£000	£000	£000
Original grant allocation for 2006/07	(649)	(1,015)	(1,664)
Actual expenditure for the year	507	1,015	1,522
Underspend carried forward to 2007/08	(142)	-	(142)

### 3. Miscellaneous

	Notes	2006/07			2005/06
		Gross Expenditure	Gross Income	Net Expenditure	Net Expenditure
		£000	£000	£000	£000
Capital charges on Guildhall land		94	-	94	93
Discretionary rate relief		247	-	247	263
Grants and subscriptions		35	-	35	34
Levies		88	-	88	88
Registration of births, deaths & marriages		55	(6)	49	17
Receipt from City's Cash for works to Guildhall complex		-	(513)	(513)	(513)
(Decrease) in liability for discretionary pension benefits	A	-	(171)	(171)	(919)
Other		59	(30)	29	70
<b>TOTAL</b>		<b>578</b>	<b>(720)</b>	<b>(142)</b>	<b>(867)</b>

**A.** The most recent assessment of the City Fund's estimated share of discretionary pension benefits is a reduction of £171,000 (2006: £919,000 decrease). However, in order that these FRS17 adjustments do not impact on the overall net requirement in the Income and Expenditure Account they are reversed out as an appropriation to the negative pension reserve (refer also to note 25).

#### 4. Contribution to or (from) Trading Services

	2006/07			2005/06
	Gross Expenditure	Gross Income	Deficit (Surplus)	Deficit (Surplus)
	£000	£000	£000	£000
Spitalfields Market	4,637	(5,296)	(659)	(516)
Cemetery and Crematorium Grounds Maintenance	226	(195)	31	(30)
Vehicle Maintenance	560	(561)	(1)	(25)
<b>TOTAL</b>	<b>5,423</b>	<b>(6,052)</b>	<b>(629)</b>	<b>(571)</b>

Spitalfields Market is a horticultural market serving wholesalers, retailers and caterers from London and a wide area in the Home Counties.

During the year, the City of London also operated two internal trading organisations as set out in the preceding table. One of these, Cemetery and Crematorium Grounds Maintenance, ceased operation on 31 August 2006 when the service was brought back in-house.

5. **Exceptional Item** Impairment, as defined in Financial Reporting Standard 11, is the reduction in value of a fixed asset below its carrying amount on the balance sheet. An impairment of £2.35m arose in 2006/07 in relation to an investment property where the valuation has fallen below the historic cost.

6. **Financing of Capital Expenditure** Revenue financing of capital expenditure in 2006/07 was met from the following sources:

	Budget £000	Actual £000
Direct revenue financing	607	443
Highway Improvements Reserve	3,274	2,462
London Metropolitan Archives Renewals & Repairs	206	216
E-Government Reserve	-	3
<b>Total Financing</b>	<b>4,087</b>	<b>3,124</b>

**7. Publicity** Section 5 (i) of the Local Government Act 1986 requires local authorities to keep a separate account of their expenditure on publicity. Details of City Fund expenditure on publicity which is included within individual services, is set out in the following table:

	2006/07 £000	2005/06 Restated £000
Accounts and Statutory Reports	22	31
Statutory Notices	8	194
Recruitment Advertising	456	551
Public Relations/Economic Development	566	550
Other	266	379
<b>Total</b>	<b>1,318</b>	<b>1,705</b>

The 2005/06 comparator has been restated as a more literal interpretation of the Act has been adopted. In particular, the account only includes expenditure on economic development which is directly related to publicity and excludes expenditure which is exempt under the Act such as publicity promoting the Barbican Centre.

**8. Agency Services** The City of London carries out work on an agency basis for which it is fully reimbursed. The design, maintenance and improvement of sewers are undertaken on behalf of Thames Water Utilities (TWU). During 2006/07, £111,182 (2005/06: £146,000) was incurred and recovered from TWU.

Revenue and capital work costing £298,024 (2005/06: £163,585) and £4,580,325 (2005/06: £3,873,024) respectively was undertaken on behalf of Transport for London. These sums were fully reimbursed.

## **9. Leasing**

### *City of London as Lessor*

For 2006/07 rent of £45m was received or receivable all of which related to operating leases (2005/06: £47m). No agreements were required to be treated as finance leases.

### *City of London as Lessee*

The City is committed to making payments of £1.8m in 2007/08 in respect of operating leases for land and buildings (2006/07: £1.8m) analysed between:

	£m
Those in which the commitment expires in the second to fifth years from 31 March 2007	0.7
Those in which the commitment expires over five years from 31 March 2007	1.1
	1.8

No agreements were required to be treated as finance leases.

**10. Remuneration of Senior Employees** The number of officers whose emoluments in the year were £50,000 or more grouped in rising bands of £10,000 is set out in the following table. The table has been classified between those employees charged wholly to the City Fund, including Police Officers, and those employees charged partially to the City Fund and partially to other funds of the City of London.

Salary range £	Wholly charged to City Fund				Partially charged to City Fund	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
	Police officers		Other			
50,000 - 59,999	158	165	56	39	56	63
60,000 - 69,999	28	22	13	14	28	31
70,000 - 79,999	6	7	15	6	7	13
80,000 - 89,999	5	4	8	5	8	7
90,000 - 99,999	1	1	3	2	3	2
100,000 - 109,999	0	1	2	1	2	1
110,000 - 119,999	0	0	2	2	2	4
120,000 - 129,999	0	0	1	0	1	1
130,000 - 139,999	1	1	0	1	1	0
140,000 - 149,999	0	0	1	0	0	1
150,000 - 159,999	1	1	0	1	0	0
160,000 - 169,999	0	0	0	0	0	0
170,000 - 179,999	0	0	1	0	0	0
180,000 - 189,999	0	0	0	0	0	1
190,000 - 199,999	0	0	0	0	1	0

**11. Single Regeneration Budget (SRB) Partnership Scheme** Central Government, through the London Development Agency (LDA), has made money available for suitable regeneration schemes. The City of London is the accountable body for the Pool of London Partnership which claimed grant of approximately £3m per annum until 2006/07. The City of London as accountable body claims the money from the LDA and reimburses partners for their SRB expenditure, including the City of London for some administration costs. Little of the regeneration expenditure relates to the City itself. This means that, apart from the contribution in kind of some City of London staff time (which counts as SRB public sector leverage expenditure), the net financial effect of this SRB on the City of London is negligible when compared with the overall expenditure. The Partners consist primarily of London Boroughs, some private sector companies and charitable organisations. The City of London does not control the Partnership's grant awarding processes and consequently it is not appropriate for all SRB transactions channelled through the City of London to be recognised in the accounts. Accordingly, only such grant as is ultimately receivable by the City of London together with the associated expenditure is included. On this basis, the accounts include revenue expenditure and income of £297,300 (2005/06: £543,000).



**12. Building Control Account** The Building Control Account required by the Building Act 1984, and specifically the Local Authority Building Control Charges Regulations, is summarised in the following table. To ensure that the deficit in the account is addressed charges have been increased and it is anticipated that the account will break even over the three year rolling period 2005/06 to 2007/08.

	Chargeable £000	Non-chargeable £000	Total £000
<b>Expenditure</b>			
Employees	1,274	319	1,593
Premises	102	25	127
Transport	1	-	1
Supplies and services	90	22	112
Support services	171	43	214
<b>Total expenditure</b>	<b>1,638</b>	<b>409</b>	<b>2,047</b>
Income from building regulation charges	(1,846)	-	(1,846)
<b>(Surplus)/Deficit for year</b>	<b>(208)</b>	<b>409</b>	<b>201</b>
<b>Comparatives for 2005/06</b>			
Expenditure	1,704	427	2,131
Income	(1,612)	-	(1,612)
Deficit for year	92	427	519

### 13. Audit and Inspection Fees

	2006/07 £000	2005/06 £000
External audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice in accordance with section 5 of the Audit Commission Act 1998.	313	205
Statutory inspection under section 10 of the Local Government Act 1999 (carried out by the Audit Commission).	26	18
Certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998.	40	34
	<b>379</b>	<b>257</b>

**14. Related Party Transactions** The code of practice on local authority accounting requires the City of London to disclose information on “related party transactions” in accordance with Financial Reporting Standard 8.

*Standing Orders* The City of London has adopted the following Standing Orders in relation to declarations of personal and beneficial interests:

“If a matter for decision is under consideration by the Court, or any Committee thereof, in which a Member has a personal interest he must declare the existence and nature of his interest in accordance with the Code of Conduct.

If a matter for decision relating to the City of London Corporation’s Housing or Barbican Residential Estates is under consideration by the Court, or any Committee thereof, which relates to land in which a Member has a beneficial interest he:

- (a) must declare the existence and nature of his interest;
- (b) may speak but not vote thereon”

*Disclosure* Members and Chief Officers have been requested to disclose related party transactions in 2006/07. They have also been requested to make disclosures in instances where their close family has made transactions with the City of London. A number of disclosures have been received, none of which were considered material.

Members do not receive any remuneration from the City of London for undertaking their duties.

*Related Party Transactions with the Museum of London* The Museum of London is financed jointly by the City of London and the Department for Culture, Media and Sport. The City of London’s contribution in 2006/07 was £5.169m (2005/06: £4.921m). Half of the appointments to the Board are made by the City of London. However, the City of London does not have the ability to exercise control of the Museum and consequently the preparation of group accounts would not be appropriate.

*Related Party Transactions Disclosed Elsewhere in the Accounts*

Government Grants	Pension Fund
Precepts from other Authorities	Staff car loans

15. **Fixed Assets** Movement of Fixed Assets during 2006/07 was as follows

	Net Book Value as at 1 April 2006	Change in Asset Category	Impairment	Depreciation	Additions	Disposals	Revaluation	Net Book Value as at 31 March 2007
	£000	£000	£000	£000	£000	£000	£000	£000
Tangible Fixed Assets								
Council dwellings	188,666	-	-	(1,090)	1,264	(6,344)	10,106	192,602
Other land and buildings	333,793	(7,476)	(910)	(5,086)	6,251	(768)	19,228	345,032
Leasehold improvements	9,950	-	-	(332)	42	-	-	9,660
Vehicles, plant and equipment	16,240	-	-	(3,900)	2,858	(38)	-	15,160
Infrastructure	14,520	-	-	(2,432)	5,895	-	-	17,983
Community assets	8,947	-	-	-	12	-	-	8,959
Investment properties	706,255	7,316	(2,346)	-	8,900	(136)	159,361	879,350
Work in progress	-	160	-	-	568	-	(77)	651
<b>Total Tangible Fixed Assets</b>	<b>1,278,371</b>	<b>-</b>	<b>(3,256)</b>	<b>(12,840)</b>	<b>25,790</b>	<b>(7,286)</b>	<b>188,618</b>	<b>1,469,397</b>
Intangible Fixed Assets								
Tithe	1,000	-	-	-	-	-	-	1,000
Computer software	-	-	-	-	264	-	-	264
<b>Total Intangible Fixed Assets</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>264</b>	<b>-</b>	<b>-</b>	<b>1,264</b>
<b>Total Fixed Assets</b>	<b>1,279,371</b>	<b>-</b>	<b>(3,256)</b>	<b>(12,840)</b>	<b>26,054</b>	<b>(7,286)</b>	<b>188,618</b>	<b>1,470,661</b>

Expenditure for capital purposes (including deferred charges and loans for capital purposes) during 2006/07 and methods of financing are set out below

	2006/07 £000	2005/06 £000
<b>Expenditure in year</b>		
- Fixed assets	26,054	60,239
- Deferred charges	4,185	3,799
	<b>30,239</b>	<b>64,038</b>
<b>Methods of Financing</b>		
City Fund direct revenue financing	3,124	3,575
HRA Major Repairs Reserve	611	588
Usable Capital receipts	16,003	52,621
Grants and Contributions		
- Received and applied in year	4,155	3,225
- Deferred in year	6,346	4,029
	<b>30,239</b>	<b>64,038</b>

**Analysis of Fixed Assets – Number of Properties**

	31 March 2007	31 March 2006
<b>Commercial Properties</b>		
Housing	96	97
Investment Properties	87	87
Barbican	13	13
<b>Total Commercial Properties</b>	<b>196</b>	<b>197</b>
<b>Operational Properties</b>		
The Barbican Centre	1	1
Guildhall Complex (part)	1	1
Courts	1	1
Education Building	1	1
Art Galleries	1	1
Police Buildings	3	3
Police Housing	2	2
Information Centre - St Paul's	-	1
City Marketing Suite	1	1
Cemetery	1	1
Crematorium	1	1
Animal Reception Centre	1	1
New Spitalfields Market	1	1
Off-Street Car Parks	5	6
Finsbury Circus Pavillion	1	1
Public Conveniences	8	8
Walbrook Wharf	1	1
Reference Libraries	2	2
Lending Libraries	3	3
Manuscripts Areas, Guildhall Yard	1	1
Woodredon & Warlies Park Estate	1	1
<b>Total Operational Properties</b>	<b>37</b>	<b>39</b>
<b>Housing Properties</b>		
Housing Revenue Account	1,889	1,897
Barbican Residential	130	143
Former Spitalfields Market	18	18
<b>Total Housing Properties</b>	<b>2,037</b>	<b>2,058</b>

**Fixed Asset Valuation**

Properties regarded as operational have been valued at their Open Market Value in Existing Use, or where this could not be assessed because there was no market for the subject asset, the Depreciated Replacement Cost. In some cases, specialist properties have required specialist valuation assumptions or alternative use valuations have been carried out.

Properties regarded as non-operational have been valued on the basis of Market Value.

Vehicles, plant and equipment are shown at depreciated cost, as a proxy for value.

Community assets in existence at 1 April 1994 are each shown at a notional £1 to which subsequent additions have been added at cost.

Infrastructure in existence at 1 April 1994 was valued at nil since there was no loan debt outstanding on this category of asset. Subsequent outlay has been added at cost.

The following have been revalued at 31 March 2007 in accordance with the Rolling Five Year Programme of Revaluation:

- Housing dwellings and commercial property
- Barbican Estate residential properties
- Non-operational investment properties
- City YMCA
- Police properties
- London Metropolitan Archives
- Spitalfields Market

The current asset values used in the accounts for the Barbican Centre, Central Criminal Court, Woodredon and Warlies Park, Cemetery and Crematorium and most of the investment properties are based on assessments by external valuers. The firms of chartered surveyors who have prepared valuations for the City of London are Atisreal, CBRE, Allsop LLP, Thompson Yates, Gerald Eve and Bidwells.

All other asset values have been prepared by the City Surveyor.

#### City Fund - Capital Commitments

Capital commitments are estimated to be £95m at 31 March 2007 (£89m at 31 March 2006). This sum excludes commitments for which the expenditure is considered to be recoverable. The most significant items relate to Walbrook Wharf, Investment Properties and contributions to the Guildhall refurbishment.

**16. Intangible Fixed Assets** Intangible fixed assets as at 31 March 2007 comprised £264,000 for computer software and £1m which represents the purchase of the right of the Church Commissioners to levy a tithe rate in the City. The purchase of the right was acquired in accordance with the Tithe Extinguishment Act 1947.

#### 17. Long Term Debtors

	31 March 2007 £000	31 March 2006 £000
Mortgages on the sale of Housing Properties	87	123
Loans to Museum of London (repayable by 2032)	3,225	3,307
Service Charge Loans	62	94
Other Loans	200	200
	<b>3,574</b>	<b>3,724</b>

**18. Intangible Current Assets** This represents the value as at 31 March 2007 of unused landfill usage allowances. The Landfill Allowances Trading Scheme (LATS) is a “cap and trade” scheme which commenced operation on 1 April 2006. Under the scheme allowances to use landfill at a specified level (the “cap”) are allocated free of charge to Waste Disposal Authorities (WDAs) by the Government. A WDA is able to use its allowances to meet its liability for actual landfill usage or to sell to another WDA. If a WDA uses more allowances than its “cap” it must either purchase allowances from another WDA or pay a financial penalty to the Government.

**19. Debtors and Payments in Advance falling due within a year**

	Notes	31 March 2007 £000	31 March 2006 £000
Rents		5,439	5,110
Ratepayers	A	16,324	31,605
Government - Non Domestic Rates Pool	B	1,807	58,885
Sundry		18,412	16,535
Season Ticket and Loans to Employees		673	649
Other loans		459	433
Prepayments		4,047	4,089
Customs and Excise		1,496	1,901
<b>Provision for Doubtful Debts</b>		48,657 <b>(12,439)</b>	119,207 <b>(13,180)</b>
		<b>36,218</b>	<b>106,027</b>

**A** Debtors in 2005/06 were unusually high as a result of the vast number of amendments to rating assessments made by the Valuation Officer towards the end of 2005/06, consequently some demands could not be sent out in sufficient time.

**B** A number of rateable values for 2003/04 and 2004/05 were considerably reduced by the Valuation Officer but the amendments were received too late to revise the 2005/06 payment to the national non domestic pool. The overpayment was refunded in 2006/07.

**20. Creditors and Receipts in Advance**

	Notes	31 March 2007 £000	31 March 2006 £000
Ratepayers	A	31,874	77,263
Sundry		36,955	41,488
Spitalfields Market Tenants Fund		937	952
Receipts in advance		12,170	11,380
Deposits	B	16,691	7,188
		<b>98,627</b>	<b>138,271</b>

**A** In 2005/06 reductions in rateable values for 2003/04 and 2004/05 were advised too late for refunds to be processed in that year.

**B** Monies held under Section 106 of the Town and Country Planning Act 1990 have increased. S106 permits local planning authorities to enter into enforceable 'planning obligations' with developers and monies held under S106 are restricted to being spent only in accordance with the agreement with the developer; such monies are therefore held as creditors until the conditions of the agreement are met.

**21. Long-Term Borrowing** This comprises £1m of 3% stock maturing in October 2007. The stock was issued in connection with the Tithe Extinguishment Act 1947 to provide funds for purchasing the right of the Church Commissioners to levy a tithe rate in the City.

**22. Deferred Credits** Deferred credits consist of the sum left outstanding on properties sold to tenants under the Housing Act. Balances are reduced annually by the amount of the principal element of the mortgage repayments to the City of London.

	2007 £000	2006 £000
Balance 1 April	121	187
Repayments and Redemptions	(34)	(66)
<b>Balance 31 March</b>	<b>87</b>	<b>121</b>

**23. Provisions**

	2007			2006
	Receipts In Year	Payments In Year	Balance 31 March	Balance 31 March
	£000	£000	£000	£000
Tithe Extinguishment Sinking Fund	-	-	986	986

**Tithe Extinguishment Sinking Fund** - This balance represents the sums of money which have been accumulated to enable the outstanding stock of £1m to be redeemed in October 2007.

**24. Grants and Contributions Deferred Account**

	£000	£000
Balance 1 April 2006		12,539
Received in year		
- Grants	2,723	
- Contributions	3,623	6,346
Released to Income and Expenditure Account in Year		
- Grants	(1,211)	
- Contributions	(623)	(1,834)
Balance 31 March 2007		17,051

When the acquisition of a fixed asset has been financed by a government grant or contribution, the amount of grant or contribution is credited to this account. Subsequently, amounts are released to the appropriate revenue account to match the depreciation charged on the asset to which it relates.



## 25. Summary of Movements on Reserves

	Balance 1 April 2006 £000	Net Movement in Year £000	Balance 31 March 2007 £000	Purpose of Reserve	Further Details of Movements
<b>Capital</b>					
Fixed Asset Restatement Account	846,293	181,332	1,027,625	Gains or losses on revaluation of fixed assets	A below
Capital Financing Account	423,066	5,300	428,366	Resources applied which are reduced by the amounts provided for depreciation. Although not available to support new investment they effectively represent advance provision against the depreciation of fixed assets.	B below
Usable Capital Receipts	47,415	(8,352)	39,063	Proceeds of fixed asset sales to meet future capital investment.	C below
Major Repairs Reserve (HRA)	6,959	1,133	8,092	Resources available to meet capital investment in council housing.	HRA Statements page 46
Total Capital Reserves	1,323,733	179,413	1,503,146		
Pensions Reserve	(474,795)	(8,387)	(483,182)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet.	D below
<b>Revenue</b>					
Housing Revenue Account	5,840	(477)	5,363	Resources available to meet future running costs for council houses	HRA Statements page 42
City Fund Unallocated Reserve	53,077	(4,291)	48,786	Resources available to meet future running costs for non-HRA services.	Statement of Movement on City Fund Unallocated Reserve, page 13
Earmarked Revenue Reserves	73,652	(2,481)	71,171	Revenue resources set aside to meet future expenditure for specific purposes.	E below
Total Revenue Reserves	132,569	(7,249)	125,320		
<b>Total</b>	<b>981,507</b>	<b>163,777</b>	<b>1,145,284</b>		

**A Fixed Asset Restatement Account** This account represents the difference between the valuation of assets under the previous system of capital accounting and subsequent adjustments to take account of disposals (at net book value) and revaluations. The movement on the account can be broken down between the City Fund and Housing Revenue Account as follows:

	City Fund £000	HRA £000	Total £000
Balance 1 April 2006	687,027	159,266	846,293
Unrealised gains or losses on revaluation of fixed assets	182,273	6,345	188,618
Disposal of fixed assets	(6,064)	(1,222)	(7,286)
<b>Balance 31 March 2007</b>	<b>863,236</b>	<b>164,389</b>	<b>1,027,625</b>

**B Capital Financing Account**

	£000	Total £000
Balance brought forward 1 April 2006		423,066
Financing of fixed assets		
- from City Fund revenue	3,124	
- from Housing Revenue Account	611	
- from usable capital receipts	16,003	
- from grants and reimbursements	4,155	23,893
Release of credit cover re: leases		(62)
Release of deferred grants and contributions		1,834
Depreciation / Impairment		(16,096)
Write down of deferred charges		(4,185)
Loan repayments received		(84)
<b>Balance carried forward 31 March 2007</b>		<b>428,366</b>

The capital financing account includes entries for the financing of capital expenditure and other capital transactions. The account contains the amount of capital expenditure financed from revenue, capital receipts and other sources. It is reduced by the amounts provided for depreciation and for the write-down of deferred charges.

**C Usable Capital Receipts**

	£000	Total £000
Balance brought forward 1 April 2006		47,415
Proceeds of disposals		
- City Fund	7,096	
- HRA	1,232	8,328
Payable to National Housing Capital Receipts Pool		(677)
Transfer to Capital Financing Account		(16,003)
<b>Balance carried forward 31 March 2007</b>		<b>39,063</b>

**D Pension Reserve**

	Police £000	Judges £000	City of London scheme discretionary benefits £000	Total £000
Balance 1 April 2006	(467,469)	(605)	(6,721)	(474,795)
Statement of Movement on the				
Unallocated City Fund Reserve	(21,561)	(272)	171	(21,662)
Actuarial Gain	13,241	34	-	13,275
<b>Balance 31 March 2007</b>	<b>(475,789)</b>	<b>(843)</b>	<b>(6,550)</b>	<b>(483,182)</b>

The actuarial gains and losses identified as movements on the Pension Reserve over the last five years can be analysed as follows, measured as absolute amounts and as a percentage of assets or liabilities at 31 March.

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000	%	£000	%	£000	%	£000	%	£000	%
Effect of change to the discount rate	-	-	-	-	(55,788)	(13.4)	-	-	-	-
Difference between actuarial assumptions about liabilities and actual experience	(10,600)	(3.46)	(6,383)	(1.96)	(7,349)	(1.8)	(31,269)	(6.7)	13,275	2.7
Changes in the demographic and financial assumptions used to estimate liabilities	-	-	-	-	(7,577)	(1.8)	-	-	-	-
<b>Total</b>	<b>(10,600)</b>	<b>(3.46)</b>	<b>(6,383)</b>	<b>(1.96)</b>	<b>(70,714)</b>	<b>(17.0)</b>	<b>(31,269)</b>	<b>(6.7)</b>	<b>13,275</b>	<b>2.7</b>

**E Movement in Earmarked Reserves**

		Balance 1 April 2006 £000	Net transfer (to)/from Revenue £000	Net transfer (to)/from Other Reserves £000	Balance 31 March 2007 £000
Highway improvements	(i)	17,446	(2,822)	-	14,624
Renewals and repairs:	(ii)				
London Fruit and Wool Exchange		39	-	-	39
London Metropolitan Archives		1,427	(580)	-	847
New Spitalfields Market Building Defects		95	17	-	112
6-8 Bonhill Street		-	500	-	500
School's reserve	(iii)	63	120	-	183
Police future expenditure	(iv)	2,791	2,576	-	5,367
Police pension liabilities	(v)	2,717	(2,717)	-	-
Resilience Reserve	(vi)	46,352	-	-	46,352
Collection Fund	(vii)	686	-	(330)	356
Service projects	(viii)	1,048	(62)	-	986
E-Government	(ix)	91	(13)	-	78
Spitalfields Market	(x)	497	-	-	497
Judges Pensions	(xi)	400	200	-	600
Landfill Allowances	(xii)	-	570	-	570
Energy Savings Scheme	(xiii)	-	60	-	60
<b>Total</b>		<b>73,652</b>	<b>(2,151)</b>	<b>(330)</b>	<b>71,171</b>

(i) *Highway improvements* - Created from on-street car parking surpluses to finance future highway improvement schemes as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.

(ii) *Renewals and repairs* - These items comprise

- London Fruit and Wool Exchange Building – Sums set aside to maintain the building that was part of the Old Spitalfields Market.
- The London Metropolitan Archives Building – The objectives are to provide for the refurbishment of existing premises and for historic property related commitments.
- New Spitalfields Market Building defects – Sums obtained from the developer of the new building to fund repairs to the market, particularly the concrete slab.
- 6-8 Bonhill Street - Sums obtained on the surrender of the headlease and set aside to fund cyclical maintenance, repair works to the property and void costs.

(iii) *School's reserve* - The cumulative balance from the local management budget delegated to the Sir John Cass's Foundation Primary School.

(iv) *Police future expenditure* - Revenue expenditure for the City Police service is cash limited. However, underspendings against this limit may be carried forward as a reserve to the following financial year. The City Police have therefore set aside £5.4m to finance revenue expenditure in subsequent years.

(v) *Police Pension Liabilities* - Sums set aside to meet the pension liabilities of those officers who are eligible for retirement but who have not yet done so. Following changes to the Police Pension Scheme as set out in note 32 this reserve is no longer required.

(vi) *Resilience Reserve* - To meet costs which may arise from damage by terrorism or other cause to uninsured infrastructure assets such as highways, and additional expenses which may be incurred in order to assist businesses and others to resume their normal operation.

(vii) *Collection Fund* - The surplus is being used to reduce the Council Tax amounts in 2007/08.

(viii) *Service Projects* - A number of reserves for service specific projects and activities have been aggregated under this generic heading.

(ix) *E-Government* - A reserve to provide funding for E-Government initiatives.

(x) *Spitalfields Market Reserve* - To help finance City of London expenditure on the market.

(xi) *Judges Pensions* - Sums set aside to assist with the City of London's share of liabilities.

(xii) *Landfill Allowances* - Income arising from the sale of Landfill Allowances is being set aside to fund the future purchase of Landfill Allowances together with increases in the cost of waste disposal due to changes in the method of disposal in order to meet landfill targets.

(xiii) *Energy Saving Scheme* - Sums set aside for a self sustaining fund for energy savings projects in the various City Fund properties.

**26. Contingent Liability** A non domestic ratepayer has indicated that they may mount a legal challenge to a rates bill issued by the City. The City disputes the validity of this claim and has made no provision in the accounts. The City is investigating the condition of various tunnels in the Smithfield area and is aware that, in the absence of an agreement with a developer providing funding for any necessary repairs, there could be a future financial liability partly falling on the City Fund.

**27. Trust Funds** - The City of London is sole trustee for three Education Trust Funds and Keats House. The Barbican Centre Trust Ltd is a controlled company in accordance with the Local Authorities (Companies) Order 1995.

### Education

(i) *Higher Education Research and Special Expenses Fund* - The object of this trust is to provide study grants to teachers and lecturers working within the former London County Council area. The fund balance at 31 March 2007 was £421,036.

(ii) *Archibald Dawnay Scholarship* - The Trust's objective is to provide scholarships to students following approved courses with a technical component, preference being given to courses connected with civil engineering held at colleges, schools or other institutions approved by the Trustees. The fund balance at 31 March 2007 was £163,775.

(iii) *Robert Blair Fellowship for Applied Science and Technology* - The Scheme's provisions include;

- the promotion of postgraduate study and research in applied science and technology with a preference for engineering science;
- grants to be awarded for work in the United States, the Dominions or other countries;
- grants to be awarded every two or three years according to resources;
- candidates should have been trained in a relevant field. Preference is given to those who have completed a course of study in London or who have been identified with the London teaching service, but the scheme is also open to those engaged in engineering.

The fund balance at 31 March 2007 was £192,423.

Summary revenue accounts for the three Educational Trust Funds are as follows.

	Higher Education Research & Special Expenses Fund £000	Archibald Dawnay £000	Robert Blair Fellowship £000
Income	(18)	(7)	(8)
Expenditure	-	-	-
Net incoming resources	(18)	(7)	(8)
Unrealised gains on investment assets	(30)	(13)	(15)
Net movement in funds	(48)	(20)	(23)
Fund balance 1 April 2006	(373)	(144)	(169)
<b>Fund balance 31 March 2007</b>	<b>(421)</b>	<b>(164)</b>	<b>(192)</b>

#### Keats House

The object of this charity is to preserve, maintain and restore for the education and benefit of the public the Keats House property as a museum and live memorial to John Keats and as a library meeting place and centre. A summarised statement of the income and expenditure of the Trust is set out below.

	2006/07 £000
Income	(266)
Expenditure	268
Net outgoing resources	2
Funds brought forward 1 April 2006	(24)
<b>Funds carried forward 31 March 2007</b>	<b>(22)</b>

**Barbican Centre Trust Limited**

The City of London is not sole trustee of the Barbican Centre Trust Limited. It is a controlled company in accordance with the Local Authorities (Companies) Order 1995. The Trust is a charitable company limited by guarantee and therefore the directors have no shareholding interest. The object of the Trust is to foster and promote the maintenance, improvement and development of artistic taste and the knowledge, understanding, education and appreciation of the arts amongst the inhabitants of the City and generally.

	<b>2006/07 £000</b>
Income	(121)
Expenditure	105
Net incoming resources	(16)
Funds brought forward 1 April 2006	(8)
<b>Funds carried forward 31 March 2007</b>	<b>(24)</b>

**28. The Euro** Preparations for the Euro will not be accelerated unless any timetable for its introduction becomes firmer. Consequently, a reasonable estimate of likely cost is not available at this stage. The City of London's major financial systems provide for Euro compliance.

**29. Issue of the Financial Statements** The Financial Statements were authorised for issue on 22 June 2007 by the Chamberlain. Events after the balance sheet date and up to 22 June 2007 have been considered in respect of material impact on the financial statements.

**30. The City of London Pension Scheme** The City of London operates a funded defined benefit pension scheme for its staff who are employed on activities relating to its three funds (City Fund, City's Cash and Bridge House Estates). The Pension Fund is the responsibility of the City of London as a whole, which is one employer, and not the responsibility of any of its three funds. The City Fund does not have an exclusive relationship with the City of London Pension Fund; neither is the portion of the Pension Fund that relates to City of London employee members engaged on City Fund activities separately identifiable. Consequently, in accordance with FRS17, the pension arrangements are treated as a defined contribution scheme in the City Fund accounts.

The 2006/07 employer's contribution to the scheme for staff engaged on City Fund activities was £11.5m out of a total of £17.8m for all three funds (2005/06 : £11m out of £16.6m). There are no outstanding or pre-paid contributions at the balance sheet date.

In accordance with statutory regulations, a triennial valuation of the Pension Fund as at 31 March 2004 was completed by independent consulting actuaries. The valuation revealed that the level of funding of the past service liabilities had decreased by 13 percentage points to 74% (from 87% in 2001). Following this valuation the regular contribution rates to be applied for 2005/06, 2006/07 and 2007/08 are 17.1%, 17.8% and 18.5% respectively.

A further 0.64% has been added to the regular contribution making a total employer's contribution for 2006/07 of 18.44% (2005/06: 18.05%) to recover, over a five year period, certain costs relating to the payment of discretionary pension benefits.

Disclosures in relation to the overall scheme which satisfy the requirements of FRS17 are given below for information. The FRS17 information is not used to determine the employer's pension contribution rate. This is calculated at the triennial valuation and updated by any subsequent interim valuations.

At 31 March 2007 and 31 March 2006 the total assets and liabilities in the City of London Pension Scheme, determined in accordance with FRS17, are as shown below.

	31 March 2007 £m	31 March 2006 £m
Present value of scheme liabilities	(791.4)	(772.8)
Market value of scheme assets	459.2	414.7
<b>Deficit in the scheme</b>	<b>(332.2)</b>	<b>(358.1)</b>

The liabilities have been valued by the City of London's independent consulting actuaries using the projected unit method, based upon the Scheme's latest triennial valuation carried out as at 31 March 2004 and updated to the balance sheet date. The main assumptions used in the calculations are set out below. These assumptions are determined nationally for application to pension funds.

Assumptions	Nominal % per annum		Real % per annum	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Price Increases	3.3	3.0	-	-
Salary Increases	5.1	4.8	1.8	1.8
Pension Increases	3.3	3.0	-	-
Proportion of employees opting to take a commuted lump sum	50.0	50.0	-	-
Discount Rate	5.4	4.9	2.0	1.8

Scheme assets are valued at fair value, principally market value for investments, and consist of:

	31 March 2007 £m	31 March 2006 £m
Equity Investments	361.0	326.1
Gilts	73.8	62.4
Cash	19.0	19.5
Bonds	5.4	6.7
<b>Total</b>	<b>459.2</b>	<b>414.7</b>



The following expected total rates of return were assumed at 31 March 2007 and 31 March 2006.

	31 March 2007 %	31 March 2006 %
Equities	8.5	8.5
Gilts	4.4	4.2
Cash	5.0	4.0
Bonds	5.4	5.0

The movement in the net pensions deficit for the year can be analysed as follows:

	£m	£m
Net deficit at beginning of year		358.1
Movement in year:		
Current service cost	23.5	
Contributions	(18.7)	
Unfunded pension payments	(0.5)	
Settlements/Curtailments	0.7	
Interest cost	6.4	
		11.4
Actuarial gain		(37.3)
<b>Net deficit at year end</b>		<b>332.2</b>

**31. The Teachers' Pension Scheme** The Teachers' Pension Scheme is administered by the Teachers Pensions Agency on behalf of the Department for Education and Skills (DfES) as a multi-employer defined benefit scheme. As it is not possible to identify the assets and liabilities at individual employer level, the pension arrangements are treated as a defined contribution scheme in the City of London's accounts for the purposes of FRS17.

The pension cost charged to the accounts is the contribution rate set by the DfES on the basis of a notional fund. In 2006/07 the City of London's contribution to the Teachers' Pension Scheme was £60,326 which represents 14.1% of teachers' pensionable pay (2005/06: £60,368 and 13.5%).

In addition, the City of London is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2006/07 these amounted to £13,300 representing 2.5% of pensionable pay (2005/06: £12,968 and 2.5%).

**32. The Police Pension Scheme** The Police Pension Scheme is defined benefit and unfunded. It is administered by the City of London in accordance with Home Office regulations and is not a multi-employer scheme. Prior to 1 April 2006 each police authority was responsible for paying the pensions of its own former employees on a pay as you go basis. Under the new arrangements the schemes remain unfunded but are no longer on a pay as you go basis as far as individual police authorities are concerned. The City no longer meets pension costs directly; instead it contributes a percentage of police pay into the Pension Fund. At the year end the Police Pension Fund Account is balanced to nil by either receiving a pension top up grant from the Home Office equal to the amount by which

the amounts payable from the Pension Fund for the year exceed the amounts receivable or, by paying to the Home Office the amount by which sums receivable by the Fund for the year exceed the amounts payable.

At 31 March 2007 the estimated liabilities of the Police Pension Scheme, determined in accordance with FRS17 by independent actuaries using the projected unit method, were £475.8m (31 March 2006: £467.5m). This liability is reflected in the Balance Sheet and is offset by a negative reserve for the same sum. As the scheme is unfunded, it has no assets. The main assumptions used in calculating the liabilities are the same as set out in note 30 above for the City of London Pension Scheme. There are no outstanding or pre-paid employee contributions at the balance sheet date.

The movement in the net pensions deficit for the year can be analysed as follows:

	£m	£m
Net deficit at beginning of year		467.5
Movement in year:		
Current service cost	11.6	
Contributions	(12.9)	
Interest cost	22.8	
		21.5
Actuarial gain		(13.2)
<b>Net deficit at year end</b>		<b>475.8</b>

**33. Judges Pension Scheme** The Judges Pension Scheme is defined benefit and unfunded. The scheme is subject to the provisions of the Judicial Pensions and Retirement Act 1993. The Treasury is responsible for payment of Judges pensions and the City of London reimburses them in accordance with regulations made under the Act. At 31 March 2007 the City of London's estimated liabilities for the Judges scheme, determined in accordance with FRS17 by independent actuaries using the projected unit method, were £0.843m (31 March 2006: £0.605m). This liability is reflected in the Balance Sheet and is offset by a negative reserve for the same sum. As the scheme is unfunded it has no assets. The main assumptions used in calculating the liabilities are the same as set out in note 30 above for the City of London Pension Scheme.

	£m	£m
Net deficit at beginning of year		0.605
Movement in year:		
Current service cost	0.235	
Interest cost	0.037	
		0.272
Actuarial gain		(0.034)
<b>Net deficit at year end</b>		<b>0.843</b>

## Housing Revenue Account

for year ended 31 March 2007

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for local authority housing provision, as defined in particular in Schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of housing revenue expenditure - maintenance, management, rent rebates, capital charges, and how these are met by rents, subsidy and other income.

HRA Income and Expenditure Account	Notes	2006/07 £000	2005/06 £000
<b>Income</b>			
Dwelling rents (gross)	2	6,408	6,582
Non-dwelling rents (gross)		1,453	1,509
Charges for services and facilities		2,577	1,839
Contributions towards expenditure		38	-
HRA Subsidy receivable	3	1,468	1,693
<b>Total Income</b>		<b>11,944</b>	<b>11,623</b>
<b>Expenditure</b>			
Repairs and maintenance		5,261	4,021
Supervision and management		5,208	5,354
Rents, rates, taxes and other charges		3	7
To City Fund for Supporting People		26	31
Depreciation		1,239	1,166
Increased provision for bad or doubtful debts	6	26	43
<b>Total Expenditure</b>		<b>11,763</b>	<b>10,622</b>
Net Income from HRA as included in the City Fund Income and Expenditure Account		(181)	(1,001)
HRA share of Corporate and Democratic Core		54	53
<b>Net Income from HRA Services</b>		<b>(127)</b>	<b>(948)</b>
Gain on sale of HRA fixed assets		(9)	(1,092)
Interest payable and similar charges		563	632
Interest and investment income		(711)	(599)
<b>Surplus for the year on HRA services</b>		<b>(284)</b>	<b>(2,007)</b>

Statement of Movement on the HRA Reserve	Notes	2006/07 £000	2005/06 £000
Surplus for the year on the HRA Income and Expenditure Account		(284)	(2,007)
Net additional amount required by statute to be debited to the HRA reserve for the year	1	761	1,969
Decrease or (increase) in the HRA reserve		477	(38)
HRA surplus brought forward 1 April 2006		(5,840)	(5,802)
<b>HRA surplus carried forward 31 March 2007</b>		<b>(5,363)</b>	<b>(5,840)</b>

## Notes to the Housing Revenue Account

### 1 Note to the Statement of Movement on the HRA Reserve

	2006/07		2005/06
	£000	£000	£000
Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA reserve			
Depreciation on "non-dwellings"	(219)		(204)
Gain or loss on sale of HRA fixed assets	9		1,092
		(210)	888
Items not included in the HRA Income and Expenditure Account but included in the movement on the HRA reserve			
Transfer to/(from) the Major Repairs Reserve	724		829
Voluntary set aside for debt repayment	247		252
		971	1,081
Net additional amount required by statute to be debited to the HRA reserve for the year		761	1,969

**2 Dwelling Rents** The total rent income from dwellings was £6.4m (2005/06: £6.6m). On average during the year, routine and non-routine vacant properties were 0.7% of HRA stock (2005/06: 1.16%). From 1 October 2005 the City of London separated service charges from rent in line with Government social rent reform. As at 31 March 2007 average rents and service charges were £65.38 and £9.06 a week respectively (31 March 2006: £62.28 rent and £8.90 service charge).

**3 Housing Subsidy** The Government pays a subsidy to the Housing Revenue Account. Subsidy is based on Government formulae that are used to calculate a number of elements in a notional account:

HRA subsidy entitlement	2006/07 £000	2005/06 £000
Management allowance	3,187	3,113
Maintenance allowance	2,552	2,461
Major repairs allowance	1,744	1,790
Charges for capital	687	752
Rental constraint allowance	57	-
Rent income	(6,758)	(6,422)
Interest on receipts	(1)	(1)
<b>Total HRA Subsidy</b>	<b>1,468</b>	<b>1,693</b>

**4 Housing Stock** As at the 31 March 2007 the City of London's HRA rental stock was 1,889 dwellings. The HRA also includes costs and service charge income relating to sold properties of which there were 867 as at 31 March 2007.

Rental stock	2006/07 No.	2005/06 No.
Houses and bungalows	27	27
Flats	1,862	1,870
<b>Total</b>	<b>1,889</b>	<b>1,897</b>

Change in the stock	2006/07 No.	2005/06 No.
Stock at 1 April	1,897	1,901
Sales	(8)	(4)
<b>Stock at 31 March</b>	<b>1,889</b>	<b>1,897</b>

**5 Arrears of Rent, Service and Other Charges** As at 31 March 2007 rent arrears in respect of current residential tenants were 2.79% of gross rent income due for the year (31 March 2006: 2.36%). The total arrears for rent, service charges and other charges are £759,000 (31 March 2006: £614,000) as follows:

	31 March 2007 £000	31 March 2006 £000
Former residential tenants	69	62
Current residential tenants	179	158
Commercial tenants	30	52
Service charges	360	207
Other charges	121	135
<b>Total arrears</b>	<b>759</b>	<b>614</b>

**6 Provision for bad and doubtful debts**

	2006/07 £000	2005/06 £000
Provision at 1 April	320	289
Bad debts written off	(19)	(12)
Increase in provision	26	43
<b>Provision at 31 March</b>	<b>327</b>	<b>320</b>

**7 HRA fixed assets**

	Assets Under Construction Dwellings £000	Operational assets			Total £000
		Dwellings £000	Other Land and Buildings £000	Equipment £000	
Balance Sheet value 1 April 2006	-	153,760	16,212	291	170,263
Change in asset category	77	-	(77)	-	-
Depreciation	-	(1,020)	(141)	(78)	(1,239)
Additions	11	1,264	-	3	1,278
Disposals	-	(1,222)	-	-	(1,222)
Revaluation	(77)	5,603	742	-	6,268
<b>Balance Sheet value 31 March 2007</b>	<b>11</b>	<b>158,385</b>	<b>16,736</b>	<b>216</b>	<b>175,348</b>

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' and then reduced to reflect 'existing use for social housing'. The vacant possession value at 31 March 2007 is estimated to be £377.1m which has been reduced to £158.4m to reflect social housing use. This social housing use value is included in the City Fund Balance Sheet. The reduction of £218.7m is a measure of the economic cost to Government of providing council housing at less than open market rents. Other land and buildings are assessed at existing use value.

**8 Major repairs reserve**

	£000
Balance 1 April 2006	(6,959)
Depreciation from HRA	(1,239)
Depreciation on "non-dwellings" transferred back to HRA	219
Additional transfer from HRA	(724)
Capital expenditure (dwellings)	611
<b>Balance 31 March 2007</b>	<b>(8,092)</b>

From 1 April 2001 local authorities were required to establish and maintain a Major Repairs Reserve (MRR) in relation to their HRA property. The main credit to the reserve is an amount equivalent to the total depreciation charges for all HRA assets. Where HRA depreciation charges are less than the major repairs allowance it is a requirement that an amount equal to the difference is also transferred from the HRA to the MRR. The reserve is used to finance capital expenditure and the balance is included with other capital reserves in the City Fund Balance Sheet.

**9 HRA capital expenditure** Expenditure for capital purposes and methods of financing are set out below.

	2006/07 £000	2005/06 £000
<b>Expenditure in year</b>		
Fixed assets		
Dwellings	1,275	1,498
Equipment	3	46
Deferred charges	26	117
	<b>1,304</b>	<b>1,661</b>
<b>Methods of financing</b>		
Capital Receipts	518	917
Major repairs reserve	611	588
Reimbursements	137	119
Borrowing (from City Fund)	38	37
	<b>1,304</b>	<b>1,661</b>

Deferred charges relate to expenditure on sold properties which are not City of London assets.

**10 HRA capital receipts** Capital receipts from the sale of dwellings, land and other property are as follows.

	2006/07 £000	2005/06 £000
Dwellings	1,232	452
Land	-	-
Other	-	-
<b>Total</b>	<b>1,232</b>	<b>452</b>

From 2004/05 the Government requires 75% of new capital receipts from the sale of HRA dwellings to be contributed to a national pool. The City of London Corporation will receive part of the 75% back from the Government under a three year transitional arrangement as it had no external debt at 31 March 2004. For 2006/07, 25% of the sum contributed to the pool has been retained by the City of London (2005/06: 50%).



## The Collection Fund Revenue Account

for the year ended 31 March 2007

	Notes	2006/07 £000	2005/06 £000
<b>Income</b>			
Income from business ratepayers	1	570,562	535,012
Discretionary rate relief		247	263
Council taxes		4,792	4,461
Council tax benefit		248	234
<b>Total income</b>		<b>575,849</b>	<b>539,970</b>
<b>Expenditure</b>			
Contribution to the national non-domestic rates pool		565,154	526,689
Provision for Uncollectable Amounts	3	(1,740)	2,765
Write offs/(ons)		256	(15)
Cost of collection allowance	4	1,766	1,776
Precept from Greater London Authority		466	442
Precept from City Fund - Council tax	5	4,775	5,619
Non-domestic rate premium	1	5,502	4,000
<b>Total expenditure</b>		<b>576,179</b>	<b>541,276</b>
(Deficit) for year		(330)	(1,306)
Balance 1 April		686	1,992
<b>Balance 31 March</b>		<b>(356)</b>	<b>686</b>

### Notes to the Collection Fund

**1 Income from business rates** The Local Government Finance Act 1988 replaced the Locally Determined Non-Domestic Rate with a National Non-Domestic Rate (NNDR) set by the Government. In addition to the NNDR, there is a discounted rate for small businesses known as the Small Business Non-Domestic Rate (SBNDR). In 2006/07 the City of London set a Standard Non-Domestic Rate of 43.7p and a Small Business Non-Domestic Rate of 43.0p. This comprises the NNDR and SBNDR, of 43.3p and 42.6p respectively, plus a premium of 0.4p to provide additional funding to enable the City to continue to support Police, security activity and contingency planning in the City at an enhanced level.

	2006/07 £000	2005/06 £000
Non-domestic rates income	664,983	639,932
Government transition scheme	(18,898)	(19,593)
<b>Non-domestic rates income after transition scheme</b>	<b>646,085</b>	<b>620,339</b>
<b>Less</b> Voids	(59,369)	(75,912)
Mandatory and discretionary relief	(8,179)	(5,479)
Small Business Relief	(83)	(76)
Partly occupied allowance	(281)	(1,507)
Interest	(7,611)	(2,353)
<b>Net income from business ratepayers</b>	<b>570,562</b>	<b>535,012</b>

The total rateable value of the City at 31 March 2007 was £1,556m (31 March 2006: £1,676m).

**2 Calculation of council tax** The Local Government Finance Act 1992 introduced the Council Tax from 1 April 1993, replacing the Community Charge. The Act prescribes the detailed calculations that the City of London, as a billing authority, has to make to determine the Council Tax amounts. The City of London set a basic amount of £782.74 for a Band D property for 2006/07 calculated as follows:

	£000	£000
City of London's Original Budget		107,000
<b>Less</b>		
Distribution from non-domestic rates pool	62,734	
Non-Domestic rates premium	5,600	
Government grants	33,891	
Estimated collection fund surplus	395	
		102,620
Estimated amount to be raised from council tax		4,380
<b>Divided by</b>		
Council tax base for the City area (number of band D equivalent properties)		No: 5,596.38
<b>Basic amount for Band D Property</b>		<b>£782.74</b>

To this £782.74 is added £77.79 in respect of the precept from the Greater London Authority to arrive at the total Council Tax of £860.53 for a Band D property. Prescribed proportions are applied to this basic amount to determine the Council Tax amounts for each of the bands:

Band	Proportion	Council Tax £
A	6/9	573.69
B	7/9	669.30
C	8/9	764.92
D	9/9	860.53
E	11/9	1,051.76
F	13/9	1,242.98
G	15/9	1,434.22
H	18/9	1,721.06

*Tax bases 2006/07* The table below shows the number of chargeable dwellings in each valuation band converted to an equivalent number of Band D dwellings. The totals for each area are described as “aggregate relevant amounts”. These amounts, multiplied by the collection rate of 95%, produce the tax base for each of the areas shown.

Band	Middle Temple	Inner Temple	City area excluding Temples	Total City area
A	-	-	5.00	5.00
B	-	-	145.44	145.44
C	-	-	448.89	448.89
D	-	-	644.25	644.25
E	5.50	3.06	2,119.03	2,127.59
F	37.92	22.03	1,069.97	1,129.92
G	25.83	50.00	1,140.00	1,215.83
H	1.50	4.00	168.50	174.00
Aggregate relevant amounts	70.75	79.09	5,741.08	5,890.92
Collection rate	95%	95%	95%	95%
<b>Tax bases</b>	<b>67.21</b>	<b>75.14</b>	<b>5,454.03</b>	<b>5,596.38</b>

**3 Provision for Uncollectable Amounts** This provision has been re-assessed and reduced from £11.043m at 31 March 2006 to £9.303m at 31 March 2007.

**4 Cost of Collection Allowance** In accordance with paragraph 6 of Schedule 1 to the Non-Domestic Rating Contributions (England) Regulations, the City of London is allowed to deduct collection costs of £1.766m for 2006/07 from the gross amount of rates receivable.

**5 Council Tax** This represents the sums payable to the City Fund in respect of:-

	2006/07 £000
Council taxes	4,380
The estimated collection fund balance at 31 March 2006	395
	<b>4,775</b>

## Pension Fund Accounts

This is an extract from a more detailed published statement, a copy of which is available on request from the Chamberlain of London.

The City of London Pension Fund is a funded defined benefits scheme. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the pension scheme.

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined by the City of London.

### Accounting Policies

- (i) The pension fund accounts have been prepared in accordance with the accounting recommendations of the "Financial Reports of Pension Schemes - a Statement of Recommended Practice". However, disclosures have been limited to those required by the "Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice".
- (ii) The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- (iii) The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- (iv) Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest mid-market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market.
- (v) Managed funds are valued at the average of the bid and offer prices provided by the independent custodian.
- (vi) Unquoted securities are valued by the independent custodian at the year end in accordance with generally accepted guidelines.
- (vii) The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end. The interest is included separately within accrued investment income.
- (viii) Acquisition costs are included in the purchase costs of investments.
- (ix) Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates.
- (x) The cost of administration is charged directly to the fund.

- (xi) Income due from equities is accounted for on the date stocks are quoted ex-dividend.
- (xii) Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.
- (xiii) Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- (xiv) Income from other investments is accounted for on an accruals basis.
- (xv) The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.
- (xvi) When foreign exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at year end. Income from overseas investments is translated into sterling at an average rate for the period.
- (xvii) Surpluses and deficits arising on conversion of transactions are dealt with as part of the change in market values of the investments.
- (xviii) Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.
- (xix) Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.
- (xx) Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before year end, and where the amount of the transfer can be determined with reasonable certainty. No group transfers in or out are included in the 2006/07 accounts.
- (xxi) Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.
- (xxii) The internal recharging relating to the provisions for early retirements has been included as Other Income.
- (xxiii) The Pension Fund accounts and statements have been prepared in accordance with the provisions of Chapter 2 of the Pensions' Statement of Recommended Practice.

**Actuarial valuation** In accordance with statutory regulations a triennial valuation of the Pension Fund was completed by independent consulting actuaries as at 31 March 2004 using the projected unit method. The changes in employer contribution rates as a result of the March 2004 valuation were effective from 1 April 2005.

The valuation at 31 March 2004 revealed that the relationship between the values placed on the assets held by the fund and the liabilities accrued in respect of pensionable service at that date were as follows:

<b>Past service liabilities</b>	<b>£m</b>
Active members	202.4
Deferred pensioners	64.3
Pensioners	188.2
<b>Total</b>	<b>454.9</b>
Assets	(337.1)
<b>Deficit</b>	<b>117.8</b>
Funding Level	74%

Based on the above data the derivation of the basic rate of employer's contribution is set out below:

	<b>Contribution rate %</b>
Future service funding rate	10.2
Past service adjustment	8.2
<b>Total contribution rate</b>	<b>18.4</b>

The past service adjustment assumes that the deficit is recovered over a 20 year period. The increase in contribution rates is being phased in over 3 years commencing from 1 April 2005, with the rates for 2005/06, 2006/07 and 2007/08 being 17.1%, 17.8% and 18.5% respectively.

## Pension Fund Account

for the year ended 31 March 2007

	Notes	2006/07 £000	2005/06 £000
<b>Contributions and Benefits</b>			
Contributions receivable	2	(25,913)	(24,233)
Transfers in		(3,230)	(5,935)
Other income		(845)	(1,219)
		(29,988)	(31,387)
Benefits payable	3	22,743	22,027
Payments to and on account of leavers	4	1,702	3,125
Administrative expenses	5	623	626
		25,068	25,778
Net additions from members		(4,920)	(5,609)
<b>Returns on investments</b>			
Income from investments	6	(15,898)	(12,695)
Change in market value of investments (realised and unrealised)		(24,261)	(62,510)
Investment management expenses	7	2,657	2,349
Net returns on investments		(37,502)	(72,856)
<b>Net increase in the fund during the year</b>		(42,422)	(78,465)
Opening net assets of the scheme		(446,644)	(368,179)
<b>Closing net assets of the scheme</b>		(489,066)	(446,644)

## Net Asset Statement

as at 31 March 2007

	Notes	2006/07 £000	2005/06 As Restated £000
<b>Investment assets</b>	8/9	487,469	445,401
<b>Current assets</b>	11	2,399	1,900
<b>Current liabilities</b>	11	(802)	(657)
<b>Net assets</b>		<b>489,066</b>	<b>446,644</b>

## Notes to the Pension Fund Accounts

### 1 Membership of the fund

	Current contributors	Beneficiaries in receipt of pension	Deferred benefits	Total
<b>City of London</b>	3,413	2,943	2,278	8,634
<b>Scheduled bodies</b>				
Museum of London	293	117	231	641
Magistrates Court	-	26	49	75
Probation Committee	-	4	-	4
<b>Admitted bodies</b>				
Irish Society	8	6	1	15
City Arts Trust	-	1	-	1
Transport Committee for London	-	3	29	32
Guildhall Club	8	1	2	11
City Academy	38	-	21	59
<b>Totals</b>	<b>3,760</b>	<b>3,101</b>	<b>2,611</b>	<b>9,472</b>



## 2 Contributions receivable

	2006/07 £000	2005/06 £000
<b>Employers</b>		
<b>Scheduled bodies</b>		
City of London	(17,871)	(16,577)
Museum of London	(1,120)	(1,064)
<b>Admitted bodies</b>		
Irish Society	(36)	(34)
Guildhall Club	(33)	(26)
City Academy	(108)	(137)
	(19,168)	(17,838)
<b>Employees</b>		
<b>Scheduled bodies</b>		
City of London	(6,216)	(5,876)
Museum of London	(464)	(447)
<b>Admitted bodies</b>		
Irish Society	(15)	(15)
Guildhall Club	(11)	(9)
City Academy	(39)	(48)
	(6,745)	(6,395)
<b>Total Contributions</b>	<b>(25,913)</b>	<b>(24,233)</b>

**3 Benefits payable**

	<b>2006/07</b>	<b>2005/06</b>
	<b>£000</b>	<b>Restated £000</b>
<b>SCHEDULED BODIES</b>		
<b>City of London</b>		
Retired employees		
– Pensions	15,597	14,520
– Lump sums	3,792	3,848
Lump sum on death	242	611
Widows' and widowers' pensions	2,077	2,093
Children's pensions	32	26
	<b>21,740</b>	<b>21,098</b>
<b>Museum of London</b>		
Retired employees		
– Pensions	608	561
– Lump sums	73	44
Lump sum on death	-	24
Widows' and widowers' pensions	68	54
Children's pensions	1	1
	<b>750</b>	<b>684</b>
<b>Magistrates</b>		
Retired employees		
– Pensions	92	90
– Widows' and widowers' pensions	38	37
	<b>130</b>	<b>127</b>
<b>Probation</b>		
Retired employees		
– Pensions	44	42
<b>ADMITTED BODIES</b>		
<b>Irish Society</b>		
Retired employees		
– Pensions	46	44
Children's pensions	-	1
	<b>46</b>	<b>45</b>
<b>City Arts Trust</b>		
Retired employees		
– Pensions	8	8
<b>Transport Committee for London</b>		
Retired employees		
– Pensions	23	21
<b>Guildhall Club</b>		
Retired employees		
– Pensions	2	2
<b>Total Benefits Payable</b>	<b>22,743</b>	<b>22,027</b>

**4 Payments to and on account of leavers**

	2006/07 £000	2005/06 £000
Refunds of contributions	3	44
Transfers out	1,699	3,081
	<b>1,702</b>	<b>3,125</b>

**5 Administrative expenses**

	2006/07 £000	2005/06 £000
Central administration	584	592
Computer costs	39	34
	<b>623</b>	<b>626</b>

**6 Income from investments**

	2006/07 £000	2005/06 £000
<b>Fixed interest</b>		
UK Government	(2,954)	(2,976)
UK other	(655)	(431)
Overseas Government	(799)	(735)
Overseas other	(78)	(27)
UK pooled units	(117)	-
UK equities	(5,077)	(2,622)
Overseas equities	(5,654)	(4,581)
Cash	(564)	(1,323)
	<b>(15,898)</b>	<b>(12,695)</b>

**7 Investment Management Expenses** Included in these expenses are Actuary fees of £12,509. There are no Audit fees charged to the Pension Fund. Audit fees are met from the City Fund.

## 8 Investment assets

	2006/07 £000	2005/06 Restated £000
<b>Managed investments</b>		
<b>Fixed interest securities:</b>		
– UK public sector	(55,605)	(56,778)
– UK other	(5,789)	(6,249)
– Overseas	(18,737)	(10,073)
<b>Pooled Units</b>		
– UK	(3,342)	-
– Overseas	(65)	-
<b>Listed equities</b>		
– UK	(121,675)	(105,897)
– Overseas	(258,692)	(240,408)
<b>Private Equity</b>	(5,003)	(3,880)
<b>Managed funds (other)</b>	(9,833)	(18,078)
<b>Total Managed investments</b>	<b>(478,741)</b>	<b>(441,363)</b>
<b>Cash deposits</b>	<b>(8,728)</b>	<b>(4,038)</b>
<b>Total investment assets</b>	<b>(487,469)</b>	<b>(445,401)</b>

**9 Holdings of fund managers** The following shows the market value of the investments held as at 31 March 2007, and the proportion managed by each manager:

	£000	% share of assets
Artemis	(100,967)	21.09
LSV	(70,926)	14.82
Pyrford	(110,703)	23.12
Southeastern	(124,887)	26.08
Wellington Management International	(66,141)	13.82
State Street Bank Europe (Temporary)	(131)	0.03
Barings (Venture Capital)	(821)	0.17
Standard Life (Venture Capital)	(3,416)	0.71
Yorkshire Venture Capital Fund	(749)	0.16
	<b>(478,741)</b>	<b>100.00</b>

The purchases for 2006/07 were £137.9m whilst sales for 2006/07 were £115.8m.

**10 Independent Custodian** The independent custodian, ABN AMRON Mellon, is responsible for; its own compliance with prevailing legislation, providing monthly accounting data summarising details of all investment transactions during the period, settlement of all investment transactions, collection of income and tax reclaims and stock lending within parameters set by the City of London.

**11 Current assets and liabilities** Current assets and liabilities relate to outstanding dividends due to the City of London from investment managers and investment management fees due to the investment managers.

**12 Statement of Investment Principles** The City of London has prepared a Statement of Investment Principles, which govern decisions relating to investments. A copy of this statement is included in the full statement on the Fund available from the Chamberlain of London.

## The Police Pension Fund Account

for the year ended 31 March 2007

	2006/07	
	£000	£000
<b>Contributions receivable</b>		
- from employer	(7,556)	
- from members	(3,371)	
		(10,927)
<b>Transfers in</b>		
- individual transfers in from other schemes		(99)
<b>Benefits payable</b>		
- pensions	12,938	
- commutations and lump sum retirement benefits	3,408	
		16,346
<b>Payments to and on account of leavers</b>		
- refunds of contributions	3	
- individual transfers out to other schemes	26	
		29
<b>Expenditure</b>		
- interest		19
Sub-total: Net amount payable for the year before transfer		
from Police Pension Reserve		5,368
Transfer from Police Pension Reserve		(4,871)
Net amount receivable for the year		497

## Net Assets Statement

as at 31 March 2007

	2006/07
	£000
<b>Net current assets and liabilities</b>	
- debtor for Home Office top-up grant (routed through Police Pension Reserve)	497
- cash overdrawn	(497)

## Notes to the Police Pension Fund Account

The Police Pension Fund is a defined benefits scheme. All City of London police officers are eligible for membership of the pension scheme.

The Fund is administered internally by the City of London. There are no investment assets and the fund is balanced to zero each year by receipt of pension top-up grant from the Home Office or by paying over the surplus to the Home Office.

### Accounting Policies

- (i) The Police Pension Fund account has been prepared in accordance with the Police Pension Fund Regulations 2007.
- (ii) The pension fund account is accounted for on an accruals basis.
- (iii) The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- (iv) Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate.
- (v) Under the rules of the Scheme, members may elect to commute a proportion of their pension in favour of a lump sum. Commutation lump sums are accounted for from the date of retirement. Where a member has taken a commutation option, these lump sums are accounted for on an accruals basis from the date the option is exercised.
- (vi) Transfer values represent the capital sums in respect of members' pension rights either received from or paid to other pension schemes in respect of members who have joined or left the service.

## Statement of Responsibilities for the Statement of Accounts

### The City of London's Responsibilities

The City of London 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. This officer is the Chamberlain.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### The Chamberlain of London's Responsibilities

The Chamberlain is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code") are required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year.

In preparing this statement of accounts, the Chamberlain has:

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

The Chamberlain has also

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

### Chamberlain's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the City Fund and the Pension Fund of the City of London at 31 March 2007 and their income and expenditure for the year then ended.



.....  
Chris Bilsland  
Chamberlain of London  
1 August 2007

## Statement on Internal Control

### Scope of Responsibility

- 1 In addition to delivering local authority services the City of London Corporation ("the City") supports and promotes the business community, is a major funder of arts and culture and provides services of regional and national significance. The City's unique franchise arrangements reflect its role in promoting and supporting the world's leading international financial and related business centre.
- 2 The City is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The City also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its local authority and Police functions are exercised.
- 3 In discharging this overall responsibility, the City is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

### The Purpose of the System of Internal Control

- 4 The systems of internal control are designed to manage risk to a reasonable level and cannot eliminate all risk of failure to achieve policies, aims and objectives; they can therefore only provide reasonable rather than absolute assurance of effectiveness. The City's system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the City'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.
- 5 A system of internal control has been in place at the City for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

### Key Elements of the Internal Control Environment

#### *Business Strategy and Planning Process*

- 6 The City has a clear hierarchy of plans, setting out its ambitions and priorities:
  - A fully functional Local Strategic Partnership was established in 2002 to oversee the development of the Community Strategy.
  - The Community Strategy for 2004-2014 ("The City Together: A Vision for a World Class City") sets out the vision, strategic themes and objectives for the City of London. The eight strategic themes link to the shared priorities for local government but also focus on agreed local priority areas.
  - In March 2007, the City and The City Together Partnership agreed the City's Local Area Agreement with central Government. This sets out key policy objectives and stretching service delivery targets for the period 2007-10.
  - The annual Corporate Plan (incorporating the City's Best Value Performance Plan) shows how the City's activities link to the Community Strategy vision and themes and how the City will fulfil its wider role as a provider of services outside of the City boundaries. The Corporate Plan has subsumed the Medium Term Strategy and includes a statement of the City's Core Values.



- Other corporate plans and strategies include: the Financial Strategy and Budget Policy, the Capital Strategy and Asset Management Plan; and the HR Strategy.

7 Plans and strategies are informed by a range of consultation arrangements, such as central and local residents' meetings, an on-line City workers panel and surveys of stakeholders, all set within the framework provided by the City of London's Consultation and Communication Strategies. During 2006, major consultation exercises were undertaken with all of the City's key stakeholder groups.

8 The City has a unique franchise, giving businesses (our key constituency) a direct say in the running of the City, and a range of engagement activities, including through the Lord Mayor, Chairman of Policy and Resources Committee and the Economic Development Office. An annual consultation meeting is held for business ratepayers.

#### *Corporate Governance*

9 The principles of good governance are embedded within a comprehensive published Code of Corporate Governance, which links together a framework of policies and procedures, including:

- Standing Orders, which govern the conduct of the City's affairs, particularly the operation of Committees and the relationship between Members and officers.
- Financial Regulations, which lay down rules that aim to ensure the proper management and safeguarding of the City's financial and other resources.
- Terms of reference for every Committee.
- Scrutiny provided primarily by the Policy & Resources and Finance Committees, and the Resource Allocation, Audit and Investment Sub Committees.
- A corporate framework of delegation, which defines the responsibility for decision-making and the exercise of authority.
- A Members' Code of Conduct, which defines standards of personal behaviour; a Standards Committee, and register of interests, gifts and hospitality.
- A Code of Conduct for staff.
- A corporate complaints procedure, operated through the Town Clerk's Department, with a separate procedure in Community and Children's Services, to comply with the relevant regulations.
- The Control of Projects manual and other detailed guidance for officers, including procedures and manuals for business critical systems.
- An anti-fraud and corruption strategy, incorporating the City's whistle blowing policy.

10 During 2006/07, work undertaken has included:

- completing the review of financial Standing Orders;
- introducing a Licensing protocol for Members, and
- implementing a financial loss scheme for Members.

#### *Performance Management*

11 The corporate performance management framework sets out the planning cycle with clear linkages between the different levels of policy, strategy, target setting, planning and action (the "Golden Thread").

- All departments are required to produce annual departmental business plans for approval by the relevant service committee(s). These are all clearly linked to the overall Corporate Plan and to the Community Strategy.
- Business plans contain the key objectives from the Community Strategy and all departmental objectives are linked to the eight themes. The plans also show improvement objectives aligned with resources - financial and staffing - and other corporate considerations (e.g. equalities; sustainability). Recommendations from external inspections are incorporated into the business plans.
- All departments report quarterly to their service committees with progress against their business plan objectives and with financial monitoring information.
- Quarterly performance monitoring meetings are held by the Deputy Town Clerk with selected Chief Officers.
- Performance and Development Appraisals are carried out for all staff, using core competencies. The appraisals are used to set individual objectives and targets and to identify learning and development needs that are linked to business needs.
- 360° feedback forms part of appraisals for Chief Officers and selected senior officers, as well as being used for management training.
- The City achieved corporate IIP accreditation in 2005.

12 Performance is communicated to Council Tax and Business Rates payers through the annual Performance Summary, six monthly central residents meetings and an annual business ratepayers consultation meeting. Annual strategic briefings are held for staff and a periodic staff attitude survey is undertaken to identify improvements in the understanding of the visions and aims of the City.

13 The Performance Management Project aimed at further developing the performance management framework and embedding a performance management culture across the organisation, has continued. Phase one of the project has been completed successfully and phase two is being developed to take account of the lessons learnt from phase one. During 2006/07, the corporate business planning framework was streamlined and a standard improvement plan template produced in response to demands from internal stakeholders.

#### *Risk Management*

14 A Risk Management Policy Statement was adopted in 2003 establishing mechanisms to formally embed the risk management process within the City. The Statement outlined a number of key benefits which the City aims to derive from its commitment to active risk management. A Strategic Risk Management Group consisting of senior managers from departments meets regularly, under the Chairmanship of the Deputy Town Clerk.

15 A Strategic Risk Register was produced in 2004, following a strategic risk assessment, which identified, assessed and formulated processes to eliminate or control identified risks. The assessment involved all departments and was facilitated by an external consultant. The register codifies key strategic risks and assigns responsibility for taking action to mitigate each risk to a named Chief Officer. This register is monitored and updated regularly by the Strategic Risk Management Group and the Audit Sub Committee. The latest update was agreed by the Audit Sub Committee in November 2006.

16 Action is being taken to mitigate strategic and operational risks and these are monitored continuously by Chief Officers and regularly by the relevant Committee. The terms of reference of the Audit Sub Committee now explicitly include responsibility for risk management.

17 Departmental business plans include the strategic risks allocated to the relevant Chief Officer and departments are identifying key operational risks as part of the business planning process. These plans are considered by the relevant Committee. During 2006/07, an internal audit review of departmental risk management procedures was completed.

#### *System of Internal Financial Control*

18 The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, a system of delegation and accountability, and independent scrutiny. In particular the system includes:

- comprehensive budget setting and monitoring systems.
- regular reviews of periodic and annual financial reports which indicate financial performance against budgets and forecasts.
- clearly defined capital expenditure guidelines.
- formal project management disciplines.
- an in-house internal audit service.
- scrutiny by Members, the Audit Commission, CSCI, OFSTED, BFI, other inspectorates, external audit and other stakeholders.

19 Ongoing contact and communication between central and departmental finance officers is maintained and there are regular meetings of the Finance Officers Forum.

20 Development of the central financial management systems has continued, aiming to capitalise on this investment by fostering better use of the facilities available. This includes examination of the options available for more sophisticated profiling of revenue budgets.

21 A cash limit to City Fund capital schemes has been introduced, whereby the level of the City's own resources being consumed to finance capital expenditure would be capped for the period 2006/07 to 2008/09 and proposals are being prepared to extend this period.

22 Further action is being taken to address the shortfall identified by the medium term financial forecast, including continuation of the efficiency squeeze on local risk (cash limited) budgets and targeted reductions in the revenue base.

#### *Value for Money/Efficiency*

23 The City has a number of policies and procedures in place to ensure that its policies and the principles that underpin them are implemented economically, efficiently and effectively. This framework includes:

- Financial Strategy. This provides a common base for guiding the City's approach to managing financial resources and includes the pursuit of budget policies that seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives.
- Budget policy. The key policy is to balance current expenditure and current income over the medium term. Blanket pressure is applied to encourage Chief Officers to continuously seek improved efficiency and find better ways of working.
- Capital Strategy. This ensures that the City's capital resources are deployed to realise its corporate aims and priorities.

- Corporate Asset Management Plan. This aims to ensure that the opportunity cost of financial resources tied up in land and buildings is recognised, and that expenditure on the portfolio is directed efficiently and effectively to provide value for money.
- Annual resource allocation process. This is the framework within which the City makes judgements on adjustments to resource levels and ensures that these are properly implemented.
- Capital budget evaluation, management and monitoring. The City has a comprehensive system of controls covering the entire life cycle of capital and major revenue projects.

24 Cumulative efficiency savings of £8.9m have been reported in the Annual Efficiency Statement for 2006/07 (mid-year update) and £3m in the Annual Efficiency Statement for 2007/08 (Forward Look). The City has achieved its internal savings targets resulting from application of the Budget Policy and implemented improvements in efficiency and opportunities for savings identified in cross-cutting reviews.

25 The performance of the City's financial and property investments is monitored regularly, both in-house and independently, through WM and IPD respectively.

26 Chief Officers will be including a summary of efficiency gains achieved and proposed in their annual business plans. Consideration is given to efficiency during the development and approval stages of all major projects, with expected efficiency gains quantified within reports to Members.

27 Projects such as the merger of the former Department of Technical Services into the City Surveyor's Department and the Department of Environmental Services, the implementation of a corporate contact centre, the establishment of the HR Business Unit and Central Finance Unit, and the consolidation of staff in fewer operational buildings are expected to contribute to customer service improvements and efficiency savings in future years.

#### Review of Effectiveness

28 The City has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and managers within the authority who have responsibility for the development and maintenance of the internal control environment, and by comments made by the external auditors and other review agencies.

29 Recent external assessments include:

- Use of Resources assessment by external auditors as part of CPA 2006. The City retained its score of 4 out of 4 for Use of Resources.
- Annual external audit of the Best Value Performance Plan and Best Value Performance Indicators. The Policy Plan 2005/06 was given an unqualified audit report.
- Direction of travel assessment by the Audit Commission, also as part of CPA 2006. The City scored 4 out of 4 ("improving strongly") up from 3 ("improving well") in 2005. This noted that corporate and community planning had been further developed by the adoption of a new corporate plan which embeds the medium term financial strategy and enhances arrangements for monitoring progress on outcomes. It also commented that the City remains focused on the challenge it faces to maintain its improvement agenda from this high baseline and to further improve value for money.

### Role of Internal Audit and Chief Internal Auditor's Opinion

30 Internal Audit plays a central role in providing the required assurance on internal controls through its comprehensive risk-based audit of all auditable areas within a five-year planning cycle - with key areas being reviewed annually. This is reinforced by consultation with departmental heads on perceived risk and by a rigorous follow-up audit regime.

31 The whole Internal Audit process is supported, monitored and managed by the Audit Sub-Committee, which meets at least three times a year and closely reviews all aspects of the Internal Audit function.

32 The Internal Audit Section operates under the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for internal audit in local government in the United Kingdom. An internal review has been conducted of the effectiveness of the Internal Audit Section, in particular its compliance with the CIPFA Code of Practice. The main area of concern during 2006/07 was the level of vacancies within the section and the loss of experienced staff. This has been reported to the Audit Sub Committee and measures have been agreed to rectify the situation. In other respects the section is compliant with the Code of Practice. It consistently achieves high scores as part of the CPA process and its work is relied upon by External Audit.

33 The CIPFA Code of Practice for Internal Audit 2006 includes the requirement that "The Head of Internal Audit's formal report to the organisation should include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment".

34 It is the Chief Internal Auditor's opinion that the City's systems of internal control, and the arrangements to ensure effective corporate governance, are robust and can be reasonably relied upon to ensure that objectives are achieved efficiently. A comprehensive risk management structure is in the process of being fully embedded throughout all elements of the City and a corporate strategic risk register has been adopted. In addition, experience over many years also shows that individual departments generally take appropriate action to manage and mitigate risk. This opinion is based upon the past year's Internal Audit work throughout all aspects of the City's diverse operations. In this year 95% of the annual audit plan was completed to report stage.

### Future Internal Control Developments

35 In order to maintain, develop and strengthen the existing system of internal control, future plans include;

- Renewing the Community Strategy, in consultation with key partners and stakeholders, in response to the latest Government guidance - in particular the Local Government White Paper "Strong and prosperous communities".
- Considering whether any consequential changes are required to the governance arrangements of The City Together Partnership and its sub-groups.
- Revising the City's LAA in line with the provisions of the Local Government and Public Involvement in Health Bill.
- Achieving a more explicit link between service and financial planning at corporate and departmental levels including revisions to the format of periodic revenue budget monitoring reports.
- Completing the review of property Standing Orders and aligning the Control of Projects manual and Financial Regulations with the new financial Standing Orders.
- Implementing the revised Member Code of Conduct by October 2007 and introducing a planning protocol for Members.

- Further improving learning and development opportunities for Members.
- Continuing to develop the role of the Strategic Risk Management Group and continuing to embed the culture and enhance the profile of risk management through the organisation. External training has been arranged for both the Group and Members of the Audit Sub Committee to improve understanding of the issue.
- Introducing a framework and programme of internal reviews as part of a wider efficiency programme that will improve the City's use of its financial, people and property resources.
- Reviewing the fraud response plan and re-launching the "whistleblower" policy.
- Conducting an internal audit review of business ethics and integrity management.
- Reviewing the City's asset management strategy to identify opportunities to save on running costs, improve accessibility and facilitate flexible working
- Conducting further budget reviews to identify savings opportunities e.g. relatively high cost areas, poor policy alignment and areas of low need or demand.



.....  
Chris Duffield  
Town Clerk and Chief Executive

30 May 2007



.....  
Michael Snyder  
Chairman Policy and Resources Committee

30 May 2007

### Adoption of the City Fund and Pension Fund Accounts

The City Fund Accounts and Pension Fund Accounts were approved by the Finance Committee on 29 June 2007 and signed on its behalf by:



.....  
Philip Willoughby  
Chairman of the Finance Committee

Date: 1 August 2007



.....  
Jeremy Mayhew  
Deputy Chairman of the Finance Committee

Date: 1 August 2007

## Independent Auditors' Reports to the City of London

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

### Respective Responsibilities of the Chamberlain and Auditors

The Chamberlain's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities for the Financial Statements.

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

This report, including the opinion, has been prepared for and only for the City of London's ('the City') members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the City and its income and expenditure for the year.

We review whether the Statement on Internal Control reflects the City's 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 whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the City's corporate governance procedures or its risk and control procedures.

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

### Basis of Audit Opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom 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 City in the preparation of the financial statements, and of



whether the accounting policies are appropriate to the City'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 evaluated the overall adequacy of the presentation of the information in the financial statements.

#### Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

\* the financial position of the City of London as at 31 March 2007 and its income and expenditure and cash flows for the year then ended; and

\* the financial transactions of the pension fund during the year ended 31 March 2007, and the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

  
.....

2 August 2007

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge St  
London SE1 9SY

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

### **City's Responsibilities**

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

### **Auditor's Responsibilities**

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the City 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 City has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the City'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 City'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**

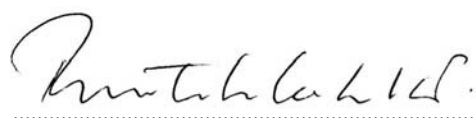
We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, the City made proper arrangements to secure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

### **Best Value Performance Plan**

We issued our statutory report on the audit of the City's best value performance plan for the financial year 2006/07 on 16 June 2006. We did not identify any matters to be reported to the City and did not make any recommendations on procedures in relation to the plan.

## Certificate

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



.....

2 August 2007

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge St  
London SE1 9SY

## Glossary of Terms

**Actuarial gains and losses** - for a defined benefit pension, changes in actuarial deficits or surpluses that arise because:

- a. events have not coincided with the actuarial assumptions made for the last valuation or
- b. the actuarial assumptions have changed.

**Actuary** - a person who assesses risks and costs, in particular those relating to life assurance and investment policies, using a combination of statistical and mathematical techniques.

**Bridge House Estates** - a Trust relating to the maintenance and support of five City of London owned bridges and the making of grants for the benefit of Greater London, particularly for the provision of transport, and access to it, for the elderly and disabled. The Trust is accounted for separately and does not form part of the City Fund Statements although references are made to Bridge House Estates in certain parts of the statements.

**Capital charge** - a charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

**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.

**Capital financing account** - this account includes entries for the financing of capital expenditure and other capital transactions.

**Capital receipt** - the proceeds from the sale of a fixed asset such as land or council houses.

**City's Cash** - the City of London's private fund that is accounted for separately and does not form part of the City Fund Statements, although references are made to City's Cash in certain parts of the statements.

**Collection Fund** - statutory account showing transactions in relation to the collection of Council Tax, payments to the Greater London Authority, and the administration of the Non-Domestic Rate.

**Community assets** - assets that the City of London 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 gardens or historic buildings.

**Current asset** - an asset held which will be consumed or cease to have value within the next accounting period; examples are stock and debtors.

**Current liability** - an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

**Current service cost (pensions)** - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**Curtailment (pensions)** - for a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example as a result of discontinuing an activity, and
- b. termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

**Deferred capital receipts** - these result mainly from loans to the Museum of London plus outstanding loans in respect of past sales of council dwellings to tenants who were unable to obtain a building society loan or other external means of financing. Their indebtedness is reflected in the balance sheet under long-term debtors. This account shows the amount to be paid on deferred terms and is reduced each year by repayments made.

**Deferred charge** - expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets.

**Defined benefit scheme** - a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Defined contribution scheme** - a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive 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 loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

**Direct revenue financing** - expenditure on the provision or improvement of capital assets met directly from revenue account.

**Expected rate of return on pensions assets** - for a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Fair value** - the amount at which goods or services could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidated sale.

**Fixed asset restatement account** - represents the difference between the valuation of assets under the previous system of capital accounting and subsequent adjustments to take account of disposals (at net book value) and revaluations.

**Impairment** - a reduction in the value of a fixed asset below its carrying amount on the balance sheet.

**Infrastructure assets** - fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples are highways, footpaths, bridges and sewers.

**Intangible asset** - a non-physical item where access to future economic benefits is controlled by the local authority.

**Pensions interest cost** - for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Investment properties** - interest in land or buildings that are held for investment potential.

**Levies** - these are charges incurred by the City of London to meet London-wide services. They include payments to the London Boroughs Grants Committee, the Environment Agency and the London Planning Advisory Committee.

**National Non-Domestic Rate (NNDR)** - a flat rate in the pound set by the Government and levied on businesses who occupy offices and buildings within the City. The income is collected by the City of London and is passed on to Central Government.

**Net current replacement cost** - the cost of replacing a particular asset in its existing condition and in its existing use.

**Net realisable value** - the open market value of an 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-operational assets** - fixed assets held but not directly occupied, used or consumed in the delivery of service. Examples are investment properties.

**Past service cost (pensions)** - for a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Projected unit method** - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is one in which the scheme liabilities at the valuation date relate to:

- a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- b) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

**Provision** - an amount set aside in the accounts for liabilities of uncertain timing or amount that have been incurred. Provisions are made when:

- a) the City of London has a present obligation (legal or constructive) as a result of a past event;
- b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- c) a reliable estimate can be made of the amount of the obligation.

**Reserves** - surpluses of income over expenditure and amounts set aside outside the definition of a provision. Certain reserves are allocated for specific purposes and are described as earmarked reserves.

**Scheme liabilities** - the liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Revenue expenditure** - the day to day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. Examples are salaries, wages, repairs, maintenance and supplies.

**Useful economic life** - the period over which benefits will be derived from the use of a fixed asset.

**Vested rights** - in relation to a defined benefit pension scheme, these are:

- a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- b) for deferred pensioners, their preserved benefits; and
- c) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.