

THE CORPORATION OF LONDON

STATEMENT OF ACCOUNTS FOR THE CITY FUND
AND THE PENSION FUND

YEAR ENDED 31ST MARCH 2005

CORPORATION OF LONDON

Statement of Accounts for the City Fund and the Pension Fund Year Ended 31st March 2005

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EXPLANATORY FOREWORD

Introduction

- 1 The Corporation of London has four main accounts, City Fund, City's Cash, Bridge House Estates, and the Corporation of London Pension Fund. These accounts are not consolidated. This document sets out the 2004/05 City Fund accounts which cover the Corporation's activities as a local authority together with the accounts of the Corporation of London Pension Fund. The document comprises:
 - City Fund Consolidated Revenue Account - which covers income and expenditure on City Fund services – page 10.
 - Housing Revenue Account – showing its ring-fenced income and expenditure – page 20.
 - 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 25.
 - City Fund Consolidated Balance Sheet – setting out its financial position – page 29.
 - Statement of Total Movement in Reserves - all gains and losses for the year, both revenue and capital – page 36.
 - The Cash Flow Statement which summarises the City Fund capital and revenue inflows and outflows of cash – page 46.
 - The Accounts for the Corporation of London Pension Fund showing its income and expenditure for the year and the disposition of the Fund's assets – page 48.
 - The Statement of Responsibilities for the Statement of Accounts – setting out the respective responsibilities of the Corporation and the chief financial officer – page 57.
 - Statement on Internal Control – setting out the framework for the continuous review and improvement of the effectiveness of an organisation's internal control and risk management systems – page 58.
 - Adoption of the Statement of Accounts – by the Chairman and Deputy Chairman of the Finance Committee – page 64.
 - Report of the Auditors – giving their opinion on the City Fund accounts – page 65.
 - Glossary of Terms – page 67.
2. The City Fund accounts are supported by the Statement of Main Accounting Policies on pages 6 to 9 which explains the basis for recognition, measurement and disclosure of transactions and other events in the accounts. In addition, various notes accompany the main financial statements.

Overall Financial Position on City Fund

3. The following table shows that the deficit for 2004/05 on revenue account was £6m but that cash backed reserves have increased to £207m at 31 March 2005 compared with £165m a year earlier.

	2004/05 £m	2003/04 £m
Net revenue expenditure before items below	165	165
Financing of capital expenditure	5	4
Interest on balances	(13)	(12)
City Fund Estate rent income	(35)	(35)
Government grants and local taxes	(116)	(111)
Deficit on revenue account	6	11
Cash backed reserves – revenue	137	146
capital	70	19
Total cash backed reserves	207	165

4. The £9m reduction in cash backed revenue reserves relates to the deficit for the year and expenditure met from earmarked reserves. The £51m increase in cash backed capital reserves is the proceeds from disposals during the year and the release of the provision for credit liabilities following the changes to capital finance in local authorities (the prudential code); partly offset by sums applied to finance capital expenditure.

Revenue Expenditure

5. Set out below is a summary of the City Fund Consolidated Revenue Account comparing the outturn forecast and actual expenditure for the year:-

	Outturn Forecast £m	Actual £m	Variation £m
Net Cost of Services	199	188	(11)
Exceptional item – Impairment / Investment Loss *	4	2	(2)
Interest Income	(14)	(13)	1
Investment Properties	(31)	(31)	0
Pension Interest Costs	21	21	0
Asset Management Revenue Account	(18)	(18)	0
Capital Receipts to Government Pool	1	1	0
Net Operating Expenditure	162	150	(12)
Net Transfers to (from) Revenue Reserves	(9)	(3)	6
Net Transfers to (from) Capital Reserves *	(3)	(4)	(1)
Movement on Pension Liabilities	(15)	(15)	0
Deferred Charges Contra	(8)	(6)	2
Net Expenditure	127	122	(5)
Income from Government Grants and Local Taxpayers	(116)	(116)	0
Deficit (surplus) for year	11	6	(5)

** Accounting treatment requires the costs of impairment and investment losses to be shown separately from their financing (the financing is included within the line for 'Net Transfers to (from) Capital Reserves'). However the overall impact on the revenue account is nil. Note 2 to the Consolidated Revenue Account explains the impairment and investment loss.*

6. Net expenditure was £121.5m compared with an outturn forecast of £126.5m, a reduction of £5m. The major changes were as follows:-

	£m	
Transfers from Revenue Reserves	5.6	A smaller transfer from reserves primarily as a result of lower expenditure on Police, Highways, and capital schemes
Revenue financing of capital expenditure	(2.8)	Lower than anticipated due to slippage on police and e-government schemes and as a result of the use of alternative sources of finance.
Highways	(2.5)	Lower expenditure on highways maintenance, on-street car parks, traffic management and street cleansing.
Police	(1.3)	Lower expenditure against a number of budgets but particularly employees, information systems and insurances.
Environmental Health	(0.9)	Additional income at the Heathrow Animal Reception Centre and for trading standards together with lower expenditure on public conveniences and environmental services.
Corporate and Democratic Core	(0.9)	The costs of vacant premises, support services and public relations were all below budget.
Barbican Centre	(0.7)	Improved trading results together with efficiency savings.
Interest	0.8	A combination of a less advantageous cash flow and interest rates being lower than anticipated.
Central contingencies	(0.8)	Not all of the contingencies were required.
Planning	(0.5)	Reduced expenditure on professional fees and services for both town and transportation planning together with the transfer of some costs to capital projects.
Waste Collection and Disposal	0.4	Lower income from waste collection services partly offset by reduced expenditure on waste disposal.

Barbican Estate	(0.4)	Repairs and maintenance expenditure was lower than expected together with increased rental income.
Housing Revenue Account	(0.5)	Reduced expenditure on repairs, maintenance and improvements together with increased income from commercial premises on housing estates.
General reduced requirement	(0.5)	The aggregate of smaller variations on other services.
Total Reduced Requirement in Net Expenditure	(5.0)	

Prior Year Adjustments

- The accounts for the previous financial year, 2003/04, have been restated to reflect changes to the treatment of investment properties in the Consolidated Revenue Account and the inclusion of the liabilities relating to discretionary pension benefits (added years and early payments of pension). These two changes are outlined in more detail at note 15 to the Consolidated Revenue Account

City Fund Capital Expenditure

- The approved capital budget for 2004/05 totalled £67.7m. Actual capital expenditure during the year was £54.2m, an underspend of £13.5m compared with the budget. This net underspend was mainly due to slippage and/or rephrasing of expenditure on a large number of service related schemes.

City Fund Total Assets and Liabilities

- As at 31st March 2005, the City Fund Consolidated Balance Sheet indicates that total assets exceed total liabilities (i.e. net assets) by £868m, a reduction of £49m compared to the previous year. The net assets are represented by capital and revenue reserves of £1.146m and £145m respectively, partly offset by the negative pension reserve of £423m which primarily relates to the Police Scheme. The main reason for the reduction in net assets is an increased liability for police pensions as calculated in accordance with the requirements of Financial Reporting Standard 17. 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 3 are available to finance future expenditure.

Risk Identification

- The Corporation 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.
- 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.
- A Statement on Internal Control is set out on pages 58 to 63.

Statement of Responsibilities for the Statement of Accounts

13. 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 57.

STATEMENT OF MAIN ACCOUNTING POLICIES

1. General

The Accounts have been prepared in accordance with the Accounts and Audit Regulations 2003, Section 66(4) of the Local Government and Housing Act 1989, and the Code of Practice on Local Authority Accounting 2004 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. Accruals

The accounts of the Corporation are maintained on an accruals basis. That is, sums due to or from the Corporation during the year are included, whether or not the cash was actually received or paid in the year.

3. Fixed Assets

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised provided that the asset yields benefits to the Corporation, 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. Non-operational investment properties are based on open market value. Non-operational assets under construction are included at historical 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 current value. Property asset values used in the accounts (other than for Woodredon and Warlies Park, the Barbican Centre, the Central Criminal Court, the Cemetery and Crematorium and most of the investment properties which were valued by external valuers) are based upon valuations prepared by the City Surveyor. Since 1st April 1994, when all properties were originally valued, a rolling programme of revaluation has operated. All properties are revalued within a 5 year period with subsequent additions being included in the accounts at their cost of acquisition.

Revaluations and Impairment

Where a fixed asset is included in the balance sheet at current value, the difference between that value and the amount at which the asset was included in the balance sheet immediately prior to the latest (re) valuation is debited or 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 and is recognised in the asset management revenue account. 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

Income from the disposal of fixed assets is 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. **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	100 years
Infrastructure	10 years
Cars and light vans	5 years
Heavy vehicles and plant	7 years
Equipment	5–12 years

5. **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.

6. **Basis of Revenue Charges for Capital**

Service revenue accounts are charged with capital charges for all fixed assets used in the delivery of services, comprising a provision for depreciation (where appropriate) and a notional interest charge based on the amount at which the fixed assets are included in the balance sheet at the start of the year. However, 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.

The notional rates of interest used are set by the Chartered Institute of Public Finance and Accountancy (CIPFA) and are 3.5% for those fixed assets included in the balance sheet at current value and 4.8% for infrastructure assets and community assets which are included in the balance sheet at historic cost.

7. **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 the government grants deferred account over the useful life of the asset to match the depreciation of the asset to which the grant relates.

8. **Capital Receipts**

Capital receipts arise from the sale of assets such as land and council houses. Legislation requires that a proportion of 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.

9. **Stocks**

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

10. **Overheads**

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

11. **Provisions**

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

- (a) the Corporation 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 8 to the City Fund Balance Sheet.

12. **Reserves**

A number of specific reserves have been established for purposes falling outside the definition of provisions. Details of the Corporation's reserves are set out in the Statement of Total Movement in Reserves in note 10 to the Consolidated City Fund Balance Sheet.

13. **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.

14. **Non Property Investments**

Investments are shown in the Consolidated City Fund Balance Sheet at the lower of historic cost and net realisable value.

15. **Property Investments**

The net income from investment properties is credited to the Consolidated Revenue Account below the net cost of services. Permanent losses on investment properties are recognised as exceptional items below the net cost of services with compensating appropriations to the Capital Financing Account so as to avoid a net impact on the Consolidated Revenue Account.

16. **Leases**

Rentals payable under operating leases are charged to the appropriate service revenue account. Rental payments under finance leases are charged to the asset management revenue account.

17. Pension Costs – Corporation Staff

With the exception of serving police officers and teachers, Corporation staff are eligible to contribute to the Corporation's Pension Fund, which is a funded defined benefits scheme.

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

Charges are made to revenue for pensions 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 Corporation'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 consolidated revenue 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 cash payable for the year, so the FRS 17 costs are reversed out as an appropriation to the negative pension reserve. In the consolidated balance sheet the negative pension reserve is matched by a pension liability.

18. Pension Costs – Police Officers and Judges.

The payment of pensions to former police officers is met on a 'pay as you go' basis by means of a direct charge to revenue in accordance with Home Office regulations.

The estimated liability on the Police Pension Scheme is determined by independent actuaries in accordance with Financial Reporting Standard 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 cash payable for the year, so the FRS 17 costs are reversed out through an appropriation to the negative pension reserve. In the consolidated 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 Corporation reimbursing the Treasury for its share of the liability. The corporation's estimated liability has been determined by independent actuaries in accordance with Financial Reporting Standard 17. The accounting treatment is similar to that outlined above for the police pension scheme.

19. 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 Corporation to the Teachers' Pension Agency.

20. Social Security Deductions

The Corporation 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.

CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2005

	NOTES	2004/2005			2003/2004
		GROSS EXPENDITURE	GROSS INCOME	NET EXPENDITURE	NET EXPENDITURE RESTATED
		£000	£000	£000	£000
EXPENDITURE ON SERVICES					
EDUCATION		7,007	2,644	4,363	3,498
SOCIAL SERVICES		9,711	2,197	7,514	7,165
HOUSING REVENUE ACCOUNT		16,237	11,565	4,672	3,679
HOUSING (NON-HRA)		20,418	15,022	5,396	4,809
HIGHWAYS		30,388	12,313	18,075	17,912
POLICE		81,669	12,809	68,860	62,346
PLANNING AND ECONOMIC DEVELOPMENT		12,163	4,656	7,507	7,693
RECREATION AND TOURISM					
Libraries		14,609	2,080	12,529	14,478
Museums and Galleries		7,017	32	6,985	7,437
Barbican Centre		46,900	23,281	23,619	23,376
Other		3,417	455	2,962	3,146
ENVIRONMENTAL HEALTH		16,328	8,120	8,208	7,664
REFUSE COLLECTION AND DISPOSAL		8,300	4,051	4,249	4,066
OTHER SERVICES					
Magistrates' and Other Courts		7,989	4,706	3,283	3,402
Probation		63	-	63	65
Security and Contingency Planning		1,134	410	724	551
Coroner's Court		113	-	113	102
Rates and Council Tax Collection		2,953	2,213	740	765
Registration and Election Expenses		330	1	329	211
Corporate and Democratic Core		10,110	2,024	8,086	7,630
Miscellaneous	1	1,761	686	1,075	1,783
NET COST OF SERVICES C/F		298,617	109,265	189,352	181,778

All activities are continuing in the current year.

	NOTES	2004/2005			2003/2004
		GROSS EXPENDITURE £000	GROSS INCOME £000	NET EXPENDITURE £000	NET EXPENDITURE RESTATED £000
NET COST OF SERVICES B/F				189,352	181,778
EXCEPTIONAL ITEMS – impairment	2	2,084	-	2,084	2,130
– investment loss	2	-	-	-	5,400
Contribution to Trading Services	3	5,778	(5,910)	(132)	(1)
Precepts to Inner and Middle Temples		211	-	211	232
Investment properties		8,718	(39,888)	(31,170)	(32,487)
Interest on balances		-	(12,634)	(12,634)	(11,861)
Pension interest cost		20,934	-	20,934	18,505
Asset Management Revenue Account	4	-	(18,101)	(18,101)	(17,453)
Housing capital receipts to Government Pool		720	-	720	-
NET OPERATING EXPENDITURE				151,264	146,243
APPROPRIATIONS					
Transfer to (from) Revenue Reserves					
- Housing Revenue Account				(150)	415
- Earmarked reserves				(3,431)	647
- Unallocated Reserve				0	(30)
Transfer to (from) Capital Reserves					
- Financing of capital expenditure	5			4,796	4,074
- Amount charged as depreciation				(7,889)	(6,913)
- Amount charged as impairment / investment loss				(2,084)	(7,530)
- Government grants deferred				937	1,040
- HRA Major Repairs Reserve				912	955
- Usable capital receipts (financing of payment to Government Pool)				(720)	0
Movement in pension liabilities				(16,022)	(10,743)
Deferred Charges				(5,967)	(5,624)
HRA Depreciation on non-dwellings				(155)	(136)
TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXES				121,491	122,398
Collection Fund - City Offset				-	(6,500)
- Council Tax and precept adjustment				(5,134)	(4,725)
Contribution from Non-Domestic Rate Pool				(2,287)	(2,216)
Revenue Support Grant				(71,627)	(61,550)
Police Grant				(32,721)	(32,467)
Non-Domestic Rate Premium				(3,744)	(4,178)
				(115,513)	(111,636)
Deficit for year transferred to reserves				5,978	10,762

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Miscellaneous

	2004/2005			2003/2004
	GROSS EXPENDITURE £000	GROSS INCOME £000	NET EXPENDITURE £000	NET EXPENDITURE £000
Transfer to Collection Fund	1,094		1,094	1,715
Capital charges on Guildhall land	238		238	241
Discretionary rate relief	128		128	185
Grants and subscriptions	38		38	28
Levies	80		80	79
Registration of births, deaths & marriages	17	(6)	11	1
Payment from City's Cash for works to Guildhall complex		(513)	(513)	(513)
Increase in liability for discretionary pension benefits	139		139	-
Other	27	(167)	(140)	47
TOTAL	1,761	(686)	1,075	1,783

2. Exceptional Items

Impairment and Investment Losses

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. Impairments totalling £2.084m arose in 2004/05 (2003/04 = £2.130m). The largest element relates to the Barbican Centre. The investment loss of £5.4m in 2003/04 relates to an investment property where the valuation has fallen below the historic cost.

3. Contribution to (from) Trading Services

	2004/2005			2003/2004
	GROSS EXPENDITURE £000	GROSS INCOME £000	DEFICIT (SURPLUS) £000	DEFICIT (SURPLUS) £000
Spitalfields Market	4,590	(4,701)	(111)	10
Cemetery and Crematorium Grounds				
Maintenance	628	(628)	0	0
Vehicle Maintenance	560	(581)	(21)	(11)
TOTAL	5,778	(5,910)	(132)	(1)

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 Corporation also operated two internal trading organisations as set out in the preceding table.

4. **Asset Management Revenue Account**

The asset management revenue account is a specific requirement of the Accounting Code of Practice and offsets the impact of the capital charges borne by the service revenue accounts. It also includes the release of deferred grants and provision for credit liabilities.

	2004/05 £000	2003/04 £000
<u>Income</u>		
Capital Charges - City Fund	19,383	37,920
- Housing Revenue Account	6,610	6,354
Exceptional Item – Impairment	2,084	2,130
– Investment Loss	-	5,400
Reimbursement and Government grants deferred	937	1,040
Release of provision for credit liabilities	140	124
	-----	-----
	29,154	52,968
	-----	-----
<u>Expenditure</u>		
Provision for Depreciation	8,969	7,929
Exceptional item – Impairment	2,084	2,130
– Investment Loss	-	5,400
	-----	-----
	11,053	15,459
	-----	-----
Balance to Consolidated Revenue Account	18,101	37,509

5. **Financing of Capital Expenditure**

Revenue financing of capital expenditure was met from the following sources:-

	£000
Direct revenue financing	1,812
Highway Improvements Reserve	2,922
Maintenance of Graves Reserve	2
E-Government Reserve	60

Total Financing	4,796

6. **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 the Corporation's City Fund expenditure on publicity which is included within individual services, is set out in the following table:-

Publicity Expenditure

	2004/05 £000	2003/04 £000
Accounts and Statutory Reports	37	47
Statutory Notices	117	153
Recruitment Advertising	454	422
Barbican Centre	742	1,068
Public Relations/Economic Development	2,833	3,902
Other	328	344
Total	4,511	5,936

7. **Pension Costs**

Corporation Staff

The Corporation of London Pension Scheme is a funded defined benefits scheme. Corporation staff are eligible for membership of the pension scheme and may be employed in relation to the activities of any of the Corporation's three funds or any combination of them (i.e. City Fund, City's Cash and Bridge House Estates).

In accordance with statutory regulations, a triennial valuation of the Pension Fund as at 31st 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.

Regular employer contributions for 2004/05 were determined by the previous actuarial valuation at 31 March 2001 and were set at 16.4% of pensionable pay. A further 1.32% has been added to the regular contribution (making a total employer's contribution of 17.72%) to recover, over a five year period, certain costs relating to the payment of discretionary pension benefits.

In 2004/05 the total employer's contributions to the Pension Fund for staff employed on City Fund activities were £10.3m amounting to 17.72% of pensionable pay. In 2003/04 the comparable figures were £9.9m and 18.03% respectively.

Teachers

The teachers' pension scheme is administered by the Department for Education and Skills (DfES) as a multi-employer defined benefit scheme. The pension cost charged to the accounts is the contribution rate set by the DfES on the basis of a notional fund. In 2004/05 the Corporation's contribution to the Teachers' Pension scheme was £62,682 which represents 13.5% of teachers' pensionable pay (2003/04 = £57,000 and 13.5%).

In addition, the Corporation is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2004/05 these amounted to £11,550 representing 2.5% of pensionable pay (2003/04 = £11,900 and 2.8%).

Uniformed Police

The City of London Police Pension Scheme is unfunded and, therefore, the net cost of pensions and other benefits are met on a 'pay as you go' basis rather than from a Pension Fund.

The accounts recognise the full liability that the Authority has for meeting the future cost of police retirement benefits that will arise from years of service earned by officers up to the balance sheet date, net of contributions made by officers.

8. Agency Services

The Corporation 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 (T.W.U.). During 2004/05, £135,000 (2003/04 = £178,000) was incurred and recovered from the T.W.U.

Revenue and capital work costing £368,781 and £3,161,988 respectively was undertaken on behalf of Transport for London. These sums were fully reimbursed.

9. Leasing

Corporation as Lessor

For 2004/05 rent of £49.1m was received or receivable all of which related to operating leases (2003/04 = £50.9m). No agreements were required to be treated as finance leases.

Corporation as Lessee

In 2004/05 rent of £1.9m was paid or payable for operating leases in respect of property and open spaces (2003/04 = £2.2m). 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 Corporation

Salary Range £	Wholly charged to City Fund				Partially charged to City Fund	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
	Police Officers		Other			
50,000 - 59,999	64	39	34	17	37	43
60,000 - 69,999	8	13	18	14	20	10
70,000 - 79,999	4	1	5	4	7	11
80,000 - 89,999	2	3	4	1	4	2
90,000 - 99,999	2	0	1	3	2	6
100,000 - 109,999	1	1	3	1	2	0
110,000 - 119,999	0	0	0	0	0	1
120,000 - 129,999	1	0	1	0	0	0
130,000 - 139,999	0	1	0	1	0	0
140,000 - 149,999	0	0	1	0	1	0
150,000 - 159,999	0	0	0	0	0	0
160,000 - 169,999	0	0	0	0	0	0
170,000 - 179,999	0	0	0	0	1	1

11. **Single Regeneration Budget Partnership Scheme**

Central Government, through the London Development Agency (LDA), has made money available for suitable regeneration schemes. The Corporation is the accountable body for the Pool of London Partnership which will be claiming grant of approximately £2m per annum until 2006/07. The Corporation as accountable body claims the money from LDA and reimburses partners for their SRB expenditure, including the Corporation 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 Corporation staff time and office facilities (which counts as SRB public sector leverage expenditure), the net financial effect of SRB on the Corporation is negligible when compared with the overall expenditure. The Partners consist primarily of London Boroughs, various training bodies, and some private sector companies and charitable organisations. The Corporation does not control the Partnerships' grant awarding processes and consequently it is not appropriate for all SRB transactions channelled through the Corporation to be recognised in the accounts. Accordingly, only such grant as is ultimately receivable by the Corporation together with the associated expenditure is included. On this basis, the accounts include revenue expenditure and income of £504,000.

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 overleaf.

	Chargeable £000	Non Chargeable £000	Total £000
Expenditure			
Employees	1,084	271	1,355
Supplies and Services	9	2	11
Support Services	530	132	662
Total Expenditure	1,623	405	2,028
Income from Building Regulation Charges	(1,233)	-	(1,233)
Deficit for Year	390	405	795
Comparatives for 2003/04			
Expenditure	1,615	403	2,018
Income	(1,507)	-	(1,507)
Deficit for year	108	403	511

13. **Audit and Inspection Fees**

	2004/05 £000	2003/04 £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.	195	214
Statutory inspection under section 10 of the Local Government Act 1999 (carried out by the Audit Commission).	11	41
Certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998.	33	54
Other services provided by the appointed auditor	0	-
	239	309

14. **Related Party Transactions**

The code of practice on local authority accounting requires the Corporation to disclose information on "related party transactions" in accordance with the 'Financial Reporting Standard 8'.

Standing Orders

The Corporation has adopted the following standing orders in relation to declarations of financial interest:

“Any Member having a financial interest, direct or indirect, otherwise than solely as a trustee in any matter under consideration in the Court of Common Council or any Committee thereof shall:-

- (a) forthwith declare his interest;
- (b) not speak or vote thereon; and
- (c) forthwith withdraw from the room whilst the matter is under consideration;

providing that a shareholding in a body not exceeding a total nominal value of £5,000 or one-hundredth of the nominal value of the issued share capital (whichever is the less) is not a financial interest for the purposes of sub paragraphs (b) and (c).

That in respect of the Court of Common Council or any Committee thereof when matters relating to the Corporation’s Housing or Barbican Residential Estates are considered in pursuance of the Housing Act 1996 or the Housing Associations Act 1985 (or any subsequent enactment or re-enactment thereof) which relate to land in which a Member is beneficially interested, then that Member:-

- (a) shall forthwith declare his interest; and
- (b) may speak but not vote thereon.”

Disclosure

Members and Chief Officers have been requested to disclose related party transactions in 2004/05. They have also been requested to make disclosures in instances where their close family has made transactions with the Corporation. A number of disclosures have been received. The following disclosure was considered material.

Simon Walsh is a trustee of the St Bride’s Foundation Institute. The St. Bride’s Printing Library was transferred from the Corporation to the Foundation and the Corporation paid the Foundation £1.3m to help secure the library’s future and meet the cost of dilapidations.

Members do not receive any remuneration from the Corporation for undertaking their duties.

Related Party Transactions with the Museum of London

The Museum of London is financed jointly by the Corporation and the Department for Culture, Media and Sport. The Corporation’s contribution in 2004/05 was £4.851m (2003/04 = £5.319m). Half of the appointments to the Board are made by the Corporation of London. However, the Corporation 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. Prior Year Adjustments

City Fund Investment Properties

In line with the requirements of the new Statement of Recommended Practice on Local Authority Accounting (SORP 2004) the net income from investment properties is now included below the net cost of services in the Consolidated Revenue Account. Previously the properties had been treated as operational with the costs (including capital charges) and income being included within the appropriate

service line. The Consolidated Revenue Account for 2003/04 has been re-stated to reflect this change in policy. The changes to the consolidated revenue account have no impact on the overall deficit or surplus for the year. There is no change to the balance sheet treatment as, for capital purposes, the assets were already classified as investment properties.

Discretionary Pension Benefits

The Corporation of London operates a funded defined benefit scheme for its staff other than Police, Teachers and Judges who are subject to separate pension arrangements. However, the scheme is treated as a defined contribution scheme in the City Fund accounts for the purposes of FRS 17. This treatment recognises that the City Fund does not have an exclusive relationship with the Corporation of London Pension Fund and that the scheme's assets and liabilities cannot be separately identified to each of the Corporation's funds. However, the estimated capital liability for "discretionary" pension benefits (added years and early payments of pension) provided to employees previously engaged on City Fund activities have been determined in conjunction with independent actuaries and have been included in the accounts for the first time. At 31 March 2005 the estimated liability is £7.64m, an increase of £0.139m on the previous year. The movement in the provision in the year has been reversed out of the Consolidated Revenue Account through a transfer to reserves, as the charge made against council tax in the year must be based on the cash payable. The accounts for the previous year have been re-stated to reflect the change in policy.

Restated 2003/04 Comparators

The two prior year adjustments above affect the 2003/04 Consolidated Revenue Account and Balance Sheet as follows.

	Audited Statement of Accounts 2003/04	Adjustment for Investment Properties	Adjustment for Discretionary Pension Benefits	Restated Comparative Figures for 2003/04
	£000	£000	£000	£000
<u>Consolidated Revenue Account</u>				
Planning and Economic Development	(4,738)	12,431	-	7,693
Net Cost of Services	169,347	12,431		181,778
Investment Properties	-	(32,487)	-	(32,487)
Asset Management Revenue Account	(37,509)	20,056		(17,453)
<u>Consolidated Balance Sheet</u>				
Pension Liability	(325,522)		(7,501)	(333,023)
Pension Reserve	325,522		7,501	333,023

HOUSING REVENUE ACCOUNT FOR YEAR ENDED 31ST MARCH 2005

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.

	Notes	2004/05 £000	2003/04 £000
Income			
Dwelling rents (gross)	1	6,824	6,743
Non-dwelling rents (gross)		1,434	1,273
Charges for services and facilities		1,521	1,431
HRA Subsidy receivable	2	1,787	5,071
Total Income		11,566	14,518
Expenditure			
Repairs and maintenance		4,450	4,238
Supervision and management		5,141	4,863
Rents, rates, taxes and other charges		10	13
To City Fund for Supporting People		13	21
Rent rebates	3	0	2,587
Increased provision for bad or doubtful debts	6	41	43
Cost of capital charge	11	5,530	5,416
Depreciation		1,080	1,016
Total Expenditure		16,265	18,197
Net Cost of Services		4,699	3,679
Reversal of cost of capital charge		(5,530)	(5,416)
Interest payable on loans	11	506	600
Investment Income		(539)	(357)
Net Operating Income		(864)	(1,494)
Loan repayment		256	260
Transfer to Major Repairs Reserve		758	819
Total Deficit / (Surplus) for year		150	(415)
Balance at 1st April		(5,952)	(5,537)
Balance at 31st March		(5,802)	(5,952)

HOUSING REVENUE ACCOUNT -NOTES TO THE ACCOUNT

1. Dwelling Rents

The total rent income from dwellings was £6.82m (2003/04: £6.74m). This excludes vacant properties. On average during the year, routine and non-routine vacant properties were 0.72% of HRA stock (2003/04: 0.74%). As at 31st March 2005 average rents were £71.08 a week (31st March 2004: £65.71).

2. 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	2004/05 £000	2003/04 £000
Management allowance	3,130	3,113
Maintenance allowance	2,475	2,462
Major repairs allowance	1,837	1,835
Charges for capital	577	969
Rent rebates	0	2,682
Rent income	(6,230)	(5,988)
Interest on receipts	(2)	(2)
Total HRA Subsidy	1,787	5,071

From 1 April 2004 the costs and subsidy relating to rent rebates were transferred to councils' General Funds (City Fund for the Corporation).

3. Rent Rebates

Assistance with rents is available under the Housing Benefits Scheme for those on low incomes. Approximately 45% (2003/04: 44%) of the Corporation's HRA tenants receive some help with the costs of rent. From 2004/05 the Government requires rent rebates to be accounted for in the City Fund rather than the HRA.

4. Housing Stock

As at the 31st March 2005 the Corporation's HRA rental stock was 1901 dwellings. The HRA also includes costs and service charge income relating to sold properties of which there were 855 as at 31st March 2005.

Rental Stock	2004/05 No.	2003/04 No.
Houses and Bungalows	27	27
Flats	1,874	1,915
Total	1,901	1,942

Change in the Stock	2004/05 No.	2003/04 No.
Stock at 1 st April	1,942	2,002
Sales	(41)	(60)
Stock at 31st March	1,901	1,942

5. **Arrears of Rent, Service and Other Charges**

As at 31st March 2005 rent arrears in respect of current residential tenants were 2.08% of gross rent income due for the year (31 March 2004: 1.34%). The total arrears for rent, service charges and other charges are £465,000 (31 March 2004: £435,000) as follows:-

	31/3/2005 £000	31/3/2004 £000
Former residential tenants	53	58
Current residential tenants	165	106
Commercial tenants	12	26
Service charges	85	72
Other charges	150	173
Total arrears	465	435

6. **Provision for Bad and Doubtful Debts**

	2004/05 £000	2003/04 £000
Provision at 1st April	276	267
Bad Debts written off	(28)	(34)
Increase in Provision	41	43
Provision at 31st March	289	276

7. **HRA Fixed Assets**

	Operational Assets			Total £000
	Dwellings £000	Other Land and Buildings £000	Equipment £000	
Balance Sheet value 1 st April	142,232	15,671	96	157,999
Depreciation	(925)	(135)	(19)	(1,079)
Additions	1,130	0	235	1,365
Disposals	(2,863)	0	0	(2,863)
Revaluation	5,915	363	0	6,278
Balance Sheet value 31 st March	145,489	15,899	312	161,700

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 31st March 2005 is estimated to be £311.5m which has been reduced to £145.5m to reflect social housing use. This social housing use value is included in the City Fund Consolidated Balance Sheet. The reduction of £166m 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 st April	(3,650)
Depreciation from HRA	(1,080)
Depreciation on "non-dwellings" transferred back to HRA	154
Additional transfer from HRA	(911)
Capital expenditure	0
Balance 31 st March	(5,487)

From 1st 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 Consolidated Balance Sheet.

9. HRA Capital Expenditure

Expenditure for capital purposes and methods of financing are set out below.

	2004/05 £000	2003/04 £000
Expenditure in year		
Fixed assets	1,365	377
Deferred charges	199	79
	1,564	456
Methods of financing		
Capital Receipts	1,280	-
Major repairs reserve	-	335
Reimbursements	255	56
Borrowing (From City Fund)	29	65
	1,564	456

Deferred charges relate to expenditure on sold properties which are not Corporation assets.

10. **HRA Capital Receipts**

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

	2004/05 £000	2003/04 £000
Dwellings	3,955	5,137
Land	-	80
Other	-	-
Total	3,955	5,217

From 2004/05 the Government requires 75% of new capital receipts from the sale of HRA dwellings to be contributed to a national pool. As the Corporation had no external debt at 31 March 2004, it will receive part of the 75% back from the Government under a three year transitional arrangement. For 2004/05, 75% of the sum contributed to the pool has been retained by the Corporation.

11. **The Cost of Capital Charge**

This charge is calculated as 3.5% of the balance sheet value of assets at the start of the year and acts as a measure of the cost of capital tied up in such assets. However, in order that the charge does not distort the net HRA operating income/expenditure it is reversed out through an adjustment below the line for net cost of services. This adjustment replaces the charge with the actual interest payable on loans.

THE COLLECTION FUND

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2005

	Notes	2004/05 £000	2003/04 £000
<u>INCOME</u>			
Income from Business Ratepayers	1	528,085	565,744
Discretionary Rate Relief		128	185
Council Taxes		3,776	3,849
Council Tax Benefit		227	207
Contribution from City Fund	3	1,094	1,715
Provision for Uncollectible Amounts	4	0	1,551
Total Income		533,310	573,251
<u>EXPENDITURE</u>			
Contribution to the National Non-Domestic Rate Pool		519,738	554,907
Provision for Uncollectible Amounts	4	2,889	-
Cost of Collection Allowance	5	1,886	1,841
Precept from Greater London Authority		439	419
Precept from City Fund			
- City Offset	6	0	6,500
- Council tax	7	5,134	4,725
Non-Domestic Rate Premium	1	3,744	4,178
Total Expenditure		533,830	572,570
(Deficit) Surplus for Year		(520)	681
Balance 1 st April		2,512	1,831
Balance 31st March		1,992	2,512

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 2004/05 the Corporation set a rate of 45.9p. This comprises the National Rate of 45.6p plus a premium of 0.3p to provide additional funding for the Police Service and security in the City.

	2004/05 £000	2003/04 £000
Non-domestic rates income	579,320	655,513
Government transition scheme	29,969	(22,136)
Non-domestic rates income after transition scheme	<u>609,289</u>	<u>633,377</u>
Less: Voids	(70,355)	(58,938)
Mandatory and discretionary relief	(6,268)	(4,636)
Partly occupied allowance	(1,097)	(2,824)
Interest	(3,484)	(1,235)
Net income from business ratepayers	528,085	565,744

The total rateable value of the City at 31st March 2005 was £1,668m (31st March 2004 = £1,528m).

2. **Calculation of Council Tax**

The Local Government Finance Act 1992 introduced the Council Tax from 1st April 1993, replacing the Community Charge. The Act prescribes the detailed calculations that the Corporation, as a billing authority, has had to make to determine the Council Tax amounts. The Corporation set a basic amount of £715.93 for a Band D property calculated as follows:-

	£000	£000
Corporation's Original Budget		115,927
Less:-		
Distribution from Non-Domestic rates pool	2,287	
Non-Domestic rates premium	4,158	
Government grants	104,348	
Estimated collection fund surplus	1,698	
		112,491
Estimated amounts to be raised from Council Tax		3,436
Divided by:-		
Council tax base for the City area (number of band D equivalent properties)		No. 4,799.33
Basic amount for Band D Property		£715.93

To this £715.93 is added £57.25 in respect of the precept from the Greater London Authority to arrive at the total council tax of £773.18 for a band D property. Prescribed proportions are applied to this basic amount to determine the council tax amounts for each of the bands:-

<u>Band</u>	<u>Proportion</u>	<u>Council Tax</u> £
A	6/9	515.45
B	7/9	601.36
C	8/9	687.27
D	9/9	773.18
E	11/9	945.00
F	13/9	1116.82
G	15/9	1288.63
H	18/9	1546.36

Tax Bases 2004/05

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	-	-	4.67	4.67
B	-	-	144.47	144.47
C	-	-	421.11	421.11
D	-	-	535.25	535.25
E	3.67	1.22	1849.53	1854.42
F	30.33	18.78	870.64	919.75
G	20.42	44.17	949.17	1013.76
H	1.00	4.00	153.50	158.50
AGGREGATE RELEVANT AMOUNTS	55.42	68.17	4928.34	5051.93
COLLECTION RATE	95%	95%	95%	95%
TAX BASES	52.65	64.76	4681.92	4799.33

3. **Contribution from City Fund**

In accordance with Government direction, £1.094m has been transferred from the City Fund to moderate the Corporation's council tax for 2005/06.

4. **Provision for Uncollectible Amounts**

This provision has been re-assessed and increased from £5.404m at 31st March 2004 to £8.293m at 31st March 2005.

5. **Cost of Collection Allowance**

In accordance with paragraph 6 of Schedule 1 to the Non-Domestic Rating Contributions (England) Regulations, the Corporation is allowed to deduct collection costs of £1.886m for 2004/05 from the gross amount of rates receivable.

6. **City Offset**

Up to 2003/04 the Government allowed the Corporation to make a special deduction from the National Non-Domestic Rates Pool. It was provided in order that the City's residents do not face an excessive level of council tax which would otherwise arise due to its very small resident population, but high daytime population.

7. **Council Tax**

This represents the sums payable to the City Fund in respect of:-

	£000
- Council Taxes	3,436
- the estimated collection fund balance at 31 st March 2004	<u>1,698</u>
	<u>5,134</u>

CITY FUND
CONSOLIDATED BALANCE SHEET AT 31ST MARCH 2005

		31 st March 2005		31st March 2004 Restated
	Notes	£000	£000	£000
TANGIBLE FIXED ASSETS	1			
<u>Operational</u>				
Council Dwellings		192,803		188,917
Other Land and Buildings		268,717		258,192
Vehicles, Plant and Equipment		12,097		10,327
Infrastructure and Community Assets		<u>21,223</u>		<u>21,264</u>
		494,840		478,700
<u>Non-Operational</u>				
Investment Properties		<u>581,885</u>		<u>589,005</u>
			1,076,725	1,067,705
INTANGIBLE FIXED ASSETS	2		1,000	1,000
LONG TERM INVESTMENTS			23	23
LONG TERM DEBTORS	3		3,844	3,818
CURRENT ASSETS				
Stocks		508		428
Debtors and Payments in Advance	4	41,536		41,107
Cash and Bank		<u>244,152</u>		<u>218,112</u>
			286,196	259,647
LESS CURRENT LIABILITIES				
Creditors and Receipts in Advance	5		(64,603)	(72,797)
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>1,303,185</u>	<u>1,259,396</u>
LONG TERM BORROWING	6		(1,000)	(1,000)
DEFERRED CREDITS				
Deferred Capital Receipts	7		(187)	(278)
PROVISIONS	8		(986)	(986)
GRANTS & CONTRIBUTIONS DEFERRED ACCOUNT	9		(9,891)	(7,172)
PENSION LIABILITY			(423,095)	(333,023)
TOTAL ASSETS LESS LIABILITIES			<u>868,026</u>	<u>916,937</u>
CAPITAL RESERVES	10		1,146,070	1,095,086
PENSION RESERVE	10		(423,095)	(333,023)
REVENUE RESERVES	10			
Earmarked			84,327	88,428
Other Revenue Reserves			60,724	66,446
TOTAL EQUITY			868,026	916,937

.....
Peter Derrick
Chamberlain

29 July 2005

NOTES TO THE CONSOLIDATED CITY FUND BALANCE SHEET

1. Fixed Assets

Movement of Fixed Assets during 2004/05 was as follows:-

	Council Dwellings	Other land and buildings	Vehicles, plant and equipment	Infra- Structure Assets	Community assets	Investment properties	Total
	£000	£000	£000	£000	£000	£000	£000
Net book value as at 1 April 2004	188,917	258,192	10,327	12,313	8,951	589,005	1,067,705
Impairment	-	(2,084)	-	-	-	-	(2,084)
Depreciation	(993)	(3,509)	(2,373)	(2,094)	-	-	(8,969)
Additions	1,343	12,770	4,167	2,060	(7)	27,532	47,865
Disposals	(6,762)	(117)	(24)	-	-	(60,830)	(67,733)
Revaluation at 31 March 2005	10,298	3,465	-	-	-	26,178	39,941
Net book value as at 31 March 2005	192,803	268,717	12,097	12,279	8,944	581,885	1,076,725

Expenditure for capital purposes (including deferred charges and loans for capital purposes) during 2004/05 and methods of financing are set out below:

<u>Capital Expenditure</u>	2004/05 £000	2003/04 £000
Expenditure in year		
- Fixed assets	47,865	46,031
- Deferred charges	5,967	5,624
- Loan for capital purposes	0	200
Reduction (increase) in creditors	<u>7,300</u>	<u>5,316</u>
	<u>61,132</u>	<u>57,171</u>
<u>Methods of Financing</u>		
City Fund direct revenue financing	4,796	4,074
HRA Major Repairs Reserve	0	334
Usable Capital receipts	47,287	34,089
Grants and Contributions		
- Received in year	5,393	4,322
- Deferred in year	3,656	1,819
Provision for credit liabilities	<u>0</u>	<u>12,533</u>
	<u>61,132</u>	<u>57,171</u>

Analysis of Fixed Assets

	31 March 2005	31 March 2004
<u>Commercial Properties</u>		
Housing	97	98
Investment Properties	88	95
Barbican	15	16
	200	209
<u>Operational Properties</u>		
The Barbican Centre	1	1
Guildhall Complex	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	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	6	6
Finsbury Circus Pavilion	1	1
Public Conveniences	10	10
Walbrook Wharf	1	1
Reference Libraries	2	3
Lending Libraries	3	3
Manuscripts Areas, Guildhall Yard	1	1
Roman Remains, Guildhall Yard East	1	1
Woodredon & Warlies Park Estate	1	1
	42	43
<u>Housing Properties</u>		
Housing Revenue Account	1,901	1,942
Barbican Residential	151	162
Former Spitalfields Market	18	18
	2,070	2,122

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 Open Market Value.

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

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

Infrastructure in existence at 1st 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 31st March 2005 in accordance with the Rolling Five Year Programme of Revaluation:-

- Housing dwellings and commercial property
- Barbican Estate residential properties and most commercial properties
- Non-operational investment properties

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 Corporation are Atisreal, CBRE, Allsop & Co., 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 £84m at the 31st March 2005 (£114m at 31/3/04). This sum excludes commitments for which the expenditure is considered to be recoverable. The most significant items relate to the acquisition of investment properties, schemes at the Barbican Centre and Highway improvements.

2. **Intangible Fixed Assets**

The balance at 31st March 2005 of £1m 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.

3. **Long Term Debtors**

	31/3/2005 £000	31/3/2004 £000
Mortgages on the sale of Housing Properties	187	278
Loan to Museum of London	3,387	3,321
Service Charge Loans	70	19
Other Loans	<u>200</u>	<u>200</u>
	3,844	3,818
	=====	=====

4. Debtors and Payments in Advance falling due within a year

	31/3/2005 £000	31/3/2004 £000
Rents	5,019	3,740
Ratepayers	12,909	9,408
Government – Non Domestic Rates Pool	11,279	9,316
Sundry	15,297	16,816
Season Ticket and Loans to Employees	641	833
Other loans	411	389
Prepayments	3,957	5,894
Customs and Excise	<u>1,875</u>	<u>2,178</u>
	51,388	48,574
Provision for Doubtful Debts	<u>(9,852)</u>	<u>(7,467)</u>
	41,536	41,107
	=====	=====

5. Creditors and Receipts in Advance

	31/3/2005 £000	31/3/2004 £000
Ratepayers	13,781	19,711
Sundry	36,489	33,765
Spitalfields Market Tenants Fund	1,136	1,425
Receipts in advance	10,235	15,169
Deposits	<u>2,962</u>	<u>2,727</u>
	64,603	72,797
	=====	=====

6. Long-Term Borrowing

This comprises £1m of 3% stock maturing in 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.

7. Deferred Capital Receipts

Deferred capital receipts 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 Corporation.

	2005 £000	2004 £000
Balance 1 st April	278	334
New Advances in Year	-	-
Repayments and Redemptions	(91)	(56)
	-----	-----
Balance 31 st March	187	278
	=====	=====

8. Provisions

	2005			2004
	Receipts in Year £000	Payments in Year £000	Balance 31 st March £000	Balance 31 st March £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 the year 2007.

9. Grants and Contributions Deferred Account

	<u>£000</u>	<u>£000</u>
Balance as at 1 st April 2004		7,172
Deferred in year		
- Grants	2,178	
- Contributions	<u>1,478</u>	3,656
Released to Asset Management Revenue Account in Year		
- Grants	(541)	
- Contributions	<u>(396)</u>	<u>(937)</u>
Balance as at 31 st March 2005		<u>9,891</u>

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 asset management revenue account to match the depreciation charged on the asset to which it relates.

10. **Statement of Total Movement in Reserves**

	CAPITAL RESERVES					PENSION RESERVES	REVENUE RESERVES		TOTAL
	Fixed Asset Restatement Note A £000	Capital Financing Account Note B £000	Usable Capital Receipts £000	HRA Major Repairs £000	Sub Total £000	Note C £000	Unallocated £000	Ear Marked £000	£000
Balance 1.4.2004	722,468	349,821	19,147	3,650	1,095,086	(325,522)	66,446	88,428	924,438
Restatement	-	-	-	-	-	(7,501)	-	-	(7,501)
Restated balance 1.4.2004	722,468	349,821	19,147	3,650	1,095,086	(333,023)	66,446	88,428	916,937
Consolidated Revenue Account	-	-	-	-	-	(16,022)	(5,978)	(3,581)	(25,663)
Unrealised gains (losses) from re-valuation	39,941	-	-	-	39,941	(70,714)	-	-	(30,773)
Cost or value of assets disposed of	(67,734)	-	-	-	(67,734)	-	-	-	(67,734)
Proceeds of disposals	-	-	83,996	-	83,996	-	-	-	83,996
Amounts Payable to Housing Capital Receipts Pool	-	-	(720)	-	(720)	-	-	-	(720)
Financing of fixed assets	-	57,475	(47,521)	-	9,954	-	-	-	9,954
Other net transfers	-	(31,459)	15,169	1,837	(14,453)	(3,336)	256	(520)	(17,971)
Balance 31.3.2005	694,675	375,837	70,071	5,487	1,146,070	(423,095)	60,724	84,327	868,026

Notes to Total Movement in Reserves

The purpose of the statement is to consider all gains and losses recognised in an accounting period and not just those reported through the income and expenditure accounts.

A. Fixed Asset Restatement Account

This account represents the difference between the valuation of assets under the previous system of capital accounting and the revaluation as at 1st April 1994, adjusted to take account of subsequent 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:-

	<u>City Fund</u> £000	<u>H.R.A.</u> £000	<u>Total</u> £000
Balance 1st April 2004	574,803	147,665	722,468
Unrealised gains or losses on revaluation of fixed assets	33,662	6,279	39,941
Disposal of fixed assets	(64,871)	(2,863)	(67,734)
Balance 31st March 2005	543,594	151,081	694,675

B. Capital Financing Account

	<u>FINANCING OF CAPITAL EXPENDITURE</u> £000	<u>OTHER</u> £000	<u>TOTAL</u> £000
Balance brought forward 1 st April 2004	539,376	(189,555)	349,821
Financing of capital			
- from City Fund Revenue Account	4,796		4,796
- from Housing Revenue Account	0		0
- from usable capital receipts	47,286		47,286
- from grants and reimbursements	5,393		5,393
Reserved capital receipts transferred to usable capital receipts reserve		(15,199)	(15,199)
Release of credit cover re: leases		(140)	(140)
Release of deferred grants and contributions		937	937
Depreciation / Impairment		(11,053)	(11,053)
Write down of deferred charges		(5,967)	(5,967)
Loan repayments received		(37)	(37)
Balance carried forward 31 st March 2005	596,851	(221,014)	375,837

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. Pension Reserve

	Police £000	Judges £000	Corporation Scheme Discretionary Benefits £000	Total £000
Balance 1.4.2004	(325,522)	-	(7,501)	(333,023)
Consolidated Revenue Account	(15,787)	(96)	(139)	(16,022)
Unrealised Losses from revaluation	(70,714)	-	-	(70,714)
Other Net Transfers	(3,091)	(245)	-	(3,336)
Balance 1.4.2005	(415,114)	(341)	(7,640)	(423,095)

The actuarial losses identified as movements on the Police Pensions Reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005.

	£000	%
Effect of change to discount rate	(55,788)	13.4
Difference between actuarial assumptions about liabilities and actual experience.	(7,349)	1.8
Changes in the demographic and financial assumptions used to estimate liabilities	(7,577)	1.8
Total actuarial losses for 2004/05	(70,714)	17.0
Comparative total for 2003/04	(6,383)	1.96

D. Movement in Earmarked Reserves

		Balance – 31/3/04 £000	Net transfer (to)/from CRA £000	Other Net Transfers £000	Balance - 31/3/05 £000
Highway improvements	(i)	23,412	(3,971)	-	19,441
Renewals and repairs:	(ii)				
London Fruit Exchange		39	-	-	39
London Metropolitan Archives		1,538	(72)	-	1,466
New Spitalfields Market Building Defects		100	1	-	101
School's reserve	(iii)	(13)	51	-	38
Police future expenditure	(iv)	4,753	(392)	-	4,361
Police Pension Liabilities	(v)	2,244	473	-	2,717
General Reserve	(vi)	46,352	-	-	46,352
Housing Revenue Account	(vii)	5,952	(150)	-	5,802
Collection Fund	(viii)	2,512		(520)	1,992
Service projects	(ix)	826	203	-	1,029
E-Government	(x)	201	76	-	277
Spitalfields Market	(xi)	512	-	-	512
Judges Pensions	(xii)	-	200	-	200
Total		88,428	(3,581)	(520)	84,327

- (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) Repairs and Renewals - These items comprise:-

London Fruit 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.
- (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 £4.361m 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.
- (vi) General 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) Housing Revenue Account - By section 74 of the Local Government and Housing Act 1989 the Housing Revenue Account must be accounted for separately. The reserve represents the accumulated surplus.
- (viii) Collection Fund - The surplus is being used to reduce the council tax amounts in 2005/06.
- (ix) Service Projects - A number of reserves for service specific projects and activities have been aggregated under this generic heading.
- (x) E-Government - A reserve to provide funding for E-Government initiatives.
- (xi) Spitalfields Market Reserve - To help finance Corporation expenditure on the market.
- (xii) Judges Pensions - Sums set aside to assist with the Corporation's share of liabilities.

11. Trust Funds

The Corporation 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 31st March 2005 was £313,474.
- (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 31st March 2005 was £118,713.
- (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 31st March 2005 was £139,350.

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

	Higher Education Research & Special Expenses Fund £000	Archibald Dawnay £000	Robert Blair Fellowship £000
Income	(8)	(3)	(4)
Expenditure	2	5	15
Net outgoing (incoming) resources	(6)	2	11
Unrealised gains on investment assets	(22)	(9)	(11)
Net movement in funds	(28)	(7)	0
Fund balance 1 st April 2004	(285)	(111)	(139)
Fund balance 31 March 2005	(313)	(118)	(139)

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.

	£000
Income	(242)
Expenditure	<u>244</u>
Net outgoing resources	2
Funds brought forward 1 st April 2004	<u>(25)</u>
Funds carried forward 31 st March 2005	<u>(23)</u>

Barbican Centre Trust Limited

The Corporation 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 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.

	£000
Income	(42)
Expenditure	<u>42</u>
Net incoming resources	0
Funds brought forward 1 April 2004	<u>(3)</u>
Funds carried forward 31 st March 2005	<u>(3)</u>

12. **The Euro**

Preparations for the Euro will not be accelerated until the timetable for its introduction becomes firmer. Consequently, a reasonable estimate of likely cost is not available at this stage. However, the Corporation's major financial systems have recently been replaced and these systems provide for Euro compliance.

13. **The Corporation of London Pension Scheme**

The Corporation 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 Corporation 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 Corporation of London Pension Fund. Neither is the portion of the Pension Fund that relates to Corporation 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 2004/05 employer's contribution to the scheme for staff engaged on City Fund activities was £10.3m out of a total £15.6m for all three funds (2003/04 = £9.9m out of £15.3m). The rates of contribution supporting this amount, together with agreed future rates of contribution and details of the 31 March 2001 actuarial valuation on which they were based are given in note 7 to the Consolidated Revenue Account. There are no outstanding or pre-paid contributions at the balance sheet date.

Disclosures in relation to the overall scheme, excluding the Museum of London, which satisfy the requirements of FRS17 are given below for information.

At 31st March 2005 and 31st March 2004 the total assets and liabilities in the Corporation of London Pension Scheme, determined in accordance with Financial Reporting Standard 17 are as shown below. The liabilities have been valued by the Corporation'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. The Chartered Institute of Public Finance and Accountancy has changed the definition used to determine the discount rate from 3.5% above inflation to the yield available from AA bonds. This reduction in discount rate increases the value placed on liabilities and is the main reason for the increased deficit in the scheme. Also shown below is the valuation at 31 March 2004 as it would have been using the changed discount rate: -

	31/3/05 £m	31/3/04 £m	31/3/04 £m (new assumptions)
Present value of scheme liabilities	(662.3)	(489.3)	(584.6)
Market value of scheme assets	341.9	308.3	308.3
<u>Deficit in the scheme</u>	(320.4)	(181.0)	(276.3)

The financial assumptions used for the purposes of the FRS17 calculations are as follows:

<u>Assumptions</u>	Nominal % per annum			Real % per annum		
	31/3/05	31/3/04	31/3/03	31/3/05	31/3/04	31/3/03
Price Increases	2.9	2.9	2.5	-	-	-
Salary Increases	4.7	4.7	4.3	1.8	1.8	1.8
Pension Increases	2.9	2.9	2.5	-	-	-
Discount Rate	5.4	6.4	6.1	2.4	3.5	3.5

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

	31/3/05 £m	31/3/04 £m	31/3/03 £m
Equity Investments	242.7	254.8	199.8
Gilts	57.9	18.0	16.3
Property	-	-	0.8
Cash	37.7	34.4	26.0
Bonds	3.6	1.1	0.1
Total	341.9	308.3	243.0

The following expected rates of return were assumed at 31 March 2005, 31 March 2004 and 31 March 2003.

	31/3/05	31/3/04	31/3/03
	%	%	%
Equities	8.5	7.5	8.5
Gilts	4.5	4.5	4.5
Property	7.0	7.0	7.0
Cash	4.3	4.0	4.0
Bonds	5.3	5.5	5.5

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

	£m	£m
Net deficit at beginning of year		181.0
Effect of Change to discount rate		95.3
Movement in year:		
Current service cost	16.4	
Contributions	(17.0)	
Settlements/Curtailments	1.1	
Finance cost	10.5	
		11.0
Actuarial loss		33.1
Net deficit at year end		320.4

14. The Teachers Pension Scheme

The Teachers' Pension Scheme is administered by 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 Corporation's accounts for the purposes of Financial Reporting Standard 17. The contributions payable to the scheme are given in note 7 to the Consolidated Revenue Account.

15. The Police Pension Scheme

The police pension scheme is defined benefit and unfunded. It is administered by the Corporation in accordance with Home Office regulations and is not a multi-employer scheme. At 31 March 2005 the estimated liabilities of the Police Pension Scheme, determined in accordance with FRS 17 by independent actuaries using the projected unit method, were £415.1m (31/3/04 = £325.5m). This liability is reflected in the Consolidated 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 13 above for the Corporation 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		325.5
Effect of change to discount rate		55.8
Movement in year:		
Current service cost	8.4	
Contributions	(10.4)	
Finance cost	20.9	
		18.9
Actuarial loss		14.9
Net deficit at year end		415.1

16. 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 Corporation reimburses them in accordance with regulations made under the Act. At 31 March 2005 the Corporation's estimated liabilities for the Judges scheme, determined in accordance with FRS 17 by independent actuaries using the projected unit method, were £0.341m (31/3/04 = £0.245). This liability is reflected in the Consolidated 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 13 above for the Corporation of London Pension Scheme.

	£m	£m
Net deficit at beginning of year		0.245
Movement in year:		
Current service cost	0.079	
Finance cost	0.017	
		0.096
Actuarial loss		-
Net deficit at year end		0.341

CASH FLOW STATEMENT

	2004/05			2003/04
	£000	£000	£000	£000
REVENUE ACTIVITIES				
Cash Outflows				
Cash paid to and on behalf of employees	134,995			128,247
Other operating cash payments	146,261			140,265
Housing Benefit paid to tenants not in council housing	2,453			1,718
Non-domestic rate payments to National Pool	521,701			575,333
Precepts to GLA and Temples	<u>650</u>			<u>651</u>
		806,060		846,214
Cash Inflows				
Rents (after deducting rebates)	(56,777)			(56,981)
Non-domestic rates receipts	(509,103)			(546,285)
Council Tax income	(3,712)			(3,843)
NNDR receipts from National Pool	(2,287)			(2,216)
City's Offset	0			(6,500)
Government Grants – Revenue Support and Police	(104,348)			(94,017)
Government Grant for Housing Benefit paid to tenants not in council housing	(2,284)			(1,757)
Other Government Grants	(19,179)			(18,652)
Fees, charges and other income	<u>(87,998)</u>			<u>(82,016)</u>
		<u>(785,688)</u>		<u>(812,267)</u>
Revenue activities net cash out flow (inflow)			<u>20,372</u>	<u>33,947</u>
SERVICING OF FINANCE				
Interest received			<u>(12,634)</u>	<u>(11,861)</u>
CAPITAL ACTIVITIES				
Cash Outflows				
Purchase of fixed assets		54,713		<u>57,071</u>
Cash Inflows				
Sale of fixed assets	(82,824)			(59,071)
Reimbursements	(985)			(639)
Capital Grants received	<u>(4,682)</u>			<u>(2,962)</u>
		<u>(88,491)</u>		<u>(62,672)</u>
Capital Activities net cash out flow (inflow)			(33,778)	(5,601)
DECREASE (INCREASE) IN CASH			<u>(26,040)</u>	<u>16,485</u>

	2004/05 £000	2003/04 £000
NOTES TO THE CASH FLOW STATEMENT		
(1) Reconciliation between net deficit/(surplus) on income and expenditure accounts to the revenue activities net cash flow.		
Net deficit Consolidated Revenue Account	5,978	10,762
Net (surplus) / deficit Housing Revenue Account	150	(415)
Net (surplus) / deficit Collection Fund	520	(681)
Net (surplus) D.S.Os	(21)	(11)
Total net deficit	<u>6,627</u>	<u>9,655</u>
Interest	12,634	11,861
Non-Cash Transactions:		
Contribution from (to) reserves and provisions	1,622	(2,104)
Contribution to Capital	(6,696)	(6,649)
Items on an accruals basis:		
Increase / (decrease) in stock	80	(7)
Increase / (decrease) in debtors	(1,013)	18,215
Decrease / (increase) in creditors	7,118	2,976
Net Cash Out Flow/(In Flow) From Revenue Activities	<u>20,372</u>	<u>33,947</u>
(2) Movement in cash balances		
Balance 1st April	218,112	234,597
Balance 31st March	244,152	218,112
Cash out flow / (inflow)	<u>(26,040)</u>	<u>16,485</u>
(3) Government Grants		
Revenue Support Grant	71,627	61,550
Police Grant	32,721	32,467
	<u>104,348</u>	<u>94,017</u>

THE PENSION FUND ACCOUNTS

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

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

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

Main 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 transfers 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 relevant fund managers.
- vi. Unquoted securities are valued by the fund managers 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, which 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 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 can not be recovered.
- xiii. Income from fixed interest and indexed-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 profits 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 translation 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 the employer 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 Plan. 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.

xxi. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

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 will be effective from 1 April 2005. Regular employer contributions for 2004/05 were determined by the previous actuarial valuation at 31 March 2001 and were set at 16.4% of pensionable pay.

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:

Past Service Liabilities	£m
Active Members	202.4
Deferred pensioners	64.3
Pensioners	188.2
Total	454.9
Assets	(337.1)
Deficit	(117.8)
Funding Level	74%

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

	Contribution rate (%)
Future service funding rate	10.2
Past service adjustment	8.2
Total contribution rate	18.4

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.

Fund Account for the year ended 31 March 2005

	Note	2004/05 £'000	2003/04 £'000
Contributions and benefits			
Contributions receivable	2	22,740	21,866
Transfers in		4,565	3,977
Other Income		1,857	2
		<hr/> 29,162	<hr/> 25,845
Benefits Payable	3	(19,630)	(19,088)
Payments to and on account of leavers:	4	(3,745)	(1,744)
Administrative Expenses	5	(592)	(648)
Other Expenses		<hr/> (3)	<hr/> 0
		<hr/> (23,970)	<hr/> (21,480)
Net additions from dealing with members		<hr/> 5,192	<hr/> 4,365
Returns on investments			
Income from Investments	6	9,859	9,367
Change in market value of investment (realised and unrealised)		20,362	57,818
Investment Management Expenses		(1,503)	(812)
Net Returns on Investment		<hr/> 28,718	<hr/> 66,373
Net increase/(decrease) in the fund during the year		<hr/> 33,910	<hr/> 70,738
Opening net assets of the scheme		334,269	263,531
Closing net assets of the scheme		<hr/> 368,179	<hr/> 334,269

Net Assets Statement as at 31 March 2005

	Note	2004/05 £'000	2003/04 £'000
Investment assets	7	362,804	329,415
Current assets	9	6,535	5,362
Current liabilities	9	(1,160)	(508)
Net assets		<u>368,179</u>	<u>334,269</u>

Notes to the Pension Fund Accounts

1. Membership of the Fund

	Current Contributors	Beneficiaries In Receipt of Pension	Deferred Benefits	Total
CORPORATION	3,078	2,846	1,958	7,882
SCHEDULED BODIES:				
Museum of London	277	121	196	594
Magistrates Court	0	30	56	86
Probation Committee	0	4	0	4
ADMITTED BODIES:				
Irish Society	8	6	1	15
City Arts Trust	0	1	0	1
Transport Committee for London	0	3	31	34
Guildhall Club	7	1	2	10
City Academy	15	0	1	16
TOTALS	<u>3,385</u>	<u>3,012</u>	<u>2,245</u>	<u>8,642</u>

2. Contributions Receivable

		2004/05 £'000	2003/04 £'000
Employers:			
Scheduled bodies	Corporation	15,567	15,159
	Museum of London	1,001	974
Admitted bodies	Irish Society	32	28
	Guildhall Club	20	22
	City Academy	56	27
		<u>16,676</u>	<u>16,210</u>
Employees of:			
Scheduled bodies	Corporation	5,612	5,271
	Museum of London	413	358
Admitted bodies	Irish Society	12	10
	Guildhall Club	7	7
	City Academy	20	10
		<u>6,064</u>	<u>5,656</u>
Total Contributions		<u>22,740</u>	<u>21,866</u>

3. Benefits Payable

		2004/05 £'000	2003/04 £'000
Scheduled Bodies			
	<u>Corporation</u>		
	Retired Employees		
	- pensions	13,742	13,106
	- lump sums	2,530	2,891
	Lump sum on death	531	415
	Widows' and Widowers' pensions	2,010	1,946
	Children's pensions	64	52
		<u>18,877</u>	<u>18,410</u>
	<u>Museum of London</u>		
	Retired Employees		
	- pensions	540	507
	- lump sums	84	20
	Lump sum on death	9	50
	Widows' and Widowers' pensions	51	67
		<u>684</u>	<u>644</u>

	2004/05 £000	2003/04 £000
Admitted Bodies		
<u>Irish Society</u>		
Retired Employees		
- pensions	37	33
- lump sums	21	0
Widow's and Widowers' pensions	0	1
	<u>58</u>	<u>34</u>
<u>Guildhall Club</u>		
Retired Employees		
- pensions	1	0
- lump sums	10	0
	<u>11</u>	<u>0</u>
Total Benefits Payable	<u>19,630</u>	<u>19,088</u>

4. Payments to and on account of leavers

	2004/05 £'000	2003/04 £'000
Refunds of contributions	106	139
Transfers out	<u>3,639</u>	<u>1,605</u>
	<u>3,745</u>	<u>1,744</u>

5. Administrative expenses

	2004/05 £'000	2003/04 £'000
Central administration	571	595
Computer costs	19	38
Building costs	<u>2</u>	<u>15</u>
	<u>592</u>	<u>648</u>

6. Income from investments

	2004/05 £'000	2003/04 £'000
Fixed Interest :		
UK Government	872	559
UK Other	257	
Overseas Government	434	0
UK index linked	10	432
UK pooled units	12	2,422
Overseas pooled units	30	864
UK equities	4,386	3,015
Overseas equities	2,226	956
Cash	1,612	1,052
Property	20	67
	<u>9,859</u>	<u>9,367</u>

7. Investment assets

	2004/05 £'000	2003/04 £'000
Fixed interest securities:		
- UK public sector	43,676	8,704
- UK other	3,959	1,187
- Overseas	18,630	0
Index linked - UK	0	10,880
Pooled Units:		
- UK	0	65,021
- Overseas	0	70,504
Listed Equities:		
- UK	77,110	86,533
- Overseas	180,701	46,369
Venture Capital	3,512	3,611
Managed Funds (other)	<u>19,669</u>	<u>4,199</u>
Managed investments	347,257	297,008
Property	0	0
Cash deposits	<u>15,547</u>	<u>32,407</u>
Total Investment assets	<u>362,804</u>	<u>329,415</u>

8. Holdings of fund managers

The following shows the market value of the investments held as at 31 March 2005, and the proportion managed by each manager:

	£000	% share of assets
Artemis	56,365	16.23
LSV	43,795	12.61
Pyrford	94,794	27.31
Southeastern	98,077	28.24
Wellington Management International	50,086	14.42
State Street Bank Europe (Temporary)	627	0.18
Barings (Venture Capital)	874	0.25
Standard Life (Venture Capital)	2,454	0.71
Yorkshire Venture Capital Fund	185	0.05
	<hr/> 347,257 <hr/>	<hr/> 100.00 <hr/>

The fund managers were changed during the year and, consequently, an analysis of purchases and sales of investments is not readily available.

9. Current assets and liabilities

Current assets and liabilities relate to outstanding dividends due to the Corporation from investment managers and investment management fees due to the investment managers.

10. Statement of Investment Principles

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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Corporation's Responsibilities

The Corporation 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'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 Corporation of London at 31st March 2005 and their income and expenditure for the year then ended.

..... 29 July 2005
Peter Derrick
Chamberlain

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

The Corporation 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 Corporation also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Corporation 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.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Corporation'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.

A system of internal control has been in place at the Corporation for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

3. Key Elements of the Internal Control Environment

Business Strategy and Planning Process

The Corporation 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. The eight strategic themes link to the shared priorities for local government but also focus on agreed local priority areas.
- The annual Policy Plan (the Corporation's Best Value Performance Plan) shows how the Corporation's activities link to the Community Strategy vision and themes and how the Corporation will fulfil its wider role as a provider of services outside of the City boundaries. The Policy Plan includes a statement of the Corporation'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.

The Corporation's plans and strategies are informed by a range of consultation arrangements, set within the framework provided by the Corporation's Consultation and Communication Strategies.

Recent developments include:

- Publication of the 2005/06 update to the Community Strategy Action Plan, summarising progress over the previous year and updating the targets for the objectives and actions.
- Agreement of a Medium Term Strategy for the Corporation, setting out the Corporation's overarching objectives and key policy priorities. This has also been incorporated into the 2005/06 Policy Plan.

- Revision to the standard Committee report format, to ensure that all issues are considered in the context of strategic priorities.
- Reintroduction of regular reporting to the Court of Common Council on measures introduced into parliament which may have an effect on services provided.
- Establishment of an on-line City workers panel and new style residents meetings.

Corporate Governance

At the Corporation, the principles of good governance are embedded within a framework of policies and procedures, including:

- Standing Orders, which govern the conduct of the Corporation'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 Corporation's financial and other resources.
- Terms of reference for every Committee.
- Scrutiny provided primarily by the Policy & Resources and Finance Committees, the Resource Allocation, Audit and Investment Sub Committees and the Estimates Working Party.
- 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 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.

Recent developments include:

- Production of an anti-fraud and corruption strategy, incorporating the Corporation's whistle blowing policy. This has been widely publicised and communicated, internally and externally.
- Implementation of a range of measures to improve decision making processes, including the streamlining of committees, a full agenda planning process, and a reduction in the use of urgency powers.
- Completion of revisions to HR and property delegations, and to financial and contract Standing Orders.
- Introduction of staff training for Standing Orders and Financial Regulations and production of a "brief guide for employees" for all new staff.
- Completion of definitions for the roles of Lord Mayor, Sheriffs and Aldermen.
- A 'Member Development Steering Group' has recommended improvements to induction arrangements and proposals for establishing greater learning and development opportunities.

Performance Management

The corporate performance management framework sets out the planning cycle with clear linkages between the different levels of strategy, policy, 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).
- Business plans contain the key objectives from the Community Strategy and all departmental objectives are linked to the eight themes. The plans also show objectives aligned with resources – financial and staffing. Recommendations from external inspections are incorporated into the business plans.
- 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.

- 360° feedback forms part of appraisals for chief officers and selected senior officers, as well as being used for management training.
- Performance is communicated to Council Tax and Business Rates payers through the annual Performance Summary.

Recent developments include:

- Improved monitoring, through quarterly performance reporting by departments to their service committee(s). From 2005/06 these reports will all incorporate financial monitoring information.
- Adoption of a communications strategy (The Big Picture) to improve staff understanding of the “Golden Thread” and the link from the plans and strategies through to individual appraisals.
- In May 2005, the Corporation achieved corporate IIP accreditation.
- In November 2004, a biannual staff attitude survey was undertaken which showed an improvement in the understanding of the visions and aims of the Corporation.

Risk Management

A Risk Management Policy Statement was adopted in 2003 establishing mechanisms to formally embed the risk management process within the Corporation. The Statement outlined a number of key benefits which the Corporation aims to derive from its commitment to active risk management. A Risk Management Group consisting of senior managers from departments has been established and a regular newsletter is produced for all staff.

Recent developments include:

- 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.
- The terms of reference of the Audit Sub Committee now explicitly include responsibility for risk management.
- 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.

System of Internal Financial Control

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 the forecasts.
- clearly defined capital expenditure guidelines.
- formal project management disciplines.
- an in-house internal audit service.
- scrutiny by Members, the Audit Commission, CSCI, OFSTED, External Audit and other stakeholders.

Recent developments include:

- Replacement of the computerised financial systems.
- Improved financial monitoring and reporting, with quarterly reporting by Chief Officers to service committees and corporately to the Finance Committee.
- Actions taken to address the shortfall identified by the medium term financial forecasting, including an efficiency squeeze on local risk budgets and a ‘headcount’ review.

Value for Money/Efficiency

The Corporation 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 Corporation'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 (the "Golden rule"). Blanket pressure is applied to encourage Chief Officers to continuously seek to improve efficiency and find better ways of working.
- Capital Strategy. This ensures that the Corporation'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 Corporation makes judgements on adjustments to resource levels and ensures that these are properly implemented.
- Capital budget evaluation, management and monitoring. The Corporation has a comprehensive system of controls covering the entire life cycle of capital and major revenue projects.

Recent developments include:

- Achievement of internal savings targets resulting from Best Value reviews and application of the Budget Policy.
- Conducting ten cross-cutting reviews during 2004 to identify improvements in efficiency and opportunities for savings in some cross-departmental activities.
- Completing a Price Benchmarking Review of key procurement areas
- Agreeing a corporate Procurement Strategy to support the Corporation in its aim of procuring the best value for money supplies, services and works.
- Reporting efficiency savings totalling over £5m in the Annual Efficiency Statements for 2004/05 (backward look) and 2005/06 (forward look).

4. Review of Effectiveness

The Corporation 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.

Recent external assessments include:

- Auditor Scored Judgements assessment by external auditors as part of the CPA 2004 refresh. The Corporation scored 4 out of 4 for each of the areas assessed.
- Direction of travel assessment by the Audit Commission, also as part of CPA 2004. This was generally positive, including praise for the Corporation's having clear ambitions; strong leadership from Members and officers, and clear priorities in the Policy Plan.
- Annual external audit of the Policy Plan and Best Value Performance Indicators. The Plan 2004/05 was given an unqualified audit report.

During 2004/05, the Corporation also carried out a review of its corporate governance arrangements. An officer/member workshop, attended by the Audit Commission and the external auditors, was held in July

2004. This identified that the Corporation generally performed well against the key areas identified by the Audit Commission in its 2003 report, although there are some areas for improvement. The resultant action plan was reported to Members and has been updated to take account of the newly published Good Governance Standard for Public Services and the work on improving decision making processes.

5. Role of Internal Audit and Chief Internal Auditor's Opinion

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.

The whole Internal Audit process is supported, monitored and managed by the Audit Sub-Committee, which meets three times a year and closely reviews all aspects of the Internal Audit function. The Internal Audit Section operates, in all aspects, in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice, and has achieved the highest possible score (4 out of 4) as part of the CPA process from 2002 to 2004. Its work is relied upon by External Audit.

CIPFA revised their Code of Practice for Internal Audit in 2003 to include 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”.

It is the Chief Internal Auditor’s opinion that the Corporation’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. Whilst a risk management structure has yet to be fully embedded throughout all elements of the Corporation a corporate strategic risk register has been adopted and 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 Corporation’s diverse operations. In this year an exceptional 100% of the annual audit plan was completed to report stage.

6. Future Internal Control Development

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

- Achieving a more consistent and systematic approach to linking service and financial planning at corporate and departmental levels.
- Improving learning and development opportunities for Members and developing a protocol for Member/Officer relationships.
- Further enhancing periodic performance monitoring by Chief Officers through such mechanisms as local indicators and targets, and improving poor performance.
- Continuing to emphasise the linkage of corporate priorities to individual goals.
- Continuing to embed the culture and enhance the profile of risk management through developing the role of the Corporate Risk Management Group; improving the reporting of the management of risks in business and service planning processes including key indicators and evidence of changes; training; and communication.
- Exploring the scope for further mechanisms to secure continuous improvements in the way in which functions are exercised within the framework of best value principles.

We have been advised on the effectiveness of the system of internal control operated by the Corporation including the plans to maintain, develop and strengthen the arrangements as outlined above.

.....

Chris Duffield
Town Clerk

Date:.....

.....

Michael Snyder
Chairman Policy and Resources
Committee

Date:.....

ADOPTION OF THE CITY FUND AND PENSION FUND ACCOUNTS

At a meeting of the Finance Committee held at Guildhall on 29 July 2005, the Consolidated City Fund Accounts and Pension Fund Accounts were approved and adopted on behalf of the Court of Common Council.

.....
Chairman of the Finance Committee

.....
Member of the Finance Committee

AUDITORS' REPORT TO THE CORPORATION OF LONDON

We have audited the Statement of Accounts which comprises the Consolidated Revenue Account, Housing Revenue Account, Collection Fund, Consolidated Balance Sheet, Statement of Total Movement in Reserves, Cash Flow Statement and Pension Fund Accounts and the notes to those statements which has been prepared in accordance with the accounting policies applicable to local authorities as set out in the Statement of Accounting Policies and, for the statements relating to the Council's administration of the pension fund, notes to those statements.

This report is made solely to the Corporation of London in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditors

As described in the Statement of Responsibilities for the Statement of Accounts the Chamberlain is responsible for the preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position and results of operations of the Corporation.

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the Statement of Accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the Statement of Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts. The other information comprises only the Explanatory Foreword.

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 relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also includes an assessment of the significant estimates and judgments made by the Corporation in the preparation of the Statement of Accounts, and of whether the accounting policies are appropriate to the Corporation'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 Statement of Accounts is 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 Statement of Accounts.

Opinion

In our opinion the Statement of Accounts presents fairly the financial position of the Corporation of London as at 31 March 2005 and its income and expenditure for the year then ended.

Opinion on the Pension Fund Accounts

In our opinion the Statement of Accounts presents fairly the financial transactions of the Corporation of London's Pension Fund during the year ended 31 March 2005, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Certificate

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

..... 19 September 2005

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 (experience gains and losses) 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.

Asset Management Revenue Account - is charged with depreciation and impairment and receives as its income the capital charges made to services together with the release of deferred grants and provision for credit liabilities. In general terms, the net income on the account represents the extent to which charges to services exceed depreciation and impairment.

Bridge House Estates - a Trust relating to the maintenance and support of five Corporation 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 Corporation's private funds that are accounted for separately and do 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 National Non-Domestic Rate.

Community Assets - assets that the Corporation 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 financial year, 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.

Fixed Asset Restatement Account - represents the difference between the valuation of assets under the previous system of capital accounting and the revaluation as at 1st April 1994, adjusted to take account of subsequent 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.

Interest Cost (Pensions) - 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 Corporation 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 Corporation 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 a valuation method 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 Corporation 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.