

**THE CITY OF LONDON**

**STATEMENT OF ACCOUNTS FOR THE CITY FUND**  
**AND THE PENSION FUND**

**YEAR ENDED 31ST MARCH 2006**

# **CITY OF LONDON**

## **Statement of Accounts for the City Fund and the Pension Fund Year Ended 31<sup>st</sup> March 2006**

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## **EXPLANATORY FOREWORD**

### **Introduction**

1. The City of London has four main accounts, City Fund, City's Cash, Bridge House Estates, and the City of London Pension Fund. These accounts are not consolidated. This document sets out the 2005/06 City Fund accounts which cover the City of London's activities as a local authority together with the accounts of the City of London Pension Fund. The document comprises:
  - City Fund Consolidated Revenue Account - which covers income and expenditure on City Fund services – page 9.
  - Housing Revenue Account – showing its ring-fenced income and expenditure – page 18.
  - 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 23.
  - City Fund Consolidated Balance Sheet – setting out its financial position – page 27.
  - Statement of Total Movement in Reserves - all gains and losses for the year, both revenue and capital – page 35.
  - The Cash Flow Statement which summarises the City Fund capital and revenue inflows and outflows of cash – page 45.
  - The Accounts for the City of London Pension Fund showing its income and expenditure for the year and the disposition of the Fund's assets – page 47.
  - The Statement of Responsibilities for the Statement of Accounts – setting out the respective responsibilities of the City of London and the chief financial officer – page 56.
  - Statement on Internal Control – setting out the framework for the continuous review and improvement of the effectiveness of internal control and risk management systems – page 57.
  - Adoption of the Statement of Accounts – by the Chairman and Deputy Chairman of the Finance Committee – page 63.
  - Report of the Auditors – giving their opinion on the City Fund accounts – page 64.
  - Glossary of Terms – page 68.
2. The City Fund accounts are supported by the Statement of Main Accounting Policies on pages 5 to 8 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 2005/06 on the revenue account was £8m compared to £6m in 2004/05.

	2005/06 £m	2004/05 £m
Net revenue expenditure before items below	168	165
Financing of capital expenditure	4	5
Interest on balances	(13)	(13)
City Fund Estate rent income	(29)	(35)
Government grants and local taxes	(122)	(116)
Deficit on revenue account	8	6

4. Cash backed reserves have decreased to £173m at 31 March 2006 compared with £207m a year earlier.

	2005/06 £m	2004/05 £m
Cash backed reserves – revenue	126	137
capital	47	70
Total cash backed reserves	173	207

5. The £11m reduction in cash backed revenue reserves relates to the deficit for the year and expenditure met from earmarked reserves. The £23m decrease in cash backed capital reserves is the result of sums applied to finance capital expenditure partly offset by the proceeds of disposals during the year.

## Revenue Expenditure

6. Set out below is a summary of the City Fund Consolidated Revenue Account comparing actual expenditure for the year with the budget approved by the Court of Common Council in March 2006:-

	Budget £m	Actual £m	Variation £m
Net Cost of Services	206	195	(11)
Interest Income	(13)	(13)	0
Investment Properties	(29)	(29)	0
Pension Interest Costs	23	23	0
Asset Management Revenue Account	(19)	(19)	0
Net Operating Expenditure	168	157	(11)
Net Transfers to (from) Revenue Reserves	(9)	(3)	6
Net Transfers to (from) Capital Reserves	(4)	(3)	1
Movement on Pension Liabilities	(17)	(17)	0
Deferred Charges Contra	(4)	(4)	0
Net Expenditure	134	130	(4)
Income from Government Grants and Local Taxpayers	(122)	(122)	0
Deficit (surplus) for year	12	8	(4)

7. Net expenditure was £130.1m compared with the approved budget of £133.9m, a reduction of £3.8m. The major changes were as follows:-

	£m	
Transfers from Revenue Reserves	5.5	A smaller transfer from reserves primarily as a result of lower expenditure on Police, Highways, Housing and capital schemes.
Revenue financing of capital expenditure	(2.2)	Lower than anticipated due to slippage on Barbican, planning and e-government schemes.
Highways	(1.8)	Lower expenditure on highways maintenance, on-street car parking and street cleansing.
Police	(1.8)	Lower expenditure against a number of budgets but particularly employees and supplies and services and increased income from proceeds of crime and mutual aid.
Environmental Health	(0.3)	Additional income from licensing.
Barbican Centre	(0.3)	Improved trading results together with efficiency savings.
Libraries, Archives and Guildhall Art Gallery	0.3	Lower income from fees.
Central contingencies	(1.6)	Not all of the contingencies were required.
Planning	(0.3)	Reduced expenditure on professional fees and services together with the transfer of some costs to capital projects.
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.
General reduced requirement	(0.4)	The aggregate of smaller variations on other services.
<b>Total Reduced Requirement in Net Expenditure</b>	<b>(3.8)</b>	

## **City Fund Capital Expenditure**

8. The approved capital budget for 2005/06 totalled £71.6m. Actual capital expenditure during the year was £64.0m, an underspend of £7.6m compared with the budget. This net underspend was mainly due to slippage and/or rephasing of expenditure on a number of schemes, largely relating to the Barbican Centre and savings on the Spitalfields Development project.

## **City Fund Total Assets and Liabilities**

9. As at 31<sup>st</sup> March 2006, the City Fund Consolidated Balance Sheet indicates that total assets exceed total liabilities (i.e. net assets) by £982m, an increase of £114m compared to the previous year. The net assets are represented by capital and revenue reserves of £1,324m and £133m respectively, partly offset by the negative pension reserve of £475m which primarily relates to the Police Scheme. The main reason for the increase in net assets is the revaluation of investment and operational properties partly offset by an increased liability for police pensions as calculated in accordance with the requirements of Financial Reporting Standard (FRS) 17. 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 4 are available to finance future expenditure.

## **Risk Identification**

10. The City of London has established a programme of risk management as an element of its strategy to preserve its assets, enhance productivity for service users and members of the public, and protect its employees.
11. 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.
12. A Statement on Internal Control is set out on pages 57 to 62.

## **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 56.

## **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 2005 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### **2. Accruals**

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

### **3. Fixed Assets**

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

Properties regarded as operational have been valued at their Open Market Value in Existing Use, or where this could not be assessed because there was no market for the subject asset, the Depreciated Replacement Cost. In some cases, specialist properties have required specialist valuation assumptions or alternative use valuations have been carried out. Investment properties are based on 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 cost, net of depreciation, as a proxy for current value. Property asset values used in the accounts (other than for Woodredon and Warlies Park, the Barbican Centre, the Central Criminal Court, Walbrook Wharf, 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 five 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*

Proceeds 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	75-100 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 4.95% 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 Housing Revenue Account (HRA) capital receipts are paid to a Government pool. The amount of capital receipts remaining after 'pooling' payments is held in the Usable Capital Receipts Reserve, to be used for financing capital expenditure.

#### 9. **Stocks**

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

#### 10. **Intangible Current Assets**

Intangible current assets, which are represented by landfill allowances, are valued at the weighted average value at which 2005/06 allowances have traded during the year.



**11. Overheads**

The costs of support service overheads, with the exception of expenditure on the corporate and democratic core, are generally apportioned between all revenue accounts on the basis of employee time spent or other resources consumed on behalf of user services. Similarly, with the exception of vacant properties, 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.

**12. Provisions**

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

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

Details of the operation of the provisions are set out in note 9 to the City Fund Consolidated Balance Sheet.

**13. Reserves**

A number of specific reserves have been established for purposes falling outside the definition of provisions. Details of the City of London's reserves are set out in the Statement of Total Movement in Reserves in note 11 to the Consolidated City Fund Balance Sheet.

**14. 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.

**15. Non Property Investments**

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

**16. 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.

**17. 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.

**18. Pension Costs – City of London Staff**

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

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

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

The estimated capital liability for discretionary pension benefits provided to employees previously engaged on City Fund activities has been determined by independent actuaries. The costs are recognised in full in the year the benefits are agreed. In the 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.

**19. 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 FRS 17. The net cost of service includes the current service cost rather than payments to pensioners, and net operating expenditure includes a pension interest cost. However, the charge required to be made against the council tax is based on the 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 City of London reimbursing the Treasury for its share of the liability. The City of London’s estimated liability has been determined by independent actuaries in accordance with FRS 17. The accounting treatment is similar to that outlined above for the police pension scheme.

**20. Pension Costs - Teachers**

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

**21. Social Security Deductions**

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

**CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2006**

	NOTES	2005/2006			2004/2005
		GROSS EXPENDITURE	GROSS INCOME	NET EXPENDITURE	NET EXPENDITURE
		£000	£000	£000	£000
EXPENDITURE ON SERVICES					
EDUCATION		8,729	(4,360)	4,369	4,363
SOCIAL SERVICES		10,232	(1,950)	8,282	7,514
HOUSING REVENUE ACCOUNT (HRA)		16,334	(11,623)	4,711	4,672
HOUSING (NON-HRA)		18,019	(15,330)	2,689	5,396
HIGHWAYS		31,125	(13,241)	17,884	18,075
POLICE		86,342	(12,660)	73,682	68,860
PLANNING AND ECONOMIC DEVELOPMENT		12,611	(5,360)	7,251	7,507
RECREATION AND TOURISM					
Libraries		13,547	(488)	13,059	12,529
Museums and Galleries		7,168	(32)	7,136	6,985
Barbican Centre		42,972	(15,770)	27,202	23,619
Other		3,701	(563)	3,138	2,962
ENVIRONMENTAL HEALTH		16,720	(8,254)	8,466	8,208
REFUSE COLLECTION AND DISPOSAL		8,917	(5,790)	3,127	4,249
OTHER SERVICES					
Magistrates' and Other Courts		8,086	(4,806)	3,280	3,283
Probation		66	-	66	63
Security and Contingency Planning		1,234	(518)	716	724
Coroner's Court		102	-	102	113
Rates and Council Tax Collection		2,718	(2,094)	624	740
Registration and Election Expenses		262	(1)	261	329
Corporate and Democratic Core		11,582	(2,266)	9,316	8,086
Miscellaneous	1	833	(1,469)	(636)	1,075
NON DISTRIBUTED COSTS					
Past Service Costs - Police		708	-	708	-
NET COST OF SERVICES C/F		302,008	(106,575)	195,433	189,352

All activities are continuing in the current year.

	NOTES	2005/2006			2004/2005
		GROSS EXPENDITURE £000	GROSS INCOME £000	NET EXPENDITURE £000	NET EXPENDITURE £000
NET COST OF SERVICES B/F				195,433	189,352
EXCEPTIONAL ITEM – impairment		-	-	-	2,084
Contribution to (from) Trading Services	2	6,106	(6,280)	(174)	(132)
Precepts to Inner and Middle Temples		220	-	220	211
Investment properties		9,827	(38,545)	(28,718)	(31,170)
Interest on balances		-	(13,202)	(13,202)	(12,634)
Pension interest cost		22,391	-	22,391	20,934
Asset Management Revenue Account	3	-	(18,865)	(18,865)	(18,101)
Housing capital receipts to Government Pool		150	-	150	720
NET OPERATING EXPENDITURE				157,235	151,264
APPROPRIATIONS					
Transfer to (from) Revenue Reserves					
- Housing Revenue Account				38	(150)
- Earmarked reserves				(3,367)	(3,431)
- Unallocated reserve				147	-
Transfer to (from) Capital Reserves					
- Financing of capital expenditure	4			3,575	4,796
- Amount charged as depreciation				(9,843)	(8,814)
- Amount charged as impairment / investment loss				(163)	(2,084)
- Government grants deferred				1,381	937
- HRA Major Repairs Reserve				1,790	1,837
- Usable capital receipts (financing of payment to Government Pool)				(150)	(720)
Movement in pension liabilities				(16,531)	(16,022)
Deferred Charges				(3,799)	(5,967)
HRA Depreciation on non-dwellings				(204)	(155)
TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXES				130,109	121,491
Collection Fund - Council Tax and precept adjustment				(5,619)	(5,134)
Contribution from Non-Domestic Rate Pool				(2,811)	(2,287)
Revenue Support Grant				(74,087)	(71,627)
Police Grant				(35,629)	(32,721)
Non-Domestic Rate Premium				(4,000)	(3,744)
				(122,146)	(115,513)
DEFICIT FOR YEAR TRANSFERRED TO RESERVES				7,963	5,978

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 1. Miscellaneous

	NOTES	2005/2006			2004/2005
		GROSS EXPENDITURE £000	GROSS INCOME £000	NET EXPENDITURE £000	NET EXPENDITURE £000
Transfer to Collection Fund		-	-	-	1,094
Capital charges on Guildhall land		324	-	324	238
Discretionary rate relief		263	-	263	128
Grants and subscriptions		34	-	34	38
Levies		88	-	88	80
Registration of births, deaths & marriages		24	(7)	17	11
Payment from City's Cash for works to Guildhall complex		-	(513)	(513)	(513)
(Decrease) in liability for discretionary pension benefits	1	-	(919)	(919)	139
Other		100	(30)	70	(140)
<b>TOTAL</b>		<b>833</b>	<b>(1,469)</b>	<b>(636)</b>	<b>1,075</b>

1. The most recent assessment of the City Fund's estimated share of discretionary pension benefits is a reduction of £919,000 (2005: £139,000 increase). However, in order that these FRS17 adjustments do not impact on the overall net requirement in the Consolidated Revenue Account they are reversed out as an appropriation to the negative pension reserve. See note 11 C to the Consolidated Balance Sheet.

### 2. Contribution to (from) Trading Services

	2005/2006			2004/2005
	GROSS EXPENDITURE £000	GROSS INCOME £000	DEFICIT (SURPLUS) £000	DEFICIT (SURPLUS) £000
Spitalfields Market	5,028	(5,147)	(119)	(111)
Cemetery and Crematorium Grounds				
Maintenance	536	(566)	(30)	0
Vehicle Maintenance	542	(567)	(25)	(21)
<b>TOTAL</b>	<b>6,106</b>	<b>(6,280)</b>	<b>(174)</b>	<b>(132)</b>

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

During the year, the City of London also operated two internal trading organisations as set out in the preceding table.

### 3. **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.

	2005/06 £000	2004/05 £000
<b><u>Income</u></b>		
Capital Charges - City Fund	20,633	19,383
- Housing Revenue Account	6,825	6,610
Impairment	163	2,084
Reimbursement and Government grants deferred	1,381	937
Release of provision for credit liabilities	73	140
	-----	-----
	29,075	29,154
	-----	-----
<b><u>Expenditure</u></b>		
Provision for Depreciation	10,047	8,969
Impairment	163	2,084
	-----	-----
	10,210	11,053
	-----	-----
Balance to Consolidated Revenue Account	18,865	18,101

### 4. **Financing of Capital Expenditure**

Revenue financing of capital expenditure in 2005/06 was met from the following sources:-

	Budget £000	Actual £000
Direct revenue financing	1,374	947
Highway Improvements Reserve	4,079	2,412
London Metropolitan Archives Renewals & Repairs	55	35
E-Government Reserve	297	181
	-----	-----
Total Financing	5,805	3,575

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

	2005/06 £000	2004/05 £000
Accounts and Statutory Reports	31	37
Statutory Notices	194	117
Recruitment Advertising	480	454
Barbican Centre	1,045	742
Public Relations/Economic Development	3,049	2,833
Other	379	328
Total	5,178	4,511

## 6. **Pension Costs**

### City of London Staff

The City of London Pension Scheme is a funded defined benefits scheme. City of London staff are eligible for membership of the pension scheme and may be employed in relation to the activities of any of the City of London'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.

A further 0.95% has been added to the regular contribution (making a total employer's contribution for 2005/06 of 18.05%) to recover, over a five year period, certain costs relating to the payment of discretionary pension benefits.

In 2005/06 the total employer's contributions to the Pension Fund for staff employed on City Fund activities were £11.0m amounting to 18.05% of pensionable pay. In 2004/05 the comparable figures were £10.3m and 17.72% 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 2005/06 the City of London's contribution to the Teachers' Pension scheme was £60,368 which represents 13.5% of teachers' pensionable pay (2004/05 = £62,682 and 13.5%).

In addition, the City of London is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2005/06 these amounted to £12,968 representing 2.5% of pensionable pay (2004/05 = £11,550 and 2.5%).

## 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.

## 7. **Agency Services**

The City of London carries out work on an agency basis for which it is fully reimbursed. The design, maintenance and improvement of sewers are undertaken on behalf of Thames Water Utilities (T.W.U.). During 2005/06, £146,000 (2004/05 = £135,000) was incurred and recovered from T.W.U.

Revenue and capital work costing £163,585 (2004/05 = £368,781) and £3,873,024 (2004/05 = £3,161,988) respectively was undertaken on behalf of Transport for London. These sums were fully reimbursed.

## 8. **Leasing**

### *City of London as Lessor*

For 2005/06 rent of £47.0m was received or receivable all of which related to operating leases (2004/05 = £49.1m). No agreements were required to be treated as finance leases.

### *City of London as Lessee*

In 2005/06 rent of £2.3m was paid or payable for operating leases in respect of property and open spaces (2004/05 = £1.9m). No agreements were required to be treated as finance leases.

## 9. **Remuneration of Senior Employees**

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



Salary Range £	Wholly charged to City Fund				Partially charged to City Fund	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
	Police Officers		Other			
50,000 - 59,999	81	64	35	34	52	37
60,000 - 69,999	11	8	20	18	18	20
70,000 - 79,999	4	4	7	5	8	7
80,000 - 89,999	0	2	5	4	3	4
90,000 - 99,999	1	2	2	1	1	2
100,000 - 109,999	0	1	2	3	4	2
110,000 - 119,999	0	0	1	0	1	0
120,000 - 129,999	0	1	0	1	0	0
130,000 - 139,999	1	0	0	0	1	0
140,000 - 149,999	0	0	0	1	0	1
150,000 - 159,999	1	0	1	0	0	0
160,000 - 169,999	0	0	0	0	0	0
170,000 - 179,999	0	0	0	0	1	1

#### 10. **Single Regeneration Budget (SRB) Partnership Scheme**

Central Government, through the London Development Agency (LDA), has made money available for suitable regeneration schemes. The City of London is the accountable body for the Pool of London Partnership which will be claiming grant of approximately £2m per annum until 2006/07. The City of London as accountable body claims the money from the LDA and reimburses partners for their SRB expenditure, including the City of London for some administration costs. Little of the regeneration expenditure relates to the City itself. This means that, apart from the contribution in kind of some City of London staff time (which counts as SRB public sector leverage expenditure), the net financial effect of SRB on the City of London is negligible when compared with the overall expenditure. The Partners consist primarily of London Boroughs, some private sector companies and charitable organisations. The City of London does not control the Partnerships' grant awarding processes and consequently it is not appropriate for all SRB transactions channelled through the City of London to be recognised in the accounts. Accordingly, only such grant as is ultimately receivable by the City of London together with the associated expenditure is included. On this basis, the accounts include revenue expenditure and income of £543,000 (2004/05: £504,000).

#### 11. **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. To ensure that the deficit in the account is addressed charges have been increased and it is anticipated that the account will break even over the three year rolling period 2005/06 to 2007/08.

	Chargeable £000	Non Chargeable £000	Total £000
Expenditure			
Employees	1,158	290	1,448
Supplies and Services	11	3	14
Support Services	535	134	669
Total Expenditure	1,704	427	2,131
Income from Building Regulation Charges	(1,612)	-	(1,612)
Deficit for Year	92	427	519
Comparatives for 2004/05			
Expenditure	1,623	405	2,028
Income	(1,233)	-	(1,233)
Deficit for year	390	405	795

## 12. Audit and Inspection Fees

	2005/06 £000	2004/05 £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.	205	195
Statutory inspection under section 10 of the Local Government Act 1999 (carried out by the Audit Commission).	18	11
Certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998.	34	33
	257	239

## 13. Related Party Transactions

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

### Standing Orders

The City of London has adopted the following standing orders in relation to declarations of personal and beneficial interests:

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

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

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

#### Disclosure

Members and Chief Officers have been requested to disclose related party transactions in 2005/06. They have also been requested to make disclosures in instances where their close family has made transactions with the City of London. A number of disclosures have been received, none of which were considered material.

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

#### Related Party Transactions with the Museum of London

The Museum of London is financed jointly by the City of London and the Department for Culture, Media and Sport. The City of London’s contribution in 2005/06 was £4.921m (2004/05 = £4.851m). Half of the appointments to the Board are made by the City of London. However, the City of London does not have the ability to exercise control of the Museum and consequently the preparation of group accounts would not be appropriate.

#### Related Party Transactions Disclosed Elsewhere in the Accounts

Government Grants  
Precepts from other Authorities

Pension Fund  
Staff car loans

## **HOUSING REVENUE ACCOUNT FOR YEAR ENDED 31<sup>ST</sup> MARCH 2006**

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	2005/06 £000	2004/05 £000
Income			
Dwelling rents (gross)	1	6,582	6,824
Non-dwelling rents (gross)		1,509	1,434
Charges for services and facilities		1,839	1,521
HRA Subsidy receivable	2	1,693	1,787
Total Income		11,623	11,566
Expenditure			
Repairs and maintenance		4,021	4,450
Supervision and management		5,407	5,141
Rents, rates, taxes and other charges		7	10
To City Fund for Supporting People		31	13
Increased provision for bad or doubtful debts	5	43	41
Cost of capital charge	10	5,659	5,530
Depreciation		1,166	1,080
Total Expenditure		16,334	16,265
Net Cost of Services		4,711	4,699
Adjusting transfer from asset management revenue account	10	(5,659)	(5,530)
Interest payable on loans	10	632	506
Investment Income		(599)	(539)
Net Operating Income		(915)	(864)
Loan repayment		252	256
Transfer to Major Repairs Reserve		625	758
Total Deficit / (Surplus) for year		(38)	150
Balance at 1st April		(5,802)	(5,952)
Balance at 31st March		(5,840)	(5,802)

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. Dwelling Rents

The total rent income from dwellings was £6.58m (2004/05: £6.82m). On average during the year, routine and non-routine vacant properties were 1.16% of HRA stock (2004/05: 0.72%). From 1st October 2005 the City of London unpooled service charges from rent in line with Government social rent reform. As at 31<sup>st</sup> March 2006 average rents and service charges were £62.28 and £8.90 a week respectively (31<sup>st</sup> March 2005: £68.36 inclusive rent).

### 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	2005/06 £000	2004/05 £000
Management allowance	3,113	3,130
Maintenance allowance	2,461	2,475
Major repairs allowance	1,790	1,837
Charges for capital	752	577
Rent income	(6,422)	(6,230)
Interest on receipts	(1)	(2)
Total HRA Subsidy	1,693	1,787

### 3. Housing Stock

As at the 31st March 2006 the City of London's HRA rental stock was 1,897 dwellings. The HRA also includes costs and service charge income relating to sold properties of which there were 859 as at 31<sup>st</sup> March 2006.

Rental Stock	2005/06 No.	2004/05 No.
Houses and Bungalows	27	27
Flats	1,870	1,874
Total	1,897	1,901

Change in the Stock	2005/06 No.	2004/05 No.
Stock at 1 <sup>st</sup> April	1,901	1,942
Sales	(4)	(41)
Stock at 31st March	1,897	1,901

#### 4. Arrears of Rent, Service and Other Charges

As at 31st March 2006 rent arrears in respect of current residential tenants were 2.36% of gross rent income due for the year (31 March 2005: 2.08%). The total arrears for rent, service charges and other charges are £614,000 (31 March 2005: £465,000) as follows:-

	31/3/2006 £000	31/3/2005 £000
Former residential tenants	62	53
Current residential tenants	158	165
Commercial tenants	52	12
Service charges	207	85
Other charges	135	150
Total arrears	614	465

#### 5. Provision for Bad and Doubtful Debts

	2005/06 £000	2004/05 £000
Provision at 1st April	289	276
Bad Debts written off	(12)	(28)
Increase in Provision	43	41
Provision at 31st March	320	289

#### 6. HRA Fixed Assets

	Operational Assets			Total
	Dwellings £000	Other Land and Buildings £000	Equipment £000	£000
Balance Sheet value 1 <sup>st</sup> April 2005	145,489	15,899	312	161,700
Depreciation	(962)	(137)	(67)	(1,166)
Additions	1,498	0	46	1,544
Disposals	(225)	0	0	(225)
Revaluation	7,960	450	0	8,410
Balance Sheet value 31 <sup>st</sup> March 2006	153,760	16,212	291	170,263

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' and then reduced to reflect 'existing use for social housing'. The vacant possession value at 31<sup>st</sup> March 2006 is estimated to be £327.2m which has been reduced to £153.8m to reflect social housing use. This social housing use value is included in the City Fund Consolidated Balance Sheet. The reduction of £173.4m 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.

## 7. Major Repairs Reserve

	£000
Balance 1 <sup>st</sup> April	(5,487)
Depreciation from HRA	(1,166)
Depreciation on “non-dwellings” transferred back to HRA	204
Additional transfer from HRA	(829)
Accruals adjustment for previous years	(269)
Capital expenditure (dwellings)	588
Balance 31 <sup>st</sup> March	(6,959)

From 1<sup>st</sup> 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.

## 8. HRA Capital Expenditure

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

	2005/06 £000	2004/05 £000
<b>Expenditure in year</b>		
Fixed assets		
Dwellings	1,498	1,130
Equipment	46	235
Deferred charges	117	199
	1,661	1,564
<b>Methods of financing</b>		
Capital Receipts	917	1,280
Major repairs reserve	588	-
Reimbursements	119	255
Borrowing (from City Fund)	37	29
	1,661	1,564

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

## 9. HRA Capital Receipts

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

	2005/06 £000	2004/05 £000
Dwellings	452	3,955
Land	-	-
Other	-	-
Total	452	3,955

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

#### 10. **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 is replaced with the actual interest payable on loans.



**THE COLLECTION FUND**

**REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2006**

	Notes	2005/06 £000	2004/05 £000
<b><u>INCOME</u></b>			
Income from Business Ratepayers	1	535,012	528,085
Discretionary Rate Relief		263	128
Council Taxes		4,461	3,776
Council Tax Benefit		234	227
Contribution from City Fund	3	0	1,094
Total Income		539,970	533,310
<b><u>EXPENDITURE</u></b>			
Contribution to the National Non-Domestic Rate Pool		526,689	519,738
Provision for Uncollectible Amounts	4	2,765	1,408
Write offs/(ons)		(15)	1,481
Cost of Collection Allowance	5	1,776	1,886
Precept from Greater London Authority		442	439
Precept from City Fund - Council tax	6	5,619	5,134
Non-Domestic Rate Premium	1	4,000	3,744
Total Expenditure		541,276	533,830
(Deficit) Surplus for Year		(1,306)	(520)
Balance 1 <sup>st</sup> April		1,992	2,512
Balance 31st March		686	1,992

## NOTES TO THE COLLECTION FUND

### 1. **Income from Business Rates**

The Local Government Finance Act 1988 replaced the Locally Determined Non-Domestic Rate with a National Non-Domestic Rate (NNDR) set by the Government. In addition to the NNDR, the Government has introduced a discounted rate for small businesses from 2005/06, known as the Small Business Non-Domestic Rate (SBNDR). In 2005/06 the City of London set a Standard Non-Domestic Rate of 42.5p and a Small Business Non-Domestic Rate of 41.8p. This comprises the NNDR and SBNDR, of 42.2p and 41.5p respectively, plus a premium of 0.3p to provide additional funding for the Police Service and security in the City.

	2005/06 £000	2004/05 £000
Non-domestic rates income	639,932	579,320
Government transition scheme	(19,593)	29,969
Non-domestic rates income after transition scheme	620,339	609,289
Less: Voids	(75,912)	(70,355)
Mandatory and discretionary relief	(5,479)	(6,268)
Small Business Relief	(76)	0
Partly occupied allowance	(1,507)	(1,097)
Interest	(2,353)	(3,484)
Net income from business ratepayers	535,012	528,085

The total rateable value of the City at 31st March 2006 was £1,676m (31<sup>st</sup> March 2005 = £1,668m).

### 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 City of London, as a billing authority, has had to make to determine the Council Tax amounts. The City of London set a basic amount of £748.15 for a Band D property calculated as follows:-

	£000	£000
City of London's Original Budget		122,315
Less:-		
Distribution from Non-Domestic rates pool	2,811	
Non-Domestic rates premium	4,168	
Government grants	109,716	
Estimated collection fund surplus	1,658	
		118,353
Estimated amounts to be raised from Council Tax		3,962
Divided by:-		
Council tax base for the City area (number of band D equivalent properties)		No: 5,296.22
Basic amount for Band D Property		£748.15

To this £748.15 is added £58.34 in respect of the precept from the Greater London Authority to arrive at the total council tax of £806.49 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	537.66
B	7/9	627.27
C	8/9	716.88
D	9/9	806.49
E	11/9	985.71
F	13/9	1,164.93
G	15/9	1,344.15
H	18/9	1,612.98

### **Tax Bases 2005/06**

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	-	-	4.83	4.83
B	-	-	148.94	148.94
C	-	-	451.11	451.11
D	-	-	607.25	607.25
E	5.50	2.44	1,946.08	1,954.02
F	32.86	20.58	1,010.39	1,063.83
G	21.25	47.92	1,105.83	1,175.00
H	1.50	4.00	164.50	170.00
AGGREGATE RELEVANT AMOUNTS	61.11	74.94	5,438.93	5,574.98
COLLECTION RATE	95%	95%	95%	95%
TAX BASES	58.05	71.19	5,166.98	5,296.22

3. **Contribution from City Fund**

From 2005/06 the Government will not direct the City of London to transfer an amount from the City Fund to moderate the City of London's council tax (2004/05: £1.094m). This change was part of the Government's 2006 local government finance settlement.

4. **Provision for Uncollectible Amounts**

This provision has been re-assessed and increased from £8.293m at 31<sup>st</sup> March 2005 to £11.043m at 31<sup>st</sup> March 2006.

5. **Cost of Collection Allowance**

In accordance with paragraph 6 of Schedule 1 to the Non-Domestic Rating Contributions (England) Regulations, the City of London is allowed to deduct collection costs of £1.776m for 2005/06 from the gross amount of rates receivable.

6. **Council Tax**

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

	£000
- Council Taxes	3,962
- the estimated collection fund balance at 31 <sup>st</sup> March 2005	<u>1,657</u>
	<u>5,619</u>

**CONSOLIDATED BALANCE SHEET AT 31ST MARCH 2006**

		31 <sup>st</sup> March 2006		31st March 2005
	Notes	£000	£000	£000
<b>TANGIBLE FIXED ASSETS</b>	<b>1</b>			
<u>Operational</u>				
Council Dwellings		188,666		192,803
Other Land and Buildings		333,793		268,717
Leasehold Improvements		9,950		0
Vehicles, Plant and Equipment		16,240		12,097
Infrastructure Assets		14,520		12,279
Community Assets		<u>8,947</u>		<u>8,944</u>
		572,116		494,840
<u>Non-Operational</u>				
Investment Properties		<u>706,255</u>		<u>581,885</u>
			1,278,371	1,076,725
<b>INTANGIBLE FIXED ASSETS</b>	<b>2</b>		1,000	1,000
<b>LONG TERM INVESTMENTS</b>			23	23
<b>LONG TERM DEBTORS</b>	<b>3</b>		3,724	3,844
<b>CURRENT ASSETS</b>				
Stocks		523		508
Intangible Current Assets	4	914		0
Debtors and Payments in Advance	5	106,027		41,536
Cash and Bank		<u>218,637</u>		<u>244,152</u>
			326,101	286,196
<b>LESS CURRENT LIABILITIES</b>				
Creditors and Receipts in Advance	6		(138,271)	(64,603)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			1,470,948	1,303,185
<b>LONG TERM BORROWING</b>	<b>7</b>		(1,000)	(1,000)
<b>DEFERRED CREDITS</b>				
Deferred Capital Receipts	8		(121)	(187)
<b>PROVISIONS</b>	<b>9</b>		(986)	(986)
<b>GRANTS &amp; CONTRIBUTIONS DEFERRED ACCOUNT</b>	<b>10</b>		(12,539)	(9,891)
<b>PENSION LIABILITY</b>			(474,795)	(423,095)
<b>TOTAL ASSETS LESS LIABILITIES</b>			<u>981,507</u>	<u>868,026</u>
<b>CAPITAL RESERVES</b>	<b>11</b>		1,323,733	1,146,070
<b>PENSION RESERVE</b>	<b>11</b>		(474,795)	(423,095)
<b>REVENUE RESERVES</b>	<b>11</b>			
Earmarked			79,492	84,327
Other Revenue Reserves			53,077	60,724
<b>TOTAL EQUITY</b>			981,507	868,026

Peter Derrick Chamberlain

Date: 25 July 2006

## **NOTES TO THE CONSOLIDATED CITY FUND BALANCE SHEET**

### **1. Fixed Assets**

Movement of Fixed Assets during 2005/06 was as follows:-

	Council Dwellings	Other land and buildings	Leasehold Improvements	Vehicles, plant and equipment	Infra- Structure Assets	Community assets	Investment properties	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Net book value as at 1 April 2005	192,803	268,717	-	12,097	12,279	8,944	581,885	1,076,725
Change in asset category	-	(6,892)	-	-	-	-	6,892	-
Impairment	-	(163)	-	-	-	-	-	(163)
Depreciation	(1,032)	(4,004)	-	(2,857)	(2,154)	-	-	(10,047)
Additions	1,648	13,146	9,950	7,052	4,395	3	24,045	60,239
Disposals	(7,011)	(2,423)	-	(52)	-	-	(5,537)	(15,023)
Revaluation at 31 March 2006	2,258	65,412	-	-	-	-	98,970	166,640
Net book value as at 31 March 2006	188,666	333,793	9,950	16,240	14,520	8,947	706,255	1,278,371

Expenditure for capital purposes (including deferred charges and loans for capital purposes) during 2005/06 and methods of financing are set out below:

<u>Capital Expenditure</u>	2005/06 £000	2004/05 £000
Expenditure in year		
- Fixed assets	60,239	47,865
- Deferred charges	3,799	5,967
Reduction (increase) in creditors	<u>0</u>	<u>7,300</u>
	<u>64,038</u>	<u>61,132</u>
<u>Methods of Financing</u>		
City Fund direct revenue financing	3,575	4,796
HRA Major Repairs Reserve	588	0
Usable Capital receipts	52,621	47,287
Grants and Contributions		
- Received in year	3,225	5,393
- Deferred in year	<u>4,029</u>	<u>3,656</u>
	<u>64,038</u>	<u>61,132</u>

## Analysis of Fixed Assets

	31 March 2006	31 March 2005
<b><u>Commercial Properties</u></b>		
Housing	97	97
Investment Properties	87	88
Barbican	13	15
<b>Total commercial properties</b>	<b>197</b>	<b>200</b>
<b><u>Operational Properties</u></b>		
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	8	10
Walbrook Wharf	1	1
Reference Libraries	2	2
Lending Libraries	3	3
Manuscripts Areas, Guildhall Yard	1	1
Roman Remains, Guildhall Yard East	1	1
Woodredon & Warlies Park Estate	1	1
<b>Total operational properties</b>	<b>40</b>	<b>42</b>
<b><u>Housing Properties</u></b>		
Housing Revenue Account	1,897	1,901
Barbican Residential	143	151
Former Spitalfields Market	18	18
<b>Total housing properties</b>	<b>2,058</b>	<b>2,070</b>

## Fixed Asset Valuation

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

Properties regarded as non-operational have been valued on the basis of 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 2006 in accordance with the Rolling Five Year Programme of Revaluation:-

- Housing dwellings and commercial property
- Barbican Estate residential properties and some commercial properties
- Non-operational investment properties
- Barbican Centre
- Lending Libraries
- Public Conveniences
- Walbrook Wharf Cleansing Depots and new office accommodation
- Central Criminal Court (Old Bailey)

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

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

#### City Fund - Capital Commitments

Capital commitments are estimated to be £89m at the 31st March 2006 (£84m at 31/3/05). This sum excludes commitments for which the expenditure is considered to be recoverable. The most significant items relate to schemes at the Barbican Centre, Highway improvements, and contributions to the Guildhall refurbishment.

## 2. **Intangible Fixed Assets**

The balance at 31<sup>st</sup> March 2006 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**

	31/3/2006 £000	31/3/2005 £000
Mortgages on the sale of Housing Properties	123	187
Loans to Museum of London (repayable by 2032)	3,307	3,387
Service Charge Loans	94	70
Other Loans	<u>200</u>	<u>200</u>
	3,724	3,844
	=====	=====

#### 4. Intangible Current Assets

This represents the value of landfill usage allowances as at 31<sup>st</sup> March 2006. The Landfill Allowances Trading Scheme (LATS) is a “cap and trade” scheme which commenced operation on 1<sup>st</sup> April 2005. Under the scheme allowances to use landfill at a specified level (the “cap”) are allocated free of charge to waste disposal authorities (WDAs) by the Government. A WDA is able to use its allowances to meet its liability for actual landfill usage or to sell to another WDA. If a WDA uses more allowances than its “cap” it must either purchase allowances from another WDA or pay a financial penalty to the Government.

#### 5. Debtors and Payments in Advance falling due within a year

	Notes	31/3/2006 £000	31/3/2005 £000
Rents		5,110	5,019
Ratepayers	1	31,605	12,909
Government – Non Domestic Rates Pool	2	58,885	11,279
Sundry		16,535	15,297
Season Ticket and Loans to Employees		649	641
Other loans		433	411
Prepayments		4,089	3,957
Customs and Excise		<u>1,901</u>	<u>1,875</u>
		119,207	51,388
Provision for Doubtful Debts		<u>(13,180)</u>	<u>(9,852)</u>
		<u>106,027</u>	<u>41,536</u>

Notes:

1. As a result of the vast number of amendments to rating assessments made by the Valuation Officer towards the end of 2005/06, some demands could not be sent out in sufficient time for payment to be received before the year end.
2. Rateable values for 2003/04 and 2004/05 were considerably reduced by the Valuation Officer but the amendments were received too late to revise the payment to the national non domestic rates pool.

#### 6. Creditors and Receipts in Advance

	Notes	31/3/2006 £000	31/3/2005 £000
Ratepayers	1	77,263	13,781
Sundry		41,488	36,489
Spitalfields Market Tenants Fund		952	1,136
Receipts in advance		11,380	10,235
Deposits		<u>7,188</u>	<u>2,962</u>
		<u>138,271</u>	<u>64,603</u>

Note:

1. Reductions in rateable values for 2003/04 and 2004/05 were advised too late for refunds to ratepayers to be processed within the 2005/06 financial year.

## 7. 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.

## 8. 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 City of London.

	2006 £000	2005 £000
Balance 1 <sup>st</sup> April	187	278
New Advances in Year	-	-
Repayments and Redemptions	(66)	(91)
	-----	-----
Balance 31 <sup>st</sup> March	121	187
	=====	=====

## 9. Provisions

	2006			2005
	Receipts in Year £000	Payments in Year £000	Balance 31 <sup>st</sup> March £000	Balance 31 <sup>st</sup> 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.

## 10. Grants and Contributions Deferred Account

	<u>£000</u>	<u>£000</u>
Balance 1 April 2005		9,891
Deferred in year		
- Grants	3,107	
- Contributions	<u>922</u>	4,029
Released to Asset Management Revenue Account in Year		
- Grants	(835)	
- Contributions	<u>(546)</u>	<u>(1,381)</u>
Balance 31 March 2006		12,539

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.

# 11. 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 1.4.2005	694,675	375,837	70,071	5,487	1,146,070	(423,095)	60,724	84,327	868,026
Consolidated Revenue Account	-	-	-	-	-	(16,531)	(7,963)	(3,329)	(27,823)
Unrealised gains (losses) from re-valuation	172,534	-	-	-	172,534	(31,271)	-	-	141,263
Impairment losses arising from re-valuation	(5,893)	-	-	-	(5,893)	-	-	-	(5,893)
Cost or value of assets disposed of	(15,023)	-	-	-	(15,023)	-	-	-	(15,023)
Proceeds of disposals	-	-	30,116	-	30,116	-	-	-	30,116
Amounts Payable to Housing Capital Receipts Pool	-	-	(150)	-	(150)	-	-	-	(150)
Financing of fixed assets	-	60,009	(52,585)	-	7,424	-	-	-	7,424
Other net transfers	-	(12,780)	(37)	1,472	(11,345)	(3,898)	316	(1,506)	(16,433)
Balance 31.3.2006	846,293	423,066	47,415	6,959	1,323,733	(474,795)	53,077	79,492	981,507

## 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 subsequent adjustments to take account of disposals (at net book value) and revaluations. The movement on the account can be broken down between the City Fund and Housing Revenue Account as follows:-

	<u>City Fund</u> £000	<u>H.R.A.</u> £000	<u>Total</u> £000
Balance 1st April 2005	543,594	151,081	694,675
Unrealised gains or losses on revaluation of fixed assets	158,231	8,410	166,641
Disposal of fixed assets	(14,798)	(225)	(15,023)
Balance 31st March 2006	687,027	159,266	846,293

### B. Capital Financing Account

	TOTAL £000
Balance brought forward 1 <sup>st</sup> April 2005	375,837
Financing of capital	
- from City Fund Revenue Account	3,575
- from Housing Revenue Account	588
- from usable capital receipts	52,621
- from grants and reimbursements	3,225
Release of credit cover re: leases	(73)
Release of deferred grants and contributions	1,381
Depreciation / Impairment	(10,210)
Write down of deferred charges	(3,799)
Loan repayments received	(79)
Balance carried forward 31 <sup>st</sup> March 2006	423,066

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	City of London Scheme Discretionary Benefits £000	Total £000
Balance 1.4.2005	(415,114)	(341)	(7,640)	(423,095)
Consolidated Revenue Account	(17,188)	(262)	919	(16,531)
Actuarial Loss	(31,269)	(2)	-	(31,271)
Other Net Transfers	(3,898)	-	-	(3,898 )
Balance 1.4.2006	(467,469)	(605)	(6,721)	(474,795)

The actuarial losses identified as movements on the Police Pensions Reserve in 2005/06 can be analysed as follows, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006.

	£000	%
Changes in the combined demographic and financial assumptions used to estimate liabilities	(31,269)	6.7
Total actuarial losses for 2005/06	(31,269)	6.7
Comparative total for 2004/05	(70,714)	17.0

D. Movement in Earmarked Reserves

		Balance - 31/3/05 £000	Net transfer (to)/from CRA £000	Other Net Transfers £000	Balance – 31/3/06 £000
Highway improvements	(i)	19,441	(1,995)	-	17,446
Renewals and repairs:	(ii)				
London Fruit Exchange		39	-	-	39
London Metropolitan Archives		1,466	(39)	-	1,427
New Spitalfields Market Building Defects		101	(6)	-	95
School's reserve	(iii)	38	25	-	63
Police future expenditure	(iv)	4,361	(1,370)	(200)	2,791
Police Pension Liabilities	(v)	2,717	-	-	2,717
General Reserve	(vi)	46,352	-	-	46,352
Housing Revenue Account	(vii)	5,802	38	-	5,840
Collection Fund	(viii)	1,992	-	(1,306)	686
Service projects	(ix)	1,029	19	-	1,048
E-Government	(x)	277	(186)	-	91
Spitalfields Market	(xi)	512	(15)	-	497
Judges Pensions	(xii)	200	200	-	400
Total		84,327	(3,329)	(1,506)	79,492



- (i) Highway Improvements - Created from on-street car parking surpluses to finance future highway improvement schemes as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.
- (ii) Renewals and Repairs - These items comprise:-
  - London Fruit 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 £2.82m 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 - Section 74 of the Local Government and Housing Act 1989 requires the Housing Revenue Account to 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 2006/07.
- (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 City of London expenditure on the market.
- (xii) Judges Pensions - Sums set aside to assist with the City of London's share of liabilities.

## 12. Trust Funds

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

### Education

- (i) Higher Education Research and Special Expenses Fund - The object of this trust is to provide study grants to teachers and lecturers working within the former London County Council area. The fund balance at 31st March 2006 was £373,286.
- (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 2006 was £143,913.
- (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 2006 was £168,841.

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	(11)	(4)	(4)
Expenditure	0	0	0
Net incoming resources	(11)	(4)	(4)
Unrealised gains on investment assets	(49)	(21)	(26)
Net movement in funds	(60)	(25)	(30)
Fund balance 1 April 2005	(313)	(118)	(139)
Fund balance 31 March 2006	(373)	(143)	(169)

### 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	(361)
Expenditure	<u>360</u>
Net incoming resources	(1)
Funds brought forward 1 <sup>st</sup> April 2005	<u>(23)</u>
Funds carried forward 31 <sup>st</sup> March 2006	<u>(24)</u>

### Barbican Centre Trust Limited

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

	£000
Income	(66)
Expenditure	<u>61</u>
Net incoming resources	(5)
Funds brought forward 1 April 2005	<u>(3)</u>
Funds carried forward 31 <sup>st</sup> March 2006	<u>(8)</u>

#### 13. **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. The City of London's major financial systems provide for Euro compliance.

#### 14. **Issue of the Financial Statements**

The Financial Statements were authorised for issue on the 22 June 2006 by the Chamberlain. This is the date up to which events after the balance sheet date have been considered.

#### 15. **The City of London Pension Scheme**

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

The 2005/06 employer's contribution to the scheme for staff engaged on City Fund activities was £11m out of a total £16.6m for all three funds (2004/05 = £10.3m out of £15.6m). The rates of contribution supporting this amount, together with agreed future rates of contribution and details of the 31 March 2004 actuarial valuation on which they were based are given in note 6 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. The FRS17 information is not used to determine the employer's pension contribution rate. This is calculated at the triennial valuation and updated by any subsequent interim valuations.

At 31<sup>st</sup> March 2006 and 31<sup>st</sup> March 2005 the total assets and liabilities in the City of London Pension Scheme, determined in accordance with FRS 17 are as shown below.

	31/3/06 £m	31/3/05 £m
Present value of scheme liabilities	(772.8)	(662.3)
Market value of scheme assets	414.7	341.9
<u>Deficit in the scheme</u>	(358.1)	(320.4)

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

Assumptions	Nominal % per annum		Real % per annum	
	31/3/06	31/3/05	31/3/06	31/3/05
Price Increases	3.0	2.9	-	-
Salary Increases	4.8	4.7	1.8	1.8
Pension Increases	3.0	2.9	-	-
Proportion of employees opting to take a commuted lump sum	50.0	N/A	-	-
Discount Rate	4.9	5.4	1.8	2.4

The main reasons for the additional net liability are the reduction in the assumption for the discount rate and minor increases in the assumptions for price, pay and pensions indices due to differing market expectations. The discount rate reflects the yield available from AA rated corporate bonds which has reduced from 5.4% to 4.9%.

These increases have been partly offset by assumptions on the impact of changes to the Local Government Pension Scheme which permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of the City of London's actuaries it is assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. This will reduce the value of the liabilities by £14.061M and this has been included in past service costs.

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

	31/3/06 £m	31/3/05 £m
Equity Investments	326.1	242.7
Gilts	62.4	57.9
Cash	19.5	37.7
Bonds	6.7	3.6
Total	414.7	341.9

The following expected total rates of return were assumed at 31 March 2006 and 31 March 2005.

	31/3/06 %	31/3/05 %
Equities	8.5	8.5
Gilts	4.2	4.5
Cash	4.0	4.3
Bonds	5.0	5.3

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

	£m	£m
Net deficit at beginning of year		320.4
Movement in year:		
Current service cost	18.7	
Contributions	(17.9)	
Unfunded pension payments	(0.7)	
Past service costs	(13.6)	
Settlements/Curtailments	0.8	
Interest cost	10.7	
		(2.0)
Actuarial loss		39.7
Net deficit at year end		358.1

## 16. 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 City of London's accounts for the purposes of FRS 17. The contributions payable to the scheme are given in note 6 to the Consolidated Revenue Account.

## 17. The Police Pension Scheme

The Police Pension Scheme is defined benefit and unfunded. It is administered by the City of London in accordance with Home Office regulations and is not a multi-employer scheme. At 31 March 2006 the estimated liabilities of the Police Pension Scheme, determined in accordance with FRS 17 by independent actuaries using the projected unit method, were £467.5m (31/3/05 = £415.1m). 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 15 above for the City of London Pension Scheme. There are no outstanding or pre-paid employee contributions at the balance sheet date.

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

	£m	£m
Net deficit at beginning of year		415.1
Movement in year:		
Current service cost	9.5	
Contributions	(11.5)	
Past service costs	0.7	
Interest cost	22.4	
		21.1
Actuarial loss		31.3
Net deficit at year end		467.5

## 18. Judges Pension Scheme

The Judges Pension Scheme is defined benefit and unfunded. The scheme is subject to the provisions of the Judicial Pensions and Retirement Act 1993. The Treasury is responsible for payment of Judges pensions and the City of London reimburses them in accordance with regulations made under the Act. At 31 March 2006 the City of London's estimated liabilities for the Judges scheme, determined in accordance with FRS 17 by independent actuaries using the projected unit method, were £0.605m (31/3/05 = £0.341m). 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 15 above for the City of London Pension Scheme.

	£m	£m
Net deficit at beginning of year		0.341
Movement in year:		
Current service cost	0.234	
Interest cost	0.028	
		0.262
Actuarial loss		0.002
Net deficit at year end		0.605

### CASH FLOW STATEMENT

	2005/06			2004/05
	£000	£000	£000	£000
<b>REVENUE ACTIVITIES</b>				
Cash Outflows				
Cash paid to and on behalf of employees	139,447			134,995
Other operating cash payments	141,322			146,261
Housing Benefit paid to tenants not in council housing	2,111			2,453
Non-domestic rate payments to National Pool	574,295			521,701
Precepts to GLA and Temples	<u>661</u>			<u>650</u>
		857,836		806,060
Cash Inflows				
Rents (after deducting rebates)	(56,750)			(56,777)
Non-domestic rates receipts	(568,393)			(509,103)
Council Tax income	(4,307)			(3,712)
NNDR receipts from National Pool	(2,811)			(2,287)
Government Grants – Revenue Support and Police	(109,716)			(104,348)
Government Grant for Housing Benefit paid to tenants not in council housing	(2,929)			(2,284)
Other Government Grants	(18,391)			(19,179)
Fees, charges and other income	<u>(77,926)</u>			<u>(87,998)</u>
		<u>(841,223)</u>		<u>(785,688)</u>
Revenue activities net cash outflow (inflow)			<u>16,613</u>	<u>20,372</u>
<b>SERVICING OF FINANCE</b>				
Interest received			<u>(13,202)</u>	<u>(12,634)</u>
<b>CAPITAL ACTIVITIES</b>				
Cash Outflows				
Purchase of fixed assets		60,518		<u>54,713</u>
Cash Inflows				
Sale of fixed assets	(30,292)			(82,824)
Reimbursements	(1,493)			(985)
Capital Grants received	<u>(6,629)</u>			<u>(4,682)</u>
		<u>(38,414)</u>		<u>(88,491)</u>
Capital Activities net cash outflow (inflow)			22,104	(33,778)
<b>DECREASE (INCREASE) IN CASH</b>			<u>25,515</u>	<u>(26,040)</u>

	2005/06 £000	2004/05 £000
<b>NOTES TO THE CASH FLOW STATEMENT</b>		
<b>(1) Reconciliation between net deficit/(surplus) on income and expenditure accounts to the revenue activities net cash flow.</b>		
Net deficit Consolidated Revenue Account	7,963	5,978
Net (surplus) / deficit Housing Revenue Account	(38)	150
Net (surplus) / deficit Collection Fund	1,306	520
Net (surplus) D.S.Os	(55)	(21)
Total net deficit	<u>9,176</u>	<u>6,627</u>
Interest	13,202	12,634
Non-Cash Transactions:		
Contribution from (to) reserves and provisions	1,834	1,622
Increase / (decrease) in intangible current assets	914	0
Contribution to Capital	(4,389)	(6,696)
Items on an accruals basis:		
Increase / (decrease) in stock	15	80
Increase / (decrease) in debtors	64,487	(1,013)
Decrease / (increase) in creditors	(68,626)	7,118
Net Cash Outflow From Revenue Activities	<u>16,613</u>	<u>20,372</u>
<b>(2) Movement in cash balances</b>		
Balance 1st April	244,152	218,112
Balance 31st March	218,637	244,152
Cash outflow / (inflow)	<u>25,515</u>	<u>(26,040)</u>
<b>(3) Government Grants</b>		
Revenue Support Grant	74,087	71,627
Police Grant	35,629	32,721
	<u>109,716</u>	<u>104,348</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 City of London Pension Fund is a funded defined benefits scheme. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the pension scheme.

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

### **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. 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.
- vii. Acquisition costs are included in the purchase costs of investments.
- viii. 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.
- ix. The cost of administration is charged directly to the fund.
- x. Income from equities is accounted for on the date stocks are quoted ex-dividend.
- xi. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.
- xii. Income from fixed interest and indexed-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- xiii. Income from other investments is accounted for on an accruals basis.

- xiv. 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 surpluses and deficits realised on sales of investments and unrealised changes in market value.
- xv. 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 all securities is re-invested by the Fund Managers. To protect the sterling value of the Pension Fund's global assets and income receivable in foreign currencies, foreign exchange hedging arrangements have been agreed with the appropriate Fund Managers, to be used at their discretion.
- xvi. Surpluses and deficits arising on conversion of foreign currency transactions are dealt with as part of the change in market values of the investments.
- xvii. 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.
- xviii. 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.
- xix. Transfer values represent the capital sums either received in respect of members from other pension schemes of previous employers or paid to the pension schemes of new employers for members who have left the Plan. No group transfers in or out are included in the 2005/06 accounts.
- xx. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.
- xxi. The internal recharging relating to the provisions for early retirements have been included as other income.
- xxii. The Pension Fund accounts and statements have been prepared in accordance with the provisions of Chapter 2 of the Pensions' Statement of Recommended Practice.

## Actuarial Valuation

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

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

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

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

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

The past service adjustment assumes that the deficit is recovered over a 20 year period. The increase in basic 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 2006**

	Notes	2005/06 £'000	2004/05 £'000
<b>Contributions and benefits</b>			
Contributions receivable	2	24,233	22,740
Transfers in		5,935	4,565
Other Income		1,219	1,857
		<u>31,387</u>	<u>29,162</u>
Benefits Payable	3	(22,027)	(19,630)
Payments to and on account of leavers	4	(3,125)	(3,745)
Administrative Expenses	5	(626)	(592)
Other Expenses		<u>0</u> (25,778)	<u>(3)</u> (23,970)
Net additions from dealing with members		<u>5,609</u>	<u>5,192</u>
<b>Returns on investments</b>			
Income from Investments	6	12,695	9,859
Change in market value of investment (realised and unrealised)		62,510	20,362
Investment Management Expenses	7	(2,349)	(1,503)
Net Returns on Investment		<u>72,856</u>	<u>28,718</u>
Net increase/(decrease) in the fund during the year		<u>78,465</u>	<u>33,910</u>
Opening net assets of the scheme		368,179	334,269
Closing net assets of the scheme		<u>446,644</u>	<u>368,179</u>

## Net Assets Statement as at 31 March 2006

	Notes	2005/06 £000	2004/05 £000
Investment assets	8/9	433,093	362,804
Current assets	10	14,208	6,535
Current liabilities	10	(657)	(1,160)
Net assets		<u>446,644</u>	<u>368,179</u>

## Notes to the Pension Fund Accounts

### 1. Membership of the Fund

	Current Contributors	Beneficiaries In Receipt of Pension	Deferred Benefits	Total
CITY OF LONDON	3,220	2,901	2,146	8,267
SCHEDULED BODIES:				
Museum of London	286	119	211	616
Magistrates Court	0	26	49	75
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	29	32
Guildhall Club	7	1	2	10
City Academy	38	0	9	47
TOTALS 2005/06	<u>3,559</u>	<u>3,061</u>	<u>2,447</u>	<u>9,067</u>
TOTALS 2004/05	<u>3,385</u>	<u>3,012</u>	<u>2,245</u>	<u>8,642</u>

## 2. Contributions Receivable

		2005/06 £000	2004/05 £000
Employers:			
Scheduled bodies	City of London	16,577	15,567
	Museum of London	1,064	1,001
Admitted bodies	Irish Society	34	32
	Guildhall Club	26	20
	City Academy	137	56
		<u>17,838</u>	<u>16,676</u>
Employees of:			
Scheduled bodies	City of London	5,876	5,612
	Museum of London	447	413
Admitted bodies	Irish Society	15	12
	Guildhall Club	9	7
	City Academy	48	20
		<u>6,395</u>	<u>6,064</u>
Total Contributions		<u>24,233</u>	<u>22,740</u>

## 3. Benefits Payable

		2005/06 £000	2004/05 £000
Scheduled Bodies			
	<u>City of London</u>		
	Retired employees		
	- pensions	14,681	13,742
	- lump sums	3,848	2,530
	Lump sum on death	611	531
	Widows' and Widowers' pensions	2,130	2,010
	Children's pensions	26	64
		<u>21,296</u>	<u>18,877</u>
	<u>Museum of London</u>		
	Retired employees		
	- pensions	561	540
	- lump sums	44	84
	Lump sum on death	24	9
	Widows' and Widowers' pensions	54	51
	Children's pensions	1	0
		<u>684</u>	<u>684</u>

	2005/06 £000	2004/05 £000
Admitted Bodies		
<u>Irish Society</u>		
Retired employees		
- pensions	44	37
- lump sums	0	21
Children's pensions	1	0
	<u>45</u>	<u>58</u>
<u>Guildhall Club</u>		
Retired employees		
- pensions	2	1
- lump sums	0	10
	<u>2</u>	<u>11</u>
Total Benefits Payable	<u>22,027</u>	<u>19,630</u>

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

	2005/06 £000	2004/05 £000
Refunds of contributions	44	106
Transfers out	3,081	3,639
	<u>3,125</u>	<u>3,745</u>

5. **Administrative expenses**

	2005/06 £000	2004/05 £000
Central administration	592	571
Computer costs	34	19
Building costs	0	2
	<u>626</u>	<u>592</u>

6. **Income from investments**

	2005/06 £000	2004/05 £000
Fixed Interest :		
UK Government	2,976	872
UK Other	431	257
Overseas Government	735	434
Overseas Other	27	0
UK index linked	0	10
UK pooled units	0	12
Overseas pooled units	0	30
UK equities	2,622	4,386
Overseas equities	4,581	2,226
Cash	1,323	1,612
Property	0	20
	<u>12,695</u>	<u>9,859</u>

7. **Investment Management Expenses**

Included in these expenses are Actuary fees of £21,884. Audit fees for the City Fund and Pension Fund Financial Statements are wholly borne by the City Fund.

8. **Investment assets**

	2005/06 £000	2004/05 £000
Fixed interest securities:		
- UK public sector	56,778	43,676
- UK other	6,249	3,959
- Overseas	10,073	18,630
Listed Equities:		
- UK	105,897	77,110
- Overseas	240,408	180,701
Venture Capital	3,880	3,512
Managed Funds (other)	<u>5,770</u>	<u>19,669</u>
Managed investments	429,055	347,257
Cash deposits	<u>4,038</u>	<u>15,547</u>
Total Investment assets	<u>433,093</u>	<u>362,804</u>



## 9. Holdings of fund managers

The following shows the market value of the investments held as at 31 March 2006, and the proportion managed by each manager:

	£000	% share of assets
Artemis Investment Management	84,214	19.63
LSV Asset Management	62,373	14.54
Pyrford International PLC	100,284	23.38
Southeastern Asset Management Inc	116,408	27.13
Wellington Management International	60,208	14.03
State Street Bank Europe (Temporary)	1,723	0.40
Barings English Growth Fund (Venture Capital)	940	0.22
Standard Life (Venture Capital)	2,535	0.59
Yorkshire Venture Capital Fund	370	0.08
	<hr/> 429,055 <hr/>	<hr/> 100.00 <hr/>

The purchases for 2005/06 were £144.9m and sales for 2005/06 were £111.3m.

## 10. Current assets and liabilities

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

## 11. Statements of Investment Principles and Governance Policy

The City of London has prepared Statements of Investment Principles and Governance Policy. These statements are included in the full statement on the Fund available from the Chamberlain.

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **The City of London's Responsibilities**

The City of London is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This officer is the Chamberlain.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### **The Chamberlain's Responsibilities**

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

In preparing this statement of accounts, the Chamberlain has:

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

The Chamberlain has also:

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

### **Chamberlain's Certificate**

I certify that the Statement of Accounts presents fairly the financial position of the City Fund and the Pension Fund of the City of London at 31st March 2006 and their income and expenditure for the year then ended.

Peter Derrick  
Chamberlain

Date: 25 July 2006

## **STATEMENT ON INTERNAL CONTROL**

### **Scope of Responsibility**

1. The City of London Corporation (“the City”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The City also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.
2. In discharging this overall responsibility, the City is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

### **The Purpose of the System of Internal Control**

3. The systems of internal control are designed to manage risk to a reasonable level and cannot eliminate all risk of failure to achieve policies, aims and objectives; they can therefore only provide reasonable rather than absolute assurance of effectiveness. The City’s system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the City’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
4. A system of internal control has been in place at the City for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts.

### **Key Elements of the Internal Control Environment**

#### **Business Strategy and Planning Process**

5. The City has a clear hierarchy of plans, setting out its ambitions and priorities:
  - A fully functional Local Strategic Partnership was established in 2002 to oversee the development of the Community Strategy.
  - The Community Strategy for 2004-2014 (“The City Together: A Vision for a World Class City”) sets out the vision, strategic themes and objectives for the City of London. The eight strategic themes link to the shared priorities for local government but also focus on agreed local priority areas. The 2006/07 update to the Community Strategy Action Plan, published in April 2006, summarises progress over the previous year and updates targets for the objectives and actions.
  - The Medium Term Strategy sets out the City’s strategic aims and key policy priorities. A revised version was agreed in March 2006.
  - The annual Policy Plan (the City’s Best Value Performance Plan) shows how the City’s activities link to the Community Strategy vision and themes and how the City will fulfil its wider role as a provider of services outside of the City boundaries. The Policy Plan includes the Medium Term Strategy and a statement of the City’s Core Values.
  - Other corporate plans and strategies include: the Financial Strategy and Budget Policy, the Capital Strategy and Asset Management Plan; and the HR Strategy.
6. The City’s plans and strategies are informed by a range of consultation arrangements, such as central and local residents’ meetings, an on-line City workers panel and surveys of stakeholders, all set within the framework provided by the City of London’s Consultation and Communication Strategies.

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

### Corporate Governance

8. At the City, the principles of good governance are embedded within a published Code of Corporate Governance, which links together a framework of policies and procedures, including:
- Standing Orders, which govern the conduct of the City's affairs, particularly the operation of Committees and the relationship between Members and officers.
  - Financial Regulations, which lay down rules that aim to ensure the proper management and safeguarding of the City's financial and other resources.
  - Terms of reference for every Committee.
  - Scrutiny provided primarily by the Policy & Resources and Finance Committees, and the Resource Allocation, Audit and Investment Sub Committees.
  - A corporate framework of delegation, which defines the responsibility for decision-making and the exercise of authority.
  - A Members' Code of Conduct, which defines standards of personal behaviour; a Standards Committee, and register of interests, gifts and hospitality.
  - A Code of Conduct for staff.
  - A corporate complaints procedure, operated through the Town Clerk's department, with a separate procedure in Community and Children's Services, to comply with the relevant regulations.
  - The Control of Projects manual and other detailed guidance for officers, including procedures and manuals for business critical systems.
  - An anti-fraud and corruption strategy, incorporating the City's whistle blowing policy.
9. During 2005/06, work has been undertaken to:
- compile and publish the Code of Corporate Governance;
  - review Standing Orders;
  - draft job/person specifications for key Member roles;
  - draft a Members/Officers Protocol, and
  - develop a corporate format for committee agendas and minutes.

### Performance Management

10. The corporate performance management framework sets out the planning cycle with clear linkages between the different levels of policy, strategy, target setting, planning and action (the "Golden Thread").
- All departments are required to produce annual departmental business plans for approval by the relevant service committee(s). These are all clearly linked to the overall Policy Plan/Corporate Plan and to the Community Strategy.
  - Business plans contain the key objectives from the Community Strategy and all departmental objectives are linked to the eight themes. The plans also show objectives aligned with resources – financial and staffing. Recommendations from external inspections are incorporated into the business plans.
  - All departments report quarterly to their service committees with progress against their business plan objectives and financial monitoring information.
  - Quarterly performance monitoring meetings are held by the Deputy Town Clerk with selected Chief Officers.
  - Performance and Development Appraisals are carried out for all staff, using core competencies. The appraisals are used to set individual objectives and targets and to identify learning and development needs.

- 360° feedback forms part of appraisals for chief officers and selected senior officers, as well as being used for management training.
11. Performance is communicated to Council Tax and Business Rates payers through the annual Performance Summary. Annual strategic briefings are held for staff and a biannual staff attitude survey is undertaken to identify improvements in the understanding of the visions and aims of the City.
  12. A major Performance Management Project has been started, with the aim of further developing the performance management framework and embedding a performance management culture across the organisation.

### Risk Management

13. A Risk Management Policy Statement was adopted in 2003 establishing mechanisms to formally embed the risk management process within the City. The Statement outlined a number of key benefits which the City aims to derive from its commitment to active risk management. A Strategic Risk Management Group consisting of senior managers from departments has been established and will meet regularly. A newsletter is produced for all staff.
14. 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.
15. Action is being taken to mitigate strategic and operational risks and these are monitored continuously by Chief Officers and regularly by the relevant Committee. The terms of reference of the Audit Sub Committee now explicitly include responsibility for risk management.
16. 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

17. 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, BFI, other inspectorates, External Audit and other stakeholders.
18. Regular contact and communication with departmental financial officers is maintained through the Finance Officers Forum.
19. Development of the central financial management systems has continued, aiming to capitalise on this investment by fostering better use of the facilities available. This includes examination of the options available for more sophisticated profiling of revenue budgets.

20. A cash limit to City Fund capital schemes has been introduced, whereby the level of the City's own resources being consumed to finance capital expenditure would be capped for the period 2006/07 to 2008/09.
21. Further action is being taken to address the shortfall identified by the medium term financial forecast, including continuation of the efficiency squeeze on local risk (cash limited) budgets and a target £2 million reduction in the revenue base.

#### Value for Money/Efficiency

22. The City has a number of policies and procedures in place to ensure that its policies and the principles that underpin them are implemented economically, efficiently and effectively. This framework includes:
- *Financial Strategy*. This provides a common base for guiding the City's approach to managing financial resources and includes the pursuit of budget policies that seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives.
  - *Budget policy*. The key policy is to balance current expenditure and current income over the medium term (the "Golden Rule"). Blanket pressure is applied to encourage Chief Officers to continuously seek improved efficiency and find better ways of working.
  - *Capital Strategy*. This ensures that the City's capital resources are deployed to realise its corporate aims and priorities.
  - *Corporate Asset Management Plan*. This aims to ensure that the opportunity cost of financial resources tied up in land and buildings is recognised, and that expenditure on the portfolio is directed efficiently and effectively to provide value for money.
  - *Annual resource allocation process*. This is the framework within which the City makes judgements on adjustments to resource levels and ensures that these are properly implemented.
  - *Capital budget evaluation, management and monitoring*. The City has a comprehensive system of controls covering the entire life cycle of capital and major revenue projects.
23. Cumulative efficiency savings of £4.5m have been reported in the Annual Efficiency Statement for 2005/06 (mid-year update) and £3.3m in the Annual Efficiency Statement for 2006/07 (Forward Look). The City has achieved its internal savings targets resulting from application of the Budget Policy and implemented improvements in efficiency and opportunities for savings identified in cross-cutting reviews during 2004.
24. The performance of the City's financial and property investments is monitored independently, through WM and IPD respectively.
25. Chief Officers will be including a summary of efficiency gains achieved and proposed in their annual business plans. Consideration is given to efficiency during the development and approval stages of all major projects, with expected efficiency gains quantified within reports to members.
26. Projects such as the implementation of a corporate contact centre, the establishment of the HR Business Unit and Central Finance Unit, and the consolidation of staff in fewer operational buildings are expected to contribute customer service improvements and efficiency savings in future years.

#### **Review of Effectiveness**

27. The City has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and managers within the authority who have responsibility for the

development and maintenance of the internal control environment, and by comments made by the external auditors and other review agencies.

28. Recent external assessments include:

- Use of Resources assessment by external auditors as part of CPA 2005. The City scored 4 out of 4 for Use of Resources.
- Annual external audit of the Policy Plan and Best Value Performance Indicators. The Policy Plan 2005/06 was given an unqualified audit report.
- Direction of travel assessment by the Audit Commission, also as part of CPA 2005. This noted the progress being made in strengthening performance management, embedding risk management and challenging value for money. It also commented that the introduction of the medium term strategy has strengthened corporate and community planning linkages.

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

29. 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.
30. The whole Internal Audit process is supported, monitored and managed by the Audit Sub-Committee, which meets at least three times a year and closely reviews all aspects of the Internal Audit function. The Internal Audit Section operates, in all aspects, in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice, and consistently achieves the highest possible score as part of the CPA process. Its work is relied upon by External Audit.
31. The CIPFA Code of Practice for Internal Audit 2003 includes the requirement that “The Head of Internal Audit’s formal report to the organisation should include an opinion on the overall adequacy and effectiveness of the organisation’s internal control environment”.
32. It is the Chief Internal Auditor’s opinion that the City’s systems of internal control, and the arrangements to ensure effective corporate governance, are robust and can be reasonably relied upon to ensure that objectives are achieved efficiently. A comprehensive risk management structure is in the process of being fully embedded throughout all elements of the City and a corporate strategic risk register has been adopted. In addition, experience over many years also shows that individual departments generally take appropriate action to manage and mitigate risk. This opinion is based upon the past year’s Internal Audit work throughout all aspects of the City’s diverse operations. In this year 99% of the annual audit plan was completed to report stage.

### **Future Internal Control Development**

33. In order to maintain, develop and strengthen the existing system of internal control, future plans include;
- Developing the 2006/07 Policy Plan as a Corporate Plan, in line with best practice and recommendations arising from the Use of Resources judgement in 2005.
  - Achieving a more consistent and systematic approach to linking service and financial planning at corporate and departmental levels.
  - Resolving and completing a number of issues arising from the review of corporate governance, including refreshing Financial Regulations, property Standing Orders and the Scheme of Delegations, and developing protocols for Members representing the City of London on outside bodies and Members dealing with Planning and Licensing matters.
  - Further improving learning and development opportunities for Members.

- Conducting performance management ‘health checks’ across all departments to improve service delivery through further developing performance management methods.
- Developing the role of the Corporate Risk Management Group and continuing to embed the culture and enhance the profile of risk management through the organisation.
- Introducing internal processes to challenge efficiency gains and ensure that they are sustained in future years.

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

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

Date: 8 June 2006

Date: 8 June 2006



## **ADOPTION OF THE CITY FUND AND PENSION FUND ACCOUNTS**

The Consolidated City Fund Accounts and Pension Fund Accounts were approved by the Finance Committee on 30 June 2006 and signed on its behalf by:

.....  
Chairman of the Finance Committee

.....  
Deputy Chairman of the Finance Committee

Date: 25 July 2006

Date: 25 July 2006

## **INDEPENDENT AUDITORS' REPORTS TO THE CITY OF LONDON**

### **Opinion on the Financial Statements**

We have audited the financial statements for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, The Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cashflow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

### **Respective Responsibilities of the Chamberlain and Auditors**

The Chamberlain's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities for the Financial Statements.

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

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

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the City and its income and expenditure for the year.

We review whether the Statement on Internal Control reflects the City's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the City's corporate governance procedures or its risk and control procedures.

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

### **Basis of Audit Opinion**

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

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

## Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the City of London as at 31 March 2006 and its income and expenditure and cash flows for the year then ended; and
- the financial transactions of the pension fund during the year ended 31 March 2006, and the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

.....

15 August 2006

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

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

### **City's Responsibilities**

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

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

### **Auditor's Responsibilities**

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

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

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

### **Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, the City made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006.

### **Best Value Performance Plan**

We issued our statutory report on the audit of the City's best value performance plan for the financial year 2005/06 in January 2006. We did not identify any matters to be reported to the City and did not make any recommendations on procedures in relation to the plan.

## Certificate

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

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15 August 2006

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

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

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

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

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

**City's Cash** - the City of London's private 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 City of London intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and gardens or historic buildings.

**Current asset** - an asset held which will be consumed or cease to have value within the next 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.

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

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

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

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

**Intangible assets** – An intangible (non-physical) item may be defined as an asset when access to the future economic benefits is controlled by the reporting entity.

**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 City of London to meet London-wide services. They include payments to the London Boroughs Grants Committee, the Environment Agency and the London Planning Advisory Committee.

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

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

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

**Non-operational assets** - fixed assets held but not directly occupied, used or consumed in the delivery of service. Examples are investment properties.

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

**Projected unit method** - An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is 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 City of London has a present obligation (legal or constructive) as a result of a past event;
- b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- c) a reliable estimate can be made of the amount of the obligation.

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

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

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

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



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

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

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