

London Borough of Hackney

Statement of Accounts 2006/07

Tim Hannam, CPFA
Interim Corporate Director of Finance & Resources



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

Opinion on the financial statements

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

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

Respective responsibilities of the Corporate Director of Finance and Resources and auditors

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

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

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

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

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

Audit Opinion

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the 2006/07 Financial Summary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In my opinion:

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

Jon Hayes

District Auditor

Audit Commission

1st Floor

Millbank Tower

Millbank

London SW1P 4HQ

12 October 2007

Audit Opinion

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

Authority's Responsibilities

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

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

Auditor's Responsibilities

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

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

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

Conclusion

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

Audit Opinion

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on [7 December 2006](#). I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Jon Hayes
District Auditor
Audit Commission
1st Floor Millbank Tower
Millbank
London SW1P 4HQ

12 October 2007

The Explanatory Foreword

This document sets out the London Borough of Hackney's Statement of Accounts for 2006/07 in accordance with its statutory obligations as set out in the Accounts and Audit (Amendment) Regulations 2006.

The accounts included in this statement are as detailed below.

The **Statement of Accounting Policies** explains the basis of the transactions in the accounts and is intended to assist the reader in a proper appreciation of the accounts themselves.

The **Statement of Responsibilities for the Accounts** sets out the respective responsibilities of the Council, Chief Officers and the Director of Finance and Resources.

The **Statement on Internal Control** sets out the framework within which internal control (including financial control) is managed and reviewed and the main components of the system, including the arrangements for internal audit. It reports on significant weaknesses identified and any actions taken to rectify these.

The **Income and Expenditure Account** reports the net cost for the year of all the functions for which the Council is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

The **Statement of Movement on the General Fund Balance** demonstrates an important aspect of the Council's stewardship. There are a number of differences between the amounts that the Council is required to include in the Income and Expenditure Account and statute and non-statutory proper practices. These differences are charged or credited to the General Fund to determine the movement on the General Fund Balance for the year.

The **Statement of Total Recognised Gains and Losses** details the recognised gains and losses of the Council during the year, including those of a capital nature and thus not shown in the Income and Expenditure Account.

The **Balance Sheet** shows the Council's financial position as at 31st March 2007. The account details the net assets employed by the Council in carrying out its functions and shows the capital and revenue reserves.

The **Cash Flow Statement** summarises the cash received and payments made in external transactions for revenue and capital purposes.

The **Housing Revenue Account (HRA)** is a statutory statement relating to the provision, maintenance and management of the Council's housing stock. The account shows the expenditure on housing and how this has been financed by rents, Government subsidies and other income.

The amounts included in the HRA differ from the amounts in respect of HRA services included in the Income and Expenditure Account for the Council as a whole. For this reason the HRA statement has two parts; the **HRA Income and Expenditure Statement** and the **Statement of Movement on the HRA Balance**, which shows how

The Explanatory Foreword

the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA Balance for the year.

The **Collection Fund** is a statutory statement relating to the collection of income received from Council Tax and National Non-Domestic Rates (NNDR).

The NNDR income is passed on to Central Government after allowing for the Council's cost of collection. The Council Tax income is distributed between the Council and the Greater London Authority in accordance with their precept requirements when the Council Tax was set. The Council's income from the Collection Fund is shown in the Income and Expenditure Account.

The **Group Accounts** provide a complete picture of the Council's control over other entities by consolidating the Council's single entity financial statements with those of its subsidiaries.

The **Pension Fund** accounts show the contributions to the Council's Pension Fund, the benefits paid from it and the financial position as at 31st March 2007.

The Council acts as trustee for the pension and trust funds, which are separate from all of the other accounts and are therefore not included in the Balance Sheet.

The **Glossary of Terms** provides an explanation of the technical terms used throughout the above statements.

2006/07 Financial Summary

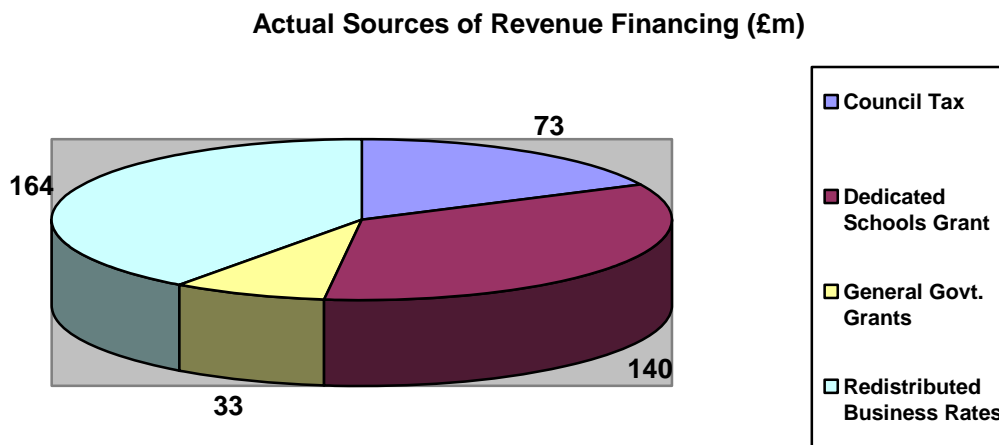
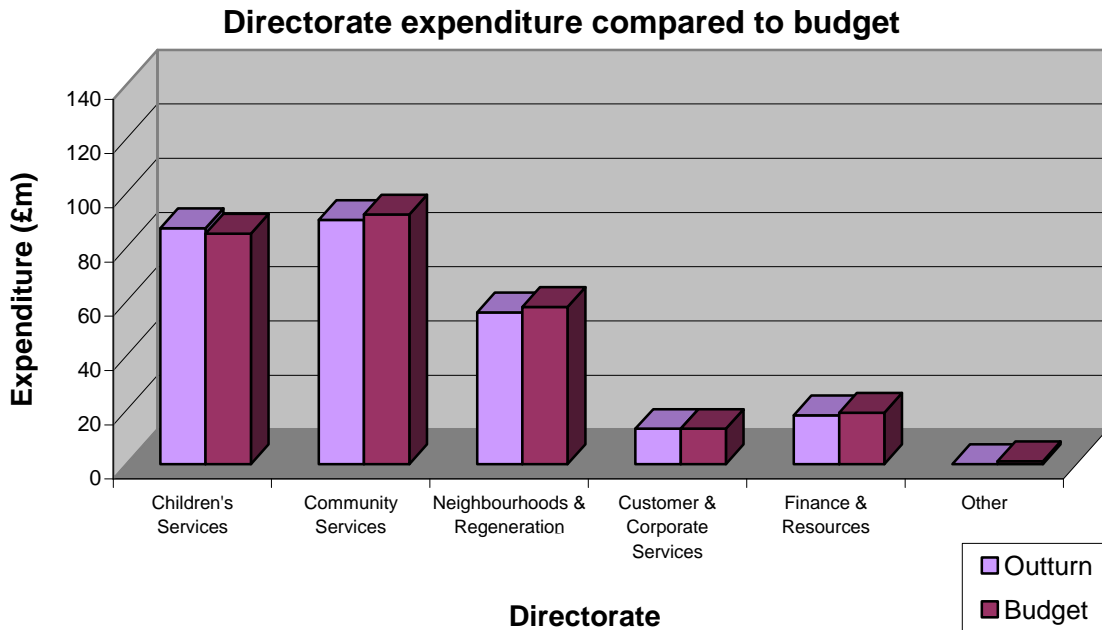
The financial position of the Council is regularly monitored and reviewed throughout the financial year and this statement represents the final results. It shows that at the end of 2006/07, the Council had an under spend of £4.171 million, equating to 1.55% of its budget requirement. Overall the Council has maintained its general level of reserves on its General Fund and increased the balance on the Housing Revenue Account. This shows that the Council continues to operate on a sound financial basis, with no cuts to services being necessary to maintain its financial standing. This is a clear demonstration of the Council continuing to deliver against the Mayor's priorities and further evidence of the continued effective management of the Council's finances.

The purpose of this summary is to provide a relatively easy to understand guide to the most significant matters in the Council's accounts.

Revenue Expenditure

The surplus for the year shown on the Council's General Fund is £0.331 million. This is after interest payable and similar charges of £56.444 million. The graphs below show General Fund expenditure compared to budget at directorate level and the sources of revenue financing.

The Explanatory Foreword



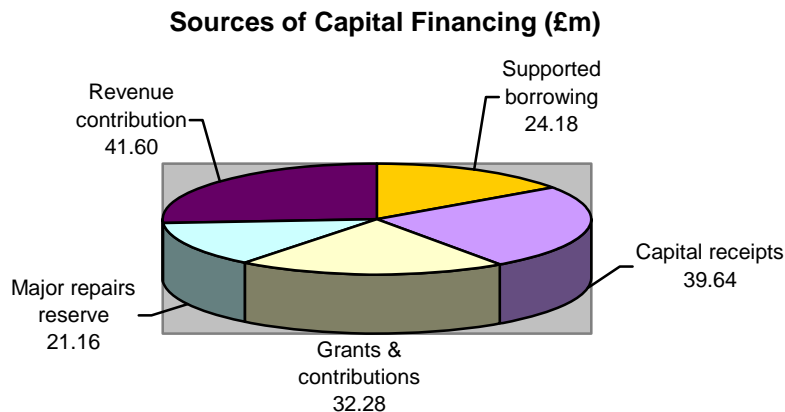
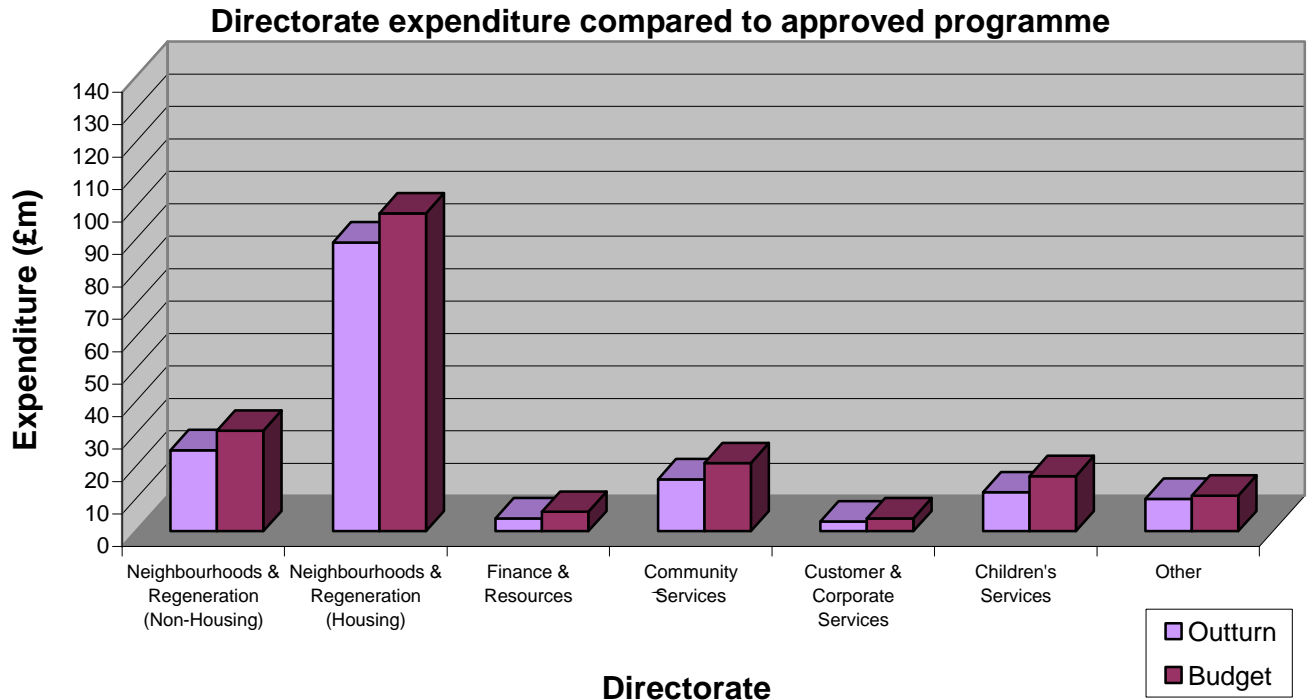
Housing Revenue Account

The Housing Revenue Account shows a surplus of £1.066 million for the year. A net contribution was made to earmarked reserves of £4.814 million and the accumulated surplus on the Housing Revenue Account Balance at 31st March 2007 was at £11.266 million.

Capital Expenditure and Financing

Total capital expenditure in 2006/07 amounted to £158.859 million. This represents an outturn of 85% against a total programme of £187.703 million. The expenditure was in the main related to the enhancement and reconstruction of existing assets. The graphs below show expenditure by directorate compared to the approved programme and the sources used to finance capital expenditure.

The Explanatory Foreword



Collection Fund

The Collection Fund returned a surplus of £2.17 million for the financial year resulting in a balance carried forward of some £9.95 million. Of this, the sum of £6.16 million was taken into account when setting the Council Tax for 2007/08 and the remainder will feature in the Council Tax setting process for 2008/09.

Pension Fund Liabilities

In order to comply with CIPFA guidance on the adoption of FRS17: Retirement Benefits, the Council commissioned a valuation of its share of liabilities in respect of the Hackney and LPFA Pension Funds. This showed a decrease in the liability of £86.686 million to a net total of £350.174 million. In accordance with CIPFA's Accounting Code of Practice, this net liability is included within the net assets of the Council in its Balance Sheet. The

The Explanatory Foreword

associated costs have also been included within the Income and Expenditure Account and Housing Revenue Account. The effect of this on Council Tax and rents has been neutralised by a net transfer from the associated Pensions Reserve, shown in the Statements of Movement on the General Fund and HRA Balances.

Changes of Accounting Policy and Related Developments

The Accounting Code of Practice (ACOP) for Local Authorities introduced the requirement for local authorities to produce full group accounts for any associated undertaking in which the Council has a controlling influence from the 2004/05 financial year. From 1st April 2006, when Hackney Homes was formed, the Council has had a controlling influence over this company. Group accounts have therefore been completed and further details are provided on pages 64 to 69 as part of the Group Accounts.

Other changes in accounting policies introduced in the 2006 ACOP are detailed in note 1 to the core statements on page 28.

Current Borrowing Facilities and Other Prudential Indicators

As a result of the introduction of the Prudential Framework, the Council is required to calculate a number of financial indicators including its capital financing requirement and borrowing limits. For 2006/07, these can be summarised as follows:

1. Capital Financing Requirement as at 1st April 2006, £724.22 million
2. Capital Financing Requirement as at 31st March 2007, £743.63 million
3. External debt authorised limit, £851.42 million
4. External debt operational boundary, £801.02 million

As part of the Council's longer term plan to reduce the level of external borrowing, the Council made a net repayment of loans during the financial year amounting to £5.49 million.

Planned Future Developments in Service Delivery

The Council continues to prioritise, develop and deliver services to meet the aims set out in the Corporate Plan. On an annual basis the detailed delivery of these priorities is refined through the Council's integrated financial and service planning process, Resourcing our Priorities. For 2007/08, the Resourcing our Priorities process provides for significant investment in Library premises; continued improvements to youth services; and new sports facilities. Additional resources were provided to extend the opening hours of the Hackney Service Centre and to provide more translation services for customers without English as a first language. Further investments are being made to make the borough greener and more environmentally responsible by investing in recycling and rolling out compulsory recycling across the borough; this is in addition to extra resources provided for Hackney's parks and green spaces. The Council also continues to provide significant capital resources to support improvements in the borough's infrastructure, notably highways and street lighting, affordable housing, decent homes, primary and secondary schools and leisure facilities.

The Explanatory Foreword

Copies of the Statement of Accounts

The 2006/07 Statement of Accounts are available on the Council's website (www.hackney.gov.uk) and further information can be obtained from the Interim Director of Finance and Resources, Mr Tim Hannam, by contacting his office at Town Hall, Mare Street, London E8 1EA (tim.hannam@hackney.gov.uk).

Statement of Accounting Policies

1. General Principles

These accounts have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (SORP). Any departures from the Code of Practice are stated within this section and/or within the notes to the accounts. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

Sums due to or from the Council during the year are included in the accounts irrespective of whether the cash has actually been received or paid in the year. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Council's balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down by setting up a provision for bad debt and a charge made to revenue for the income that might not be collected. The amount of debtors and related provisions for bad debt is shown in note 27 on page 42.

Interest payable and receivable on borrowings is accounted for on accruals basis, in the year to which it relates.

Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

3. Provisions and Reserves

Where events have occurred that result in an obligation for the Council to make settlement by a transfer of economic benefits, but the timing or the amount of the transfer is uncertain, the Council sets aside specific provisions. These are charged direct to the appropriate service revenue account in the year in which the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When actual payments are eventually made, they are charged to the provision set up in the balance sheet. Provisions are reviewed at the end of each financial year and if it becomes probable that a transfer of economic benefits will not be required, the related provision is reversed and credited back to the relevant revenue account. Details of the provisions made in the Council's accounts are set out in note 31 on page 47. Where some or all of the payment required to settle a provision is expected to be met by another party, this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Reserves are set-aside for non-specific liabilities or future expenditure commitments which may arise but which fall outside the definition of a provision. Such reserves are shown in note 32 on page 48. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account and scores against the net cost of services. Movement on reserves is reflected through a debit or credit to the General Fund for the year, as required by statute and non-statutory proper practices, and is shown in the Statement of Movement on the General Fund Balance. This

Statement of Accounting Policies

Statement shows whether the Council has overspent or under-spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

Some reserves, such as the fixed asset restatement account, capital financing account and FRS17 Pensions Reserve are maintained for purely accounting purposes and do not represent usable resources available to the Council. Their use is governed by statutory and/or CIPFA guidance. These reserves are explained in the relevant policies below.

The Council makes provision to cover certain losses on a self-insurance basis. Revenue accounts are charged a premium during the year and these are used to meet claims and make provision for future liabilities. The Council has retained external insurance cover for property, liability and officers' indemnity claims above an agreed excess.

The Council established an Insurance Reserve during 2004/05 to provide contingency cover for uninsured losses and potential future claims.

4. Revenue Government Grants and Contributions

Revenue government grants are accounted for on an accruals basis and are credited to the service revenue account where the expenditure to which they relate is charged. Such grants are recognised in the accounts only when the conditions for their receipt have been complied with and there is reasonable assurance that the grant will be received. Where grant claims are not due for completion until after the date of production of the statement of accounts, estimates are used to determine the amount of grant receivable.

Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after net operating expenditure.

5. Retirement Benefits

The Council participates in two different Pension Schemes, classified as multi employer defined benefit schemes. The defined benefits are based on pay and length of service of the Scheme employees. The basis of the pension costs charged in the accounts for each of these Schemes is set out below.

Teachers Pension Scheme: This is an unfunded pension scheme for teachers, which is administered by the Teachers Pension Agency, part of the Department for Education and Skills (DfES). The arrangements for the Teachers' scheme mean that liabilities cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the DfES in the year.

Local Government Pension Scheme: This is a funded pension scheme for other local government employees. Most of the Scheme members are in the Council's Pension Fund but former employees of the Greater London Authority, London Residuary Body

Statement of Accounting Policies

and the Inner London Education Authority, who were transferred to the Borough on the abolition of these bodies, are members of the London Pension Fund Authority (LPFA) Pension Fund.

The Local Government Scheme is accounted for as a defined benefit scheme:

- The liabilities of both the Council's and LPFA's pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projected earnings for current employees, etc.
- Liabilities are discounted to their value at current prices using a discount rate of 5.4% actual (4.9% in 2005/06), 2.1% real (1.7% in 2005/06). This is the yield available on a long-dated, high quality corporate bond (as measured on iboxx Sterling Corporate Index, AA over 15 years) at the FRS17 valuation date.
- The assets of both the Council's and the LPFA's pension fund attributable to the Council are included in the balance sheet at their fair value:
 - i. Quoted securities – mid-market value
 - ii. Unquoted securities – professional estimate
 - iii. Unitised securities – average of the bid and offer rates
 - iv. Property – market value.
- The change in the net pensions liability is analysed into seven components:
 - i. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated to the revenue accounts of services for whom the employees worked
 - ii. Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the net cost of services as part of non-distributed costs
 - iii. Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to net operating expenditure
 - iv. Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to net operating expenditure.
 - v. Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the net cost of services as part of non-distributed costs
 - vi. Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – not charged to revenue
 - vii. Contributions paid to the Council's and LPFA's pension funds – cash paid as employer's contributions to the pension funds.

Statement of Accounting Policies

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension funds in the year. This means that a reconciling adjustment is made in the Statement of Movement on the General Fund Balance to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

6. Value Added Tax

Income and expenditure in this statement of accounts is net of VAT, where recoverable, and claims to HM Revenues and Customs for the net VAT incurred are made on a monthly basis.

7. Cost of Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006 (BVACOP). Elements of support costs remaining within core unit budgets at year-end are, where material, fully allocated to services. The exceptions to this are:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and
- Non-distributed costs – the costs of discretionary benefits awarded to employees retiring early, past service costs and corporate bank charges.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of net cost of services, in accordance with BVACOP.

8. Intangible Fixed Assets

From 2004/05, the Council has capitalised purchased intangible assets in the form of software licences for the main accounting system, CedAr Financials, and other major systems. The balance is amortised to the relevant revenue accounts on a straight line basis over an expected economic life of 5 years.

9. Tangible Fixed Assets

Fixed Assets shown in the Balance Sheet are:

- Operational Assets - used by the Council to provide services, e.g. council dwellings, offices and libraries, vehicles, plant and equipment and community assets such as parks.
- Non-Operational Assets - owned by the Council but not directly used to provide services, e.g. commercial properties such as shops on estates, property rented out to community groups and assets under construction which have not yet been brought into use for council services.

Statement of Accounting Policies

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services it provides for more than one financial year. However, expenditure that simply secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement: assets are initially valued in the Council's Balance Sheet at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Such expenditure includes salaries which are attributable to capital schemes and which have therefore been capitalised on the basis of a percentage of estimated staff time, allocated between projects within the capital programme. Assets are then carried in the balance sheet using the following measurement basis:

- Dwellings and other land and buildings – the lower of net current replacement cost or net realisable value in existing use
- Vehicles, plant and equipment and infrastructure assets – depreciated historic cost
- Community assets – historic cost (see note below)

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value

Property assets included in the balance sheet at current value are revalued on a five year rolling basis. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains. From 2006/07, property assets are also valued in the year of disposal in order to fulfil the requirement to disclose any profit or loss on disposals within the Income and Expenditure Account.

Impairment: all assets are considered at the end of each year for evidence of reductions in value. If impairment is identified as part of the review or as a result of a revaluation exercise, this is accounted for by:

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

An analysis of the revaluations carried out during the last five financial years is set out in the Valuations of Fixed Assets Statement on page 38, note 22. The result of the latest revaluations and other changes to the Council's fixed assets during the year are set out in notes 23 and 24 on pages 39 and 40 respectively.

Disposals: upon disposal, the net book value of the asset in the balance sheet is written off to the Fixed Asset Restatement Account. From 2006/07, any gains or losses reflected in the difference between the sale price of the asset and the carrying value in the Balance Sheet is disclosed within the Council's Income and Expenditure Account.

Statement of Accounting Policies

Proceeds in excess of £10,000 from the disposal of fixed assets are credited to the Usable Capital Receipts Reserve (UCRR). These can then only be used for new capital investment or set-aside to reduce the Council's borrowing requirement. However, a proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of reductions and allowances) is payable into a Government Pool.

Deferred capital receipts relate to the sale of council houses and reflect the amount of mortgage principal outstanding on sales, which will be transferred to capital receipts when paid.

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. The depreciation of operational fixed assets is calculated in the following way for each category of asset:

- Council Dwellings - equivalent to the Major Repairs Allowance allocated to the Council by central government, which is based on an evaluation of the need to invest in refurbishment of the council dwellings stock.
- Other buildings - based on current valuations; lives of assets are individually assessed and depreciation calculated on a straight line basis. In accordance with accounting standards, land is not depreciated.
- Vehicles, Plant and Equipment - based on acquisition costs, lives of assets are individually assessed and depreciation calculated on a straight line basis.
- Infrastructure Assets - calculated on a straight line basis over 25 years.
- Community Assets - depreciation is not required on non-depreciable land, such as parks and open spaces. The Council works of art have very long useful economic lives and depreciation would therefore be immaterial.

Capital Grants and contributions: Capital grants are accounted for on an accruals basis and are credited to Capital Grant Deferred account as they are applied to finance the capital programme. The balance on this account is subsequently amortised in line with the economic lives of the assets funded by the grants. The amounts written down are credited to the relevant revenue accounts and then adjusted through the Statements of Movement on the General Fund Balance and the Housing Revenue Account Balance.

10. Charges to Revenue for Fixed Assets

From 2006/07, service revenue accounts, support services and trading accounts are no longer debited with a capital financing charge based on a percentage of the value of the asset in the balance sheet (notional interest). The charges made to service revenue accounts, support services and trading accounts are as follows.

- Depreciation or amortisation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service

Statement of Accounting Policies

The effect of this change in accounting policy is illustrated in note 1 to the core financial statements, shown on page 28.

The Council is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement). The movement on the general fund balance is subsequently credited to reflect the difference between the depreciation charged to revenue and the actual revenue provision in order that there is no impact upon the amount of revenue expenditure to be met from local taxpayers.

11. Deferred Charges

Deferred charges represent expenditure that may be capitalised but does not result in the creation of tangible fixed assets. Deferred charges of this nature are written off to the relevant service revenue accounts in the year in which the expenditure is incurred. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged to the General Fund Balance so that there is no impact on the level of Council Tax.

In previous years, amounts in respect of loans transferred from the Inner London Education Authority (ILEA) and premiums on the early redemption of debt were also included within the deferred charges on the Council's Balance Sheet. As a result of changes to the Accounting Code of Practice in 2004/05, deferred charges are not normally included as an item on the Council's balance sheet. However, the balances in respect of the ILEA loan do properly represent a charge to the revenue accounts over future years. Therefore these have been retained as deferred charges on the face of the balance sheet.

12. Leases

The Council has no assets acquired under finance leases.

All other leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account as they become payable. This is a departure from the Accounting Code of Practice which states that the rentals should be charged to revenue on a straight line basis over the term of the lease. However, the impact of this departure from the Code is not material due to the low level of leasing costs incurred.

13. Long-term Contracts (PFI)

Assets acquired under a PFI scheme are included in the Balance Sheet where the Council bears the substantial risks associated with the assets, in accordance with FRS 5. The value of the asset is included within operational fixed assets, together with a deferred liability for the original cost. This is written down to revenue over the life of the contract.

Statement of Accounting Policies

14. Repurchase of Borrowing

Where external debt is redeemed early the Code of Practice requires that any premiums or discounts are charged to revenue in the year of redemption unless refinancing or restructuring occurs with substantially the same overall economic benefit. In such cases the Council amortises the premiums and discounts over the life of the replacement borrowing or ten years, whichever is shorter, with any unamortised balances included separately on the Council's Balance Sheet as deferred premiums and/or discounts, as appropriate.

15. Investments

Surplus cash balances are invested by the Council on a temporary basis and shown on the Balance Sheet at cost.

16. Stocks

Stocks are included in the balance sheet at cost and, where applicable, issued on a First In, First Out basis. This represents a departure from ACOP but is considered immaterial, given the low level of stocks carried by the Council.

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council, that Officer is the Director of Finance and Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Chief Officer(s) Responsibilities

Each Chief Officer is responsible for:

- maintaining effective financial controls and for securing the accuracy and integrity of financial information and systems operating within their department;
- complying with any procedural instructions issued by the Director of Finance and Resources; and
- preparing a statement on internal control.

Responsibilities of the Director of Finance and Resources

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

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

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

The Director of Finance and Resources has:

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

Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 24 to 69 present fairly the financial position of the London Borough of Hackney as at 31st March 2007 and its Income and Expenditure for the year then ended and that the Accounts set out on pages 70 to 78 present fairly the Net Assets of the London Borough of Hackney's Pension Fund as at 31st March 2007 and its Income and Expenditure for the year then ended.

Statement of Responsibilities

Tim Hannam CPFA
Interim Director of Finance and Resources

11th October 2007

Chair of Approving Committee's Certificate:

I certify that the accounts set out in this document have been considered by the Council's Audit Sub-Committee held on 26th June 2007 and have been approved by a resolution of the Committee.

Councillor James Carswell
Chair of Audit Sub-Committee

26th June 2007

Statement on Internal Control

1. Scope of responsibility

The London Borough of Hackney 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 Council 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, having regard to a combination of economy, efficiency and effectiveness.

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

2. The purpose of the system of internal control

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

- identify and prioritise the risks to the achievement of the Council's policies, aims and objectives
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31st March 2007 and up to the date of approval of the annual accounts and accords with proper practice.

3. The internal control environment

The Council's system of internal control is based upon the following key elements:

Establishing and monitoring achievement of the Council's Objectives

- There are comprehensive and well-managed consultation arrangements in place.
- A Corporate Plan sets out explicitly the planned actions and performance targets for the future, and these are clearly linked with Directorate / service plans and resources.
- A Constitution has been adopted which sets out how the Council operates and how decisions are made, and incorporates a clear delegation scheme
- The Constitution indicates responsibilities for functions and sets out how

Statement on Internal Control

decisions are made

- Communication of objectives to staff and stakeholders takes place through our Corporate Investors in People (IIP) processes and publication of the Corporate Plan
- Linked planning and budgeting systems are in place, which are subject to regular review to ensure that they remain fit for purpose

Corporate Governance Arrangements

- A local Hackney Code of Corporate Governance has been adopted in accordance with the guidance issued by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA)
- A system of scrutiny is in place which allows Committees to:
 - review and/or scrutinize decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and/or recommendations to the full Council and/or the executive in discharge of any functions;
 - consider any matter affecting the area or its inhabitants; and
 - exercise the right to call in, for reconsideration, decisions made but not yet implemented by the executive and/or committees
- The Council has an Audit Committee which:
 - provides independent assurance of the adequacy of the risk management framework and the associated control environment;
 - provides independent scrutiny of the Council's financial and other performance to the extent that it reflects the Council's exposure to risk and weakens the control environment;
 - oversees the financial reporting process

Performance Management Arrangements

- There are clear and effective performance management arrangements including staff appraisals for Directors and key staff, addressing financial responsibilities
- There is regular reporting of performance against key targets and priorities to Hackney Management Team, Cabinet and Scrutiny

Identification of Risks to Achievement of Objectives

- There are robust and well embedded risk management processes in place, including:
 - Risk Management Strategy and Policy Statement

Statement on Internal Control

- Corporate Risk Profile
- Nominated Head of Insurance and Risk Management
- Risk Management Training Programme
- Discrete Risk Profiles produced for certain major initiatives/projects and significant partnerships;
- Risk Management Annual Report
- Draft Code of Practice on Partnerships

Key Controls to Manage Principal Risks

- The Director of Finance and Resources is designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.
- The Council has in place Contracts Procedure Rules and Financial Procedure Rules, procedure manuals covering financial and administrative matters, as well as Human Resources Management (HR) policies and procedures. Policies and procedures cover:
 - Whistle Blowing Policy;
 - Anti Fraud and Corruption Policy
 - Code of Conduct;
 - Corporate Health and Safety Policy;
 - Corporate Complaints Policy;
 - Corporate Procurement Strategy;
 - Treasury Management Strategy based upon CIPFA's Treasury Management Code;
- Business Continuity plans are in place in some areas, although this is an area for improvement
- There is a Register of Interests in place
- Directorates have established delegation schemes in place, although these may require updating in some areas to reflect recent organisational changes
- Services are delivered by suitably qualified / trained / experienced staff and posts have detailed job descriptions and person specifications.
- The Council maintains an Internal Audit service which operates in accordance with professional standards, and internal audit work is planned on the basis of risk.
- There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports which indicate financial performance against forecasts.
- Appropriate project management disciplines are utilised.
- The Council participates in the National Fraud Initiative and subsequent investigations.

Statement on Internal Control

- The Council has adopted and implemented the Verification Framework for the administration of Council Tax and Housing Benefit.
- Through reviews by the Audit Commission and other external inspectorates the Council constantly seeks ways of securing continuous improvement. The Council has professional and objective relationships with these external inspectorates
- Procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to schools in line with the terms of grant given by the Secretary of State under Section 16 of the Education Act 2002.
- The Monitoring Officer reviews all Cabinet Reports to ensure legality
- A series of Service Improvement Reviews are undertaken to ensure Best Value in service delivery e.g. 'Cleaning the Streets in Hackney 2006'.
- A new Assistant Director (Financial Control) has been appointed to strengthen the Council's arrangements for securing Value for Money (VFM). This includes a new methodology for reviewing services and delivering VFM.
- Hackney Management Team has a Performance Improvement Group designed to facilitate continuous improvement in the way the Council's functions are exercised.
- There is a focused client side team within the Council which monitors the activities and performance of Hackney Homes, the Arm's Length Management Organisation (ALMO) which manages the housing function on behalf of the Council. The basis of this relationship is laid out in the Management Agreement. This includes Service Level Agreements which detail the basis of service delivery requirements for Hackney Homes. The Hackney Homes Delivery Plan (produced annually) further details respective roles and responsibilities. Hackney Homes is expected to comply with many of the controls that apply to the Council, for example in respect of budgetary control.

4. Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the Council who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the Annual Audit and Inspection Letter and other reports.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

Statement on Internal Control

- The role of the Monitoring officer in:
 - Maintaining an up-to-date version of the Constitution and ensuring that it is widely available for consultation by members, staff and the public;
 - Ensuring lawfulness and fairness of decision making.
- A system of scrutiny is in place which allows Review Committees to:
 - review and / or scrutinise decisions made or actions taken in connection with the discharge of any the Council's functions;
 - make reports and / or recommendations to the full Council and / or the executive and / or any joint area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants; and
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and / or area committees.
- The role and function of the Audit Committee is, essentially to review the effectiveness of the systems of internal control. It does this through reviewing the adequacy of the internal audit and risk management functions together with reviewing periodic reports on the quality of the Council's control environment. It also reviews the Council's draft accounts and the associated statement of accounts.
- Internal Audit planning processes include consultation with all Chief Officers, reviews of the Corporate Plan and the Corporate Risk Profile
- The Corporate Risk Profile provides assurance that the Council's principal risks are being well managed.
- Risk based audit work (including risks in relation to the achievement of service objectives).
- A regular systematic auditing of key financial and non-financial systems.
- The Interim Director of Finance and Resources/Peer Review has conducted a review of the effectiveness of Internal Audit and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.
- The content of the Annual Audit and Inspection Letter 2005/2006 is positive and states that the Council is "improving well" and "improvements in service areas and the corporate centre have been recognised in recent inspection and review scores".
- Findings of external inspectorates are monitored and appropriate actions plans are produced and acted upon
- Corporate Directors have provided Controls Assurance Statements relating to their area of responsibility

Statement on Internal Control

- Regular reporting of performance against key targets and priorities to the Hackney Management Team, Cabinet and Review Committees.
- The ALMO Client-side function reviews a monthly performance report from Hackney Homes, which is submitted to the Council and the Hackney Homes Board. Checks are performed by the Council on Best Value Performance Indicators (BVPs). There is also a quarterly performance meeting between the Mayor, Council officers and representatives from the ALMO.

5. Significant control issues

During the course of 2006/2007, the following significant internal control issues were identified:

- Following initial re-shaping of the Council, there is a need to further consolidate the workforce, through the implementation of the Workforce Strategy. Reduction in vacancy rates is a key priority as is continual dependency and high spend on agency staff. The Council has agreed a detailed Action Plan to systematically reduce current vacancy and agency dependency rates.
- Further work is planned to develop a more corporate approach to the Council's review of corporate governance arrangements. Whilst Internal Audit will continue to undertake annual reviews, the Council will establish a Corporate Governance Steering Group to oversee an annual review of the Local Code of Corporate Governance.
- There is scope for improvement in respect of Business Continuity Arrangements within the Council. There is a corporate Business Continuity Plan in place. The Council is working on an action plan to ensure that Business Continuity Plans are produced in all Directorates. The Director of Neighbourhoods and Regeneration chairs the Business Continuity Group which will monitor this process.
- There is scope for improvement in respect of Asset and Estate Management. The Council has made good progress on asset management over the last twelve months. The property asset register has been updated, detailed condition surveys are being carried out on all the buildings which are being surveyed to ascertain the council's maintenance cost liabilities. An asset management plan has been produced. Over the next 12 months further development of the Council's asset management process will take place.
- In respect of Saffron, the Housing Management and Rents system, a number of issues were identified relating to access rights and segregation of duties. These issues are currently being addressed.
- The Council is aware of potential system security weaknesses within the payroll provider's control environment. An Action Plan has been formulated to strengthen controls.

Statement on Internal Control

6. Conclusion

The Audit Committee, having regard to both internal and external sources of assurance, has advised us on the outcome of the review of effectiveness of the system of internal control. We are satisfied that internal control has been operating satisfactorily throughout 2006/07, with the exception of the significant items identified above in Section 5 of this statement. In respect of those items raised as significant, we are satisfied that plans are in place and action is being taken to address the issues and that in general appropriate plans are in place to ensure future improvement.

Jules Pipe
Mayor

Tim Shields
Interim Chief Executive

Tim Hannam
Interim Director,
Finance and Resources

June 2007

The Core Financial Statements

The Income and Expenditure Account

2005/06 Net Expenditure £000	Expenditure by Service	2006/07 Gross Expenditure £000	2006/07 Gross Income £000	2006/07 Net Expenditure £000
13,117	Central Services to the Public	240,186	231,993	8,193
44,832	Cultural, Environmental and Planning Services	67,075	19,139	47,936
153,685 *	Education Services	169,046	150,688	18,358
14,015	Highways, Roads and Transport Services	38,511	22,419	16,092
(47,974)	Local Authority Housing (HRA)	111,007	160,894	(49,887)
3,583	Other Housing Services	52,958	41,592	11,366
98,609	Social Services	150,885	38,945	111,940
6,699	Corporate and Democratic Core	29,360	20,673	8,687
4,341	Non Distributed Costs	4,563	8,817	(4,254)
290,907	Net Cost of Services	863,591	695,160	168,431
		<u>Note</u>		
0	(Gain) / Loss on disposal of fixed assets			0
6,406	Levies by other authorities			5,845
58,962	Interest payable and similar charges			56,444
15,028	Amounts payable into the Housing Capital Receipts Pool			8,323
(18,084)	Interest and investment income			(16,053)
14,362	Pensions interest cost and expected return on pensions assets		28	10,842
367,581	Net Operating Expenditure			233,832
(73,773)	Income from the Collection Fund			(72,543)
(249,179) *	General government grants			(32,860)
(69,436)	Distribution from non-domestic rate pool			(163,851)
(24,807) **	(Surplus) / Deficit for the year			(35,422)

*For 2006/07, the arrangements for government support for the funding of schools changed. Previously funds were provided as part of the Council's overall Revenue Support Grant. In 2006/07, the Council has received a specific grant – the Dedicated Schools Grant. £140.069 million has therefore been credited against the Education Service outturn that would previously have been treated as corporate income. The difference between 2006/07 figures and comparative figures for 2005/06 for these two lines is substantially explained by this change. The remainder of the movement is largely in respect of changes in the allocation of formula distributed grant.

**A number of changes to the Statement of Accounts were introduced by the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2006, the accounting effect of which is shown in disclosure note 1 on page 28. Due to additional presentational changes a surplus has arisen on the Income and Expenditure Account. This represents the Council's financial result for the year in accordance with Generally Accepted Accounting Practice but should be viewed in conjunction with the Statement of Movement on the General Fund Balance in order to understand the Council's net position for the year.

The Core Financial Statements

The Statement of Movement on the General Fund Balance

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed
- The payment of a share of housing capital receipts to Central Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06 £000	Increase or decrease in the General Fund (GF) Balance for the year analysed between:	Note	2006/07 £000
(24,807)	- (Surplus) / Deficit for the year on the Income and Expenditure Account		(35,422)
23,796	- Net additional amount required by statute and non-statutory proper practices to be debited or credited to the GF Balance for the year	2	35,091
<u>(1,011)</u>	(Increase) / Decrease in the General Fund Balance for the year		<u>(331)</u>
<u>(25,525)</u>	General Fund Balance brought forward		<u>(26,536)</u>
<u>(26,536)</u>	General Fund Balance carried forward	32	<u>(26,867)</u>
Analysis of General Fund (GF) Balance carried forward			
(11,542)	- Amount of GF Balance held under schemes to finance schools	33	(11,873)
<u>(14,994)</u>	- Amount of GF Balance generally available to the authority		<u>(14,994)</u>
<u>(26,536)</u>			<u>(26,867)</u>

The Statement of Total Recognised Gains and Losses (STRGL)

2005/06 £000		Note	2006/07 £000
(24,807)	(Surplus) / Deficit on the Income and Expenditure Account for the year		(35,422)
339,449	(Surplus) / Deficit arising on revaluation of fixed assets	24	(249,496)
33,009	Actuarial gains and losses on pension fund assets and liabilities	28	(72,686)
0	Movement on the Collection Fund Balance		(2,167)
0	Movement on reserves within the Housing Revenue Account		(4,814)
0	Any other gains and losses required to be included in the STRGL		(259)
<u>347,651</u>	Total recognised gains and losses for the year		<u>(364,844)</u>

The Core Financial Statements

The Balance Sheet

2005/06 £000		Note	2006/07 £000	2006/07 £000
5,445	Intangible assets	23		5,715
	Tangible fixed assets			
	Operational assets	24		
1,461,985	- Council dwellings		1,593,876	
502,967	- Other land and buildings		545,675	
4,808	- Vehicles, plant, furniture and equipment		4,567	
83,466	- Infrastructure assets		98,245	
9,887	- Community assets		13,000	
			<hr/>	2,255,363
	Non-operational assets	24		
44,057	- Investment properties		48,093	
4,132	- Assets under construction		5,230	
52,929	- Surplus assets, held for disposal		180,986	
			<hr/>	234,309
	Total fixed assets			2,495,387
0	Long-term investments			10,000
6,415	Long-term debtors			6,717
7,302	Deferred charges			6,638
5,896	Deferred premiums on early repayment of debt			4,586
	Current assets			
352	- Stocks and work in progress		415	
69,297	- Debtors (net of bad debt provision)	27	69,832	
502	- Payments in advance		4,107	
380,519	- Investments		316,007	
156	- Cash and Bank		160	
	Total current assets		<hr/>	390,521
	Current liabilities			
(5,466)	- Short term borrowing		(26,353)	
(142,535)	- Creditors	27	(133,198)	
(905)	- Receipts in advance		(269)	
(8,241)	- Bank overdraft		(16,343)	
	Total current liabilities		<hr/>	(176,163)
293,679	Net current assets / (liabilities)			214,358
(671,123)	Long-term borrowing	26		(644,770)
(20,012)	Deferred liabilities			(19,692)
(106,290)	Government grants deferred			(121,066)
(22,401)	Capital contributions unapplied			(21,910)
(810)	Deferred credits			(622)
(739)	Deferred discounts on early repayment of debt			(554)
(436,860)	Liability related to defined benefit pension scheme	28		(350,174)
(31,190)	Provisions	30 / 31		(20,511)
1,193,543	Total net assets			<hr/> 1,558,387
(331,654)	Capital Financing Account	35		(392,051)
(1,015,332)	Fixed Asset Restatement Account	34		(1,245,792)
436,860	Pensions reserve	28		350,174
(63,909)	Usable capital receipts reserve	36		(35,028)
(174,989)	Other reserves	32		(187,607)
(26,536)	General Fund Balance			(26,867)
(10,200)	Housing Revenue Account Balance			(11,266)
(7,783)	Collection Fund Balance			(9,950)
(1,193,543)	Total equity			<hr/> (1,558,387)

The Core Financial Statements

The Cash Flow Statement

2005/06 £000	Note	2006/07 £000	2006/07 £000
			870,503
			(957,231)
			39,856
			170,215
			(56,289)
			0
19,440			67,054
			(64,512)
			0
			(64,512)
			5,558
			(2)
			0
			5,556
(4,480)			8,098

Notes to the Core Statements

1. Exceptional Items and Prior Period Adjustments

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

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

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

	Consolidated Revenue A/C in 2005/06 Statement of Accounts £'000	Removal of capital financing charges £'000	Relocation of government grants deferred £'000	Recognition of gains and losses on disposal of fixed assets £'000	2005/06 comparatives in Income and Expenditure Account £'000
Central Services to the Public	13,369	(56)	(196)	-	13,117
Cultural, Environmental and Planning Services	47,147	(2,091)	(224)	-	44,832
Education Services	169,556	(14,406)	(1,465)	-	153,685
Highways, Roads and Transport Services	18,848	(3,969)	(864)	-	14,015
Local Authority Housing (HRA)	4,527	(50,631)	(1,870)	-	(47,974)
Other Housing Services	3,983	(400)	0	-	3,583
Social Services	99,208	(391)	(207)	-	98,610
Non Distributed Costs	4,508	(167)	0	-	4,341
Corporate and Democratic Core	7,306	(486)	(121)	-	6,699
Impact on Net Cost of Services	368,452	(72,597)	(4,947)	0	290,908
Loss on the disposal of fixed assets	-	-	-	-	0
Asset management revenue account (interest payable and similar charges in 2006/07)	(19,562)	72,597	4,947	-	57,982
Impact on Net Operating Expenditure	348,890	0	0	0	348,890

There were no exceptional items to report in the 2006/07 accounts.

2. Charges and Credits to the General Fund

The amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are required by statute and non-statutory proper practices to be charged

Notes to the Core Statements

or credited to the General Fund in determining the movement on the General Fund Balance for the year are as follows.

2005/06 £'000		2006/07 £'000	2006/07 £'000
	Amounts included in the Income and Expenditure Account but required to be excluded when determining the Movement on the General Fund Balance for the year		
(2,580)	- Amortisation of intangible fixed assets	(4,111)	
(16,713)	- Depreciation and impairment of fixed assets	(24,184)	
(911)	- Excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy	(1,701)	
4,947	- Government Grants Deferred amortisation	10,002	
(6,787)	- Write down of deferred charges financed from capital resources	(5,398)	
0	- Net gain or loss on sale of fixed assets	0	
(2,351)	- Amount by which pension costs calculated under FRS 17 differ from contributions due under pension scheme regulations	7,946	
(24,395)			(17,446)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance		
3,566	- Statutory provision for repayment of debt	3,784	
227	- Loss on early debt repayment required by statute	968	
297	- Write down of PFI liability	320	
18,150	- Capital expenditure charged to the General Fund Balance	41,597	
(15,028)	- Transfer from Usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool	(8,323)	
7,212			38,346
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
0	- Statutorily required transfer of the surplus or deficit for the year on the Housing Revenue Account calculated in accordance with statute to the HRA Balance	1,066	
0	- Any voluntary provision for repayment of debt	0	
40,979	- Net transfer to / (from) earmarked reserves	13,125	
40,979			14,191
23,796			35,091

3. Long-term Contracts

In March 2000, the Council entered into a contract (extending to March 2032) with Investors in the Community (Hackney) Ltd, under the Private Finance Initiative (PFI) arrangements. The contract required the contractor to design, build and finance a Technology and Learning Centre to house the administrative staff of the local education authority, Hackney Library and Hackney Museum. Building works began in 1998/99 and the Centre became operational in April 2002.

The charge to the Council will be £3.254 million per year at 2001/02 price level, although 30% of the total annual charges are expected to be met from a PFI Annuity Grant paid by central government. There was an outstanding un-discharged obligation arising from the PFI arrangement of £19.692 million as at 31st March 2007 (£20.012 million as at 31st March 2006).

Notes to the Core Statements

Material commitments under other revenue contracts as at 31st March 2007 relate to the following contracts.

	Date of Expiry	Total Contract Value £'000	Outstanding Amount as at 31/03/07 £'000
Parking Enforcement Contract	Aug-2009	15,000	6,000
Office Stationery and IT consumables	Aug-2009	4,000	2,370
Provision of internal audit services	Mar-2011	4,140	3,314

4. Trading Operations

Following the establishment of an Arm's Length Management Organisation (Hackney Homes Limited) from 1st April 2007, the Council no longer carries out any material activities in a competitive environment.

5. Section 5 Local Government Act 1986 Publicity Expenditure

Section 5(1) of the Local Government Act 1986 requires a separate account to be kept of certain categories of expenditure on publicity by each Local Authority. Expenditure incurred in 2006/07 was as follows.

2005/06 £'000		2006/07 £'000
1,160	Recruitment Advertising	1,145
123	Other Advertising	160
192	Other Publicity	406
<u>1,475</u>		<u>1,711</u>

6. Building Control Account

The Local Authority Building Control Charges Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. The statement below shows the total costs incurred and income generated by the provision of the building control function, analysed between chargeable and non-chargeable services.

2005/06 Chargeable £'000	2005/06 Non- Chargeable £'000	2005/06 Total £'000		2006/07 Chargeable £'000	2006/07 Non- Chargeable £'000	2006/07 Total £'000
Expenditure						
500	269	769	Employees	574	309	883
10	6	16	Transport and Premises	74	40	114
50	27	77	Supplies and Services	25	13	38
35	131	166	Commissioning	69	37	106
193	104	297	Support Recharges	229	124	353
<u>788</u>	<u>537</u>	<u>1,325</u>	Total Expenditure	<u>971</u>	<u>523</u>	<u>1,494</u>
(608)	(87)	(695)	Income	(496)	(267)	(763)
<u>180</u>	<u>450</u>	<u>630</u>	Deficit for the year	<u>475</u>	<u>256</u>	<u>731</u>

Notes to the Core Statements

7. Agency Income and Expenditure

The Council incurred the following expenditure for work carried out on behalf of Transport for London, all of which was reimbursed in full.

2005/06 £'000		2006/07 £'000
25	Bus lanes and routes	0
70	Surface transport	0
145	Other transport related works	73
<u>240</u>		<u>73</u>

8. Local Authorities (Goods and Services Act) 1970

This Act enables local authorities to provide certain types of goods and services to other bodies exercising functions of a public nature. The Council provided building maintenance services to a number of Housing Associations during 2006/07. Income from these services amounted to £0.422 million (£0.405 million in 2005/06) and fully covered expenditure incurred.

In addition, the Council seconded a member of staff to another local authority during 2006/07. The income received of £0.054 million matched the staff costs incurred.

9. Section 31 Health Act 1999 Partnership Schemes

Section 31 of the Health Act 1999 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 enable establishment of joint working arrangements between NHS bodies and local authorities. Such pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. The Council was involved in the following partnership schemes during 2006/07.

2005/06 Gross Income £'000	2005/06 Gross Exp. £'000	2005/06 Council's Contribution £'000	Purpose of Partnership	2006/07 Gross Income £'000	2006/07 Gross Exp. £'000	2006/07 Council's Contribution £'000
250	250	0	NHS Funded Nursing Care	449	355	0
566	566	566	Reimbursement for Delayed Transfers of Care	592	593	592
1,091	1,091	475	First Response Duty Team	1,701	1,693	867
19,952	19,892	12,818	Learning Difficulties Services	20,755	21,015	13,410
226	226	106	Sickle Cell and Thalassaemia Service	363	337	122
0	0	0	Mental Health Services	35,586	36,116	8,169

City and Hackney Teaching Primary Care Trust is a partner body for all of the above arrangements. Homerton Foundation University Hospital NHS Trust is also a partner in the Delayed Transfers of Care partnership. East London & City Mental Health Trust is also a partner in the Mental Health Services partnership.

Notes to the Core Statements

10. Members' Allowances

The total payments to Members of the Council during the year were £1.040 million (£1.005 million in 2005/06). Details of individual members' allowances are published annually in local newspapers.

11. Officer Remuneration

The number of employees whose emoluments were in excess of £50,000 in bands of £10,000 is as follows.

2005/06 No.		2006/07 No.
105	£50,000 - £59,999	121
33	£60,000 - £69,999	37
18	£70,000 - £79,999	20
11	£80,000 - £89,999	9
1	£90,000 - £99,999	3
2	£100,000 - £109,999	3
3	£110,000 - £119,999	5
0	£120,000 - £129,999	0
0	£130,000 - £139,999	0
0	£140,000 - £149,999	0
1	£150,000 - £159,999	1
<u>174</u>		<u>199</u>

12. Related Party Transactions

The Council is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. A number of transactions with related parties are disclosed elsewhere in the notes to the Statement of Accounts.

Companies: Grants and payments totalling £0.168 million (£0.049 million in 2005/06) were made to Groundwork East London. Further details of the relationship with this company are shown in note 25 to the core statements (page 41).

The Council has one subsidiary company, Hackney Homes Limited, further information on which can be found in note 25 to the core statements (page 41). In addition to this the Council is involved in a number of pooled budget arrangements which are detailed in note 9 on page 31.

In August 2002 the London Borough of Hackney entered into a ten-year contract with an independent body – The Learning Trust – at the direction of the Secretary of State for Education and Skills. The Council's education service is run by this not-for-profit private company. A loan was raised in 2006/07 for the Learning Trust contribution towards the Building Schools for the Future management costs to preferred bidder stage. The Trust has agreed to repay the loan of £1,250,000 at a rate of £125,000 per annum. This is an interest free loan.

Central Government: The Council receives a number of service specific and general grants from central government departments. These are included in the core statements and significant grants are disclosed in note 44 on page 55.

Notes to the Core Statements

Senior Officers and Members of the Council: During 2006/07, works and services were commissioned from organisations in which certain members had interests. Contracts were entered into in full compliance with the Council's standing orders and procurement rules. These were immaterial in nature and value. In addition grants were paid to voluntary organisations with which some members had a relationship. The grants were made with proper consideration of declarations of interest, further details of which are contained in the Register of Members Interest on the Council's website.

On the basis of signed declarations, there were the following related party transactions with Chief Officers and Members of the Council in 2006/07.

Educational establishments

Seventeen members were on the governing bodies of schools and colleges and the partner of one member is Chair of Gainsborough Primary School Governing Body.

Housing Associations

Eleven members were on the boards of Housing Associations.

Charities and Community organisations

Six members held interests in Charities. Three members belonged to church based organisations in Hackney which received funding of less than £10,000, in total, during the year.

Twenty members held non-remunerated positions on the boards of not for profit / community organisations based in Hackney. This includes the Council supported Hackney Credit Union for which the partner of one Member is a Director and Secretary.

Cllr Price is on the management board of Hackney City Farm which was allocated funding of £25,000 by the Council during 2006/07.

Cllr Kennedy and Cllr Boyd are board members of Hackney Wick Training Association (a.k.a. UXL), which receives discounted use of Council property. Cllr Kennedy is also a board member of Hackney Wick Community Association, which receives discretionary rate relief from the Council. Cllr Kennedy is also Chair of Youth for Hackney, a voluntary organisation which received several small grants from the Council during 2006/07, the largest of which was less than £5,000.

Cllr Battson is employed by Hackney Community Transport (HCT) which received funding from and contracted with the Council during the year. An HCT associate company, Transport Co-ordination Centre Hackney, also provides paid services to the Council.

Two councillors were members of community arts organisations, of which Chats Palace Arts Centre was allocated funding of £35,000 and Hoxton Hall allocated £50,000 by the Council during 2006/07.

Cllr Glanville and Cllr McKenzie are board members of Hoxton Trust which was allocated £10,000 funds by the Council in 2006/07.

Cllr Crowe is a Council nominated Director of Groundwork East London which received grant funding from the Council and is also a Non-Executive Director of Homerton University Hospital Foundation Trust, for which she received an allowance of £11,000.

Notes to the Core Statements

Cllr Patrick holds a non-remunerated position as Chair of HILT, a voluntary organisation which contracts with the Council to provide support to people with learning difficulties. Cllr Patrick is also a Non-Executive Director of Hackney Primary Care Trust.

Cllr Borris is a director and trustee of Abney Park Cemetery which received grant funding of £30,000 during 2006/07.

The partner of one Member is Co-Chair of TLC Care Services and a Council appointed representative on Hackney Parochial Charities.

Partnership bodies and other companies

Four members were involved in partnership organisations, including The Chief Executive of the Council who is Director of The Learning Trust and Chair of Hackney Crime and Disorder Partnership. All of these bodies were in receipt of contracts and funds granted by Hackney Council, although none of these positions attracted any remuneration or expenses.

The Chief Executive of The Learning Trust is seconded (part-time) to the Council as Interim Corporate Director for Children and Young Peoples Services.

Mayor Jules Pipe is Chair of Team Hackney (previously known as Hackney Strategic Partnership), a partnership dedicated to improving the quality of life for everyone in the borough. The Team Hackney Board oversees the work of other themed partnership boards in Hackney.

Cllr Boyd is a member of Hackney Wick Partnership (formerly Hackney Wick SRB), which also received funding from Hackney Council.

One Member's partner is Chair of City & Hackney Health and Social Care Forum and a Member of City & Hackney Health and Social Care Partnership Board.

Two members were on the boards of SRB projects which received SRB funding although neither received any remuneration.

Cllr Bright, Cllr Alcock, Cllr Lloyd and Cllr Patrick are all Council appointed members of the Hackney Homes management board.

Ten Members did not return related party declaration forms for 2006/07. Of these, six are no longer Members of the Council.

13. Audit Costs

In 2006/07 the Council incurred the following fees relating to external audit and inspection.

2005/06 £'000		2006/07 £'000
561	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	488
151	Fees payable to the Audit Commission in respect of statutory inspection	82
388	Fees payable to the Audit Commission for the certification of grant claims and returns	356
62	Fees payable in respect of other services provided by the appointed auditor	0
1,162		926

Notes to the Core Statements

14. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

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

	Schools Budget funded by DSG		
	Central Exp £'000	ISB £'000	Total £'000
Original grant allocation in the authority's budget	37,248	106,075	143,323
Adjustment to finalised grant allocation	(3,254)	0	(3,254)
DSG receivable for the year	33,994	106,075	140,069
Actual expenditure for the year	33,994	106,075	140,069
(Over)/underspend for the year	0	0	0
Planned top-up funding from Council resources	0	0	0
Use of schools balances brought forward	0	0	0
(Over)/underspend from prior year	0	0	0
(Over)/underspend carried forward to 2007/08	0	0	0

15. Movements on Deferred Charges

The following summarises movements in deferred charges during 2006/07.

2005/06 £'000		2006/07 £'000
7,972	Opening balance as at 1st April	7,302
8,864	Additions	12,447
(2,085)	Funded by grants	(7,049)
(7,449)	Write-down	(6,062)
7,302	Closing balance as at 31st March	6,638

16. Net Assets Employed

The analysis of net assets employed by the General Fund, Housing Revenue Account and trading undertakings is as follows.

2005/06 £'000		2006/07 £'000
179,073	General Fund	346,704
1,014,470	Housing Revenue Account	1,210,175
0	Trading Undertakings	0
1,193,543		1,556,879

Notes to the Core Statements

17. Capital Expenditure and Financing

Capital expenditure in the year amounted to £158.859 million (£107.005 million in 2005/06). Movements in capital expenditure and financing during the year ended 31st March 2007 were as follows.

2005/06 £'000		2006/07 £'000	2006/07 £'000
706,577	Opening Capital Financing Requirement		724,221
	Capital Investment		
1,305	Intangible assets	4,382	
94,897	Tangible operational assets	136,796	
1,439	Tangible non-operational assets	5,234	
8,864	Deferred charges	12,447	
500	Long-term debtors	0	
			158,859
	Sources of Finance		
(11,730)	Capital receipts	(39,641)	
(26,365)	Government grants and other contributions	(32,275)	
(28,364)	Major Repairs Allowance	(21,164)	
(22,902)	Sums set aside from revenue	(46,365)	
			(139,445)
<u>724,221</u>	Closing Capital Financing Requirement		<u>743,635</u>
	Explanation of movements in year		
	Increase in underlying need to borrow		
17,644	- supported by Government financial assistance		19,414
0	- unsupported by Government financial assistance		0
<u>17,644</u>	Increase/(decrease) in Capital Financing Requirement		<u>19,414</u>

18. Commitments under Capital Contracts

The Council has entered into the following significant contracts for capital investment as at 31st March 2007.

Contract	Purpose	Approximate Value £'000	Investment Period
Decent Homes	To bring dwellings up to National Standard	13,951	2007/08
Clissold Leisure Centre	To bring centre into operational use	5,757	2007/08
Bridge Academy	To bring school into operational use	2,317	2007/08
Various School Windows	Modernisation of buildings	1,883	2007/08
Service First Annexe	Building of new corporate offices	1,879	2007/08
Infrastructure Upgrades	Improvement to highways	1,100	2007/08
Sir Thomas Abney School	Modernisation of buildings	1,007	2007/08
Springfield School Fresh Start	Modernisation of buildings	931	2007/08
Highways Planned	Improvement to infrastructure	816	2007/08
Financial Management System	To maintain financial stewardship	680	2007/08
Public Conveniences	Improvement to public spaces	612	2007/08
Astro Turf Projects	Improvement of sports facilities	582	2007/08
Street Lighting	Increased community safety	512	2007/08
Clapton School Sports Facilities	Improvement of sports facilities	478	2007/08
Environmental Improvement Schemes	Improvement to public spaces	468	2007/08
20 MPH Zones	Road safety measure	448	2007/08
Bus Priority	Enhancement to public transport	430	2007/08
CCTV Stoke Newington	Increased community safety	322	2007/08

Notes to the Core Statements

19. Information on Assets Held

Fixed assets owned by the Council as at 31st March 2007 include the following.

2005/06		2006/07
No.		No.
24,083	Council dwellings	23,871
	Operational buildings	
32	Town Halls and other council offices	33
14	Day centres, hostels and homes	15
80	Community halls and advice centres	80
4	Leisure Centres	4
7	Libraries	7
64	Schools and day nurseries	65
11	Playing fields, sports grounds	9
7	Education centres and youth clubs	8
23	Depots, transport yards, workshops and stores	23
5	Car parks	5
3	Public conveniences	4
11	Park lodges, clubs and cafes	11
1	Travellers' site	1
1	Mortuary	1
	Infrastructure assets	
1.53 million	Carriageways (metres ²)	1.53 million
1.05 million	Footways (metres ²)	1.05 million
20	Bridges	20
	Community assets	
68	Parks and open spaces	68
85	Works of art (Chalmers bequest)	85
21	Civic regalia (number of items)	21
1	Anglo Saxon Long Boat	1
1	Javelin Figure	1
	Investment properties	
209	HRA Shops	209
175	Other	175
76	Surplus Assets	89

20. Operating Leases

The Council uses compactors, street sweepers and wheeled bins financed under terms of an operating lease for vehicle, plant, furniture and equipment. The amount paid under these arrangements in 2006/07 was £0.061 million (£0.263 million in 2005/06).

The Council was committed at 31st March 2007 to making payments of £0.044 million (£0.061 million as at 31st March 2006) under operating leases in 2007/08, comprising the following elements.

Notes to the Core Statements

Leases expiring in 2007/08
 Leases expiring between 2008/09 and 2011/12
 Leases expiring after 2011/12

Land and Buildings £'000	Plant and Equipment £'000
0	30
0	14
0	0
0	44

21. Assets recognised under a PFI Arrangement

Movements in the PFI assets (which are included in the operational fixed assets shown in note 24) during the year are as follows.

	Land and Buildings £'000	Plant and Equipment £'000	Total PFI Assets £'000
Gross value as at 01/04/06	25,289	3,908	29,197
Accumulated depreciation as at 01/04/06	(1,874)	(3,908)	(5,782)
Net Book Value as at 01/04/06	23,415	0	23,415
Depreciation for the year	(496)	0	(496)
Net Book Value as at 31/03/07	22,919	0	22,919

22. Fixed Asset Valuations

The Fixed Assets that are shown in the Balance Sheet are:

Operational Assets that are used by the Council to provide services, e.g. council dwellings, offices and libraries.

Non Operational Assets which are owned by the Council but are not directly used to provide services, e.g. commercial properties such as shops on estates, property rented out to community groups and assets under construction which have not yet been brought into use for council services.

Property asset valuations are included in the Balance Sheet at their current value, with the exception of infrastructure and community assets which are shown at net historic cost.

In 2006/07, a new five-year rolling programme for the revaluation of Council assets was started and the effect of these revaluations is reflected in the Movement in Fixed Assets Statement below. The bases of the valuations for the classes of assets are described in the Statement of Accounting Policies.

The valuations were carried out by Mr Hugh Thomas MRICS, Acting Valuation Manager of Property & Facilities Services in the London Borough of Hackney.

The statement below shows the net revaluation figures, as adjusted by other asset movements, for each relevant asset category included within the Council's rolling programme for the revaluation of fixed assets. It also includes other asset categories which are recorded in the Council's balance sheet at historic cost. The bases for valuation are set out in the Statement of Accounting Policies.

Notes to the Core Statements

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra- structure £'000	Community Assets	Total £'000
Valued at current value in						
Current year	1,593,876	142,157	0	0	0	1,736,033
Previous year	0	117,923	0	0	0	117,923
Two years ago	0	58,725	0	0	0	58,725
Three years ago	0	226,870	0	0	0	226,870
Four years ago	0	0	0	0	0	0
	1,593,876	545,675	0	0	0	2,139,551
Valued at historic cost in						
Current year	0	0	(242)	14,779	3,113	17,650
Previous years	0	0	4,809	83,466	9,887	98,162
	0	0	4,567	98,245	13,000	115,812
Total Operational Assets	1,593,876	545,675	4,567	98,245	13,000	2,255,363
		Investment Properties £'000	Assets Under Construct £'000	Surplus Assets £'000		Total £'000
Valued at current value in						
Current year		25,597	0	173,976		199,573
Previous years		22,496	0	7,010		29,506
		48,093	0	180,986		229,079
Valued at historic cost in						
Current year		0	1,098	0		1,098
Previous years		0	4,132	0		4,132
		0	5,230	0		5,230
Total Non-Operational Assets		48,093	5,230	180,986		234,309

23. Intangible Fixed Assets

Movements in intangible assets during the year ended 31st March 2007 were as follows.

	Purchased Software Licences £'000	Licences and Trademarks £'000	Patents £'000	Total Intangible Assets £'000
Gross Value as at 01/04/06	11,779	0	0	11,779
Additions during the year	4,381	0	0	4,381
Transfers during the year	0	0	0	0
Disposals during the year	0	0	0	0
Gross Value as at 31/03/07	16,160	0	0	16,160
Accumulated amortisation as at 01/04/06	(6,334)	0	0	(6,334)
Transfers during the year	0	0	0	0
Amortisation for the year	(4,111)	0	0	(4,111)
Accumulated amortisation as at 31/03/07	(10,445)	0	0	(10,445)
Net book value as at 31/03/07	5,715	0	0	5,715

Notes to the Core Statements

Software licences are held for two systems – Financial Management System and Revenues and Benefits System, which cost £3.499 million and £2.624 million respectively in 2004/05. The cost is being written off over the 5 year life of the licences. There have been no changes to estimated useful life.

24. Tangible Fixed Assets

Movements in tangible fixed assets during the year ended 31st March 2007 were as follows.

Operational Assets	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra-structure £'000	Community Assets £'000	Total Operational Assets £'000
Net book value as at 01/04/06	1,461,985	502,967	4,808	83,466	9,887	2,063,113
Gross Value as at 01/04/06	1,483,739	525,147	15,147	107,821	9,887	2,141,741
Additions	77,837	31,726	5,151	18,969	3,113	136,796
Transfers	0	4,132	0	0	0	4,132
Disposals	(18,926)	0	0	0	0	(18,926)
Impairments	(1,424)	(9,000)	0	0	0	(10,424)
Reversal of impairments	0	7,267	0	0	0	7,267
Revaluations	73,759	17,045	0	0	0	90,804
Gross Value as at 31/03/07	1,614,985	576,317	20,298	126,790	13,000	2,351,390
Accumulated depreciation as at 01/04/06	(21,754)	(22,180)	(10,339)	(24,355)	0	(78,628)
Transfers	0	0	0	0	0	0
Disposals	166	0	0	0	0	166
Depreciation	(21,202)	(13,108)	(5,392)	(4,190)	0	(43,892)
Revaluations	21,681	4,646	0	0	0	26,327
Accumulated depreciation as at 31/03/07	(21,109)	(30,642)	(15,731)	(28,545)	0	(96,027)
Net book value as at 31/03/07	1,593,876	545,675	4,567	98,245	13,000	2,255,363

Non-Operational Assets	Investment Properties £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Non-operational Assets £'000
Net book value as at 01/04/06	44,057	4,132	52,929	101,118
Additions	4	5,230	0	5,234
Transfers	(1,761)	(4,132)	1,761	(4,132)
Disposals	0	0	(275)	(275)
Revaluations and other adjustments	5,793	0	126,571	132,364
Net book value as at 31/03/07	48,093	5,230	180,986	234,309

25. Interest in Companies

The Council formed an Arm's Length Management Organisation (ALMO), effective from April 2006, known as Hackney Homes Limited (HHL). HHL is responsible for

Notes to the Core Statements

managing council homes in Hackney. This includes managing council housing, collecting council housing rents, repairing and maintaining council homes. HHL is a not-for-profit organisation that is 100% owned and controlled by Hackney Council. The Council will continue to be involved in housing and is committed to the strategic management of social housing.

The net liabilities of HHL at 31st March 2007 were £3.858 million, which represents the FRS 17 pension liability. This figure is disclosed based on draft accounts that have yet to be audited. Copies of HHL Annual Report and Financial Statements for 2006/07 can be obtained from:

Mr Neil Isaac CPFA
Director of Finance
Hackney Homes Limited
Christopher Addison House
72 Wilton Way
London
E8 1BJ

The net assets, results of operations and other financial transactions of HHL have been consolidated in the group accounts on pages 64 to 69.

The Council has an interest in Groundwork East London that was incorporated on 31st January 1994. The founder members of the trust are Groundwork Foundation and the London Borough of Hackney. Groundwork East London is a registered charity and a registered company limited by guarantee. In the event that the Trust is wound up, the liability of members is limited to £1 each. Groundwork East London's objective is to promote the conservation, protection and improvement of the environment, provide employment opportunities, provide leisure and recreational facilities and educate and inform the local community and residents about environmental issues.

The net assets of Groundwork East London at 31st March 2007 were £1.473 million (£1.679 million in 2005/06). Outturn for the year ended 31st March 2007 was a £0.1 million deficit (£0.24 million surplus in 2005/06). These figures are disclosed based on draft accounts which have yet to be audited. Copies of the 2006/07 accounts for Groundwork East London can be obtained by contacting Graham Galvin, Director of Finance and Resources [graham.galvin@groundworkeastlondon.org].

26. Analysis of Long-term Borrowing

Borrowing repayable after 31st March 2008, determined by reference to the earliest date on which the lender can require payment, is as follows.

Notes to the Core Statements

2005/06 £'000		2006/07 £'000
	By Lender	
(666,123)	Public Works Loan Board	(639,770)
(5,000)	Westdeutsche Landesbank	(5,000)
(671,123)		(644,770)
	By Maturity	
(26,353)	More than 1 year, less than 2 years	(6,657)
(87,350)	More than 2 years, less than 5 years	(111,494)
(267,172)	More than 5 years, less than 10 years	(247,670)
(92,735)	More than 10 years, less than 15 years	(101,434)
(197,513)	More than 15 years	(177,515)
(671,123)		(644,770)

27. Amounts due to or from Third Parties

The following amounts were due from third parties as at 31st March 2007.

2005/06 Gross Debtor £'000	2005/06 Provision £'000	2005/06 Net Debtor £'000		2006/07 Gross Debtor £'000	2006/07 Provision £'000	2006/07 Net Debtor £'000
50,927	0	50,927	Government depts.	39,842	0	39,842
49,836	(46,771)	3,065	Local taxation	44,263	(37,226)	7,037
26,290	(25,668)	622	Housing rents	27,367	(26,810)	557
65,619	(50,941)	14,678	Sundry debtors	76,769	(54,483)	22,286
5	0	5	Employee loans	110	0	110
192,677	(123,380)	69,297		188,351	(118,519)	69,832

The following amounts were owed to third parties as at 31st March 2007.

2005/06 £'000		2006/07 £'000
(24,896)	Government departments	(22,931)
(5,177)	Section 106 agreements	(8,732)
(15,915)	Local taxation	(14,377)
(5,014)	Housing rents	(3,643)
(91,513)	Sundry creditors	(83,482)
(20)	Employee loans	(33)
(142,535)		(133,198)

28. Defined Benefit Pension Schemes

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

The Council participates in two schemes recognised as defined benefit pension schemes;

Notes to the Core Statements

- London Pension Fund Authority (LPFA) – this scheme is for those employees who, in previous years, were transferred to the Council on the abolition of the Greater London Council, the London Residuary Body and the Inner London Education Authority.
- Local Government Pension Scheme (LGPS), administered by LPFA – this is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The amounts disclosed in the financial statements are based on triennial actuarial valuations carried out by the actuaries as at 31st March 2004.

The Council is responsible for the cost of unfunded pension payments relating to compensatory added years benefits to former employees who were in the LPFA scheme. In 2006/07, this amounted to £0.259 million (£0.234 million in 2005/06).

In addition, the Council is responsible for the ongoing cost of unfunded pension payments relating to compensatory added years benefits paid to former employees who left the Council's service prior to April 1999. Since April 1999, the Council's accounting policy requires service revenue accounts to bear the capitalised cost of any new compensatory benefit decisions by payment of a lump sum into the Pension Fund in the year of account or by instalments within five years of the employment termination date. From 2001/02, the Council no longer awarded added years compensatory benefits. The total cost borne in the 2006/07 accounts in respect of the above commitments was £4.419 million (£4.072 million in 2005/06).

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that we are required to make against council tax is based on the cash payable in the year. The difference between the real cost of retirement benefits and cash payable is adjusted in the Statement of Movement on the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account during the year.

2005/06 LPFA £'000	2005/06 LGPS £'000		2006/07 LPFA £'000	2006/07 LGPS £'000
284	16,280	Current Service Costs	430	17,859
0	10	Past Service Costs	0	204
0	180	Impact of Settlements and Curtailments	32	(8,341)
284	16,470	Net Cost of Services	462	9,722
2,471	45,840	Interest Cost	2,507	46,346
(1,789)	(32,160)	Expected Return on Assets	(1,638)	(36,373)
682	13,680	Net Operating Expenditure	869	9,973
966	30,150	Net Charge to the I&E Account	1,331	19,695

The following transactions have been made in the Statement of Movement on the General Fund Balance during the year.

Notes to the Core Statements

2005/06 LPFA £'000	2005/06 LGPS £'000		2006/07 LPFA £'000	2006/07 LGPS £'000
(966)	(30,150)	Reversal of net charges made for retirement benefits in accordance with FRS 17	(1,331)	(19,695)
78	28,686	Actual amount of employers' contributions charged against the General Fund Balance for pensions in the year	40	28,932

The actuarial gains and losses identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of liabilities at 31st March 2007.

2004/05				2005/06				2006/07			
£'000		%		£'000		%		£'000		%	
				LGPS Hackney Scheme							
				Difference between the expected return and the actual return on assets							
22,400	4.9	85,340	14.6					13,827	2.3		
				Difference between actuarial assumptions about liabilities and actual experience							
34,600	4.1	120	-					1,151	0.1		
				Changes in the demographic and financial assumptions used to estimate liabilities							
(136,100)	-	(114,980)	-					55,932	-		
(79,100)		(29,520)						70,910			
				2002/03							
£'000		%		£'000		%					
				Difference between the expected return and the actual return on assets							
(109,900)	-30.5	58,500	13.1								
				Difference between actuarial assumptions about liabilities and actual experience							
3,800	0.5	(900)	-0.1								
				Changes in the demographic and financial assumptions used to estimate liabilities							
-	-	-	-								
(106,100)		57,600									

Notes to the Core Statements

2004/05		2005/06		LPFA Scheme	2006/07	
£'000	%	£'000	%		£'000	%
249	0.7	1,370	3.7	Difference between the expected return and the actual return on assets	1	-
(335)	-0.7	(82)	-0.2	Difference between actuarial assumptions about liabilities and actual experience	(86)	-0.2
(6,195)	-	(4,777)	-	Changes in the demographic and financial assumptions used to estimate liabilities	1,861	-
<u>(6,281)</u>		<u>(3,489)</u>		Actuarial gain / (loss)	<u>1,776</u>	

Comparative information from the LPFA scheme is not available for the financial years prior to 2004/05.

The underlying assets and liabilities for retirement benefits attributable to the Council at 31st March are as follows.

2005/06 LPFA £'000	2005/06 LGPS £'000	2005/06 Total £'000		2006/07 LPFA £'000	2006/07 LGPS £'000	2006/07 Total £'000
36,600	584,000	620,600	Present value of Fund assets	36,212	595,259	631,471
(52,260)	(1,005,200)	(1,057,460)	Present value of Fund liabilities	(50,765)	(930,880)	(981,645)
<u>(15,660)</u>	<u>(421,200)</u>	<u>(436,860)</u>	Net asset / (liability)	<u>(14,553)</u>	<u>(335,621)</u>	<u>(350,174)</u>

It should be noted that this is an approximation of the level of deficiency prepared for the purposes of the accounting requirement of FRS17 and is not a full actuarial valuation which is used to calculate employer pension contribution rates. The Council's budget provides for additional contributions into the Pension Fund to spread the cost of actuarially assessed deficiencies over the remaining working life-time of scheme members.

The breakdown of the net movement in the liability disclosed above is as follows.

2005/06 £'000		2006/07 £'000
(407,740)	Deficit brought forward 1st April	(436,860)
30,552	Contributions paid	30,664
(16,564)	Current service cost	(18,289)
(10)	Past service cost	(204)
(180)	Settlement and curtailment costs	8,309
(14,362)	Net return on assets	(10,842)
4,453	Other finance charge	4,362
<u>(33,009)</u>	Actuarial (loss) / gain	<u>72,686</u>
<u>(436,860)</u>	Deficit as at 31st March	<u>(350,174)</u>

The main financial assumptions used in calculating the Council's liabilities are as follows.

Notes to the Core Statements

2005/06		2006/07
%		%
3.1	Rate of inflation	3.2
4.6	Rate of increase in salaries	4.7
3.1	Rate of increase in pensions	3.2
4.9	Rate for discounting scheme liabilities	5.4

There were no material prepaid or accrued pension contributions at the balance sheet date.

The information set out below shows the estimated fair value of each class of assets held by the Fund as at 31st March 2007 and the expected rates of return for the ensuing year.

2005/06	2005/06	2005/06		2006/07	2006/07	2006/07
Fair value	Proportion of	Expected	Asset Class	Fair value	Proportion of	Expected
£'000	assets	Return		£'000	assets	Return
	%	%			%	%
422,880	68.15	7.40	Equities	428,448	67.85	7.80
75,600	12.18	5.50	Property	81,087	12.84	5.80
73,500	11.84	4.60	Other Bonds	67,805	10.74	4.90
30,380	4.90	4.20	Cashflow Matching	30,347	4.81	4.50
18,150	2.93	4.60	Cash	23,784	3.77	4.90
620,510			Total	631,471		

The FRS 17 valuation carried out by the actuary did not take account of the effect of any changes in the demographic assumptions underlying the present value of the Fund's liabilities.

Changes to the LGPS permit employees retiring on or after 6th April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The pension figures provided above assume a 25% take-up of this allowance by members.

29. Teachers' Pension Scheme

The Teachers' Pension Scheme meets the definition of a defined benefit pension scheme but is recognised as if it were a defined contribution scheme in accordance with CIPFA accounting practice.

In 2006/07, the Council paid an employer's contribution of £6.895 million (£6.544 million in 2005/06) to the Teachers Pension Agency, representing 13.50% to the end of December 2006 and then 14.1% to the end of March 2007 (13.50% in 2005/06) of pensionable pay of teachers who were in this scheme.

In addition, the Council is responsible for the cost of unfunded pension payments relating to compensatory added years benefits to former employees who were in the Teachers Pension Agency scheme. In 2006/07, this amounted to £0.935 million (£0.843 million in 2005/06) representing 1.85% (1.74% in 2005/06) of pensionable pay.

Notes to the Core Statements

30. Insurance Provision

The Council maintains an insurance provision as a risk management fund covering anticipated liabilities for employers' public liability, officers' indemnity and property damage and other risks. This provision is based on an annual review by independent actuaries. The provision as at 31st March 2007 was £10.734 million (£11.398 million as at 31st March 2006). In addition, there is a sum of £250,000 held in client accounts by the Council's claims' handlers. Of the use of the provision, a further £2.099 million (£4.430 million in 2005/06) was released back to the revenue account in 2006/07. In addition to the above and following a review of the overall levels of the provision and the insurance reserve, an amount of £1.051m has also been released from the insurance reserve in 2006/07 (£1.000m transferred to the reserve in 2005/06).

The insurance risks are annually reviewed and any new or emerging risks are managed or insured as appropriate. There is no unfunded material risk to the Council.

31. Other Provisions

These provisions have been set aside to cover the following potential liabilities as at 31st March 2007.

	Note	B/fwd 1st April £'000	Additions to provisions £'000	Use/Release of Provision £'000	C/fwd 31st March £'000
Housing (HRA)	i	(888)	(6)	558	(336)
Government grants	ii	(8,788)	(3,006)	6,341	(5,453)
Housing General Fund	iii	(200)	0	0	(200)
SS Mental Health Reimbursement	iv	(2,628)	0	1,620	(1,008)
Dilapidations	v	(2,400)	0	1,560	(840)
Technology Learning Centre rent	vi	(2,337)	(383)	2,720	0
Costs of Partnerships	vii	(239)	0	239	0
HRA Legal Disrepair cases	viii	(1,500)	(516)	1,086	(930)
Additional Service Team staff costs	ix	(64)	0	0	(64)
Unclaimed community grants	x	(244)	0	244	0
Underfunding of TUPE pensions	xi	(291)	0	0	(291)
Service reviews	xii	(213)	0	213	0
Service restructures	xiii	0	(159)	0	(159)
Energy costs	xiv	0	(133)	0	(133)
Unresolved CYP transactions	xv	0	(363)	0	(363)
		(19,792)	(4,566)	14,581	(9,777)
Insurance Provision	30	(11,398)	(6,173)	6,837	(10,734)
		(31,190)	(10,739)	21,418	(20,511)

- i. The Housing provision relates to a number of potential outstanding liabilities relating to the HRA and is reviewed on an annual basis to ensure that justification remains for the provision.
- ii. Provision has been made on a prudent basis for potential reductions in grant following audit of the related grant claims and resolution of outstanding issues.

Notes to the Core Statements

- This relates principally to Housing Benefit Subsidy, Sport England Grant, Unaccompanied Asylum Seeking Children Grant and Sure Start Grant.
- iii. Provision has been made for outstanding claims from housing associations relevant to Housing (General Fund) in respect of dilapidations.
 - iv. Provision has been made in respect of likely reimbursement of accommodation charges to mental health clients made in previous years.
 - v. Provision has been made for the cost of making good dilapidations on leased buildings where the Council has an obligation on termination of the lease.
 - vi. Provision was previously made for the cost of meeting rent due for the Technology and Learning Centre in future years. This has been transferred to an equivalent reserve.
 - vii. Provision was previously made for costs that might have arisen from contracts with partners which is no longer required.
 - viii. Provision has been made from the HRA to cover the cost of cases arising from disrepair claims against the Council.
 - ix. Provision has been made for the additional staff costs arising from the decision to bring Service Team in-house during the 2002/03 financial year. This relates principally to outstanding leave entitlements.
 - x. Provision was previously made for grants that had been awarded to community groups but not claimed, which is no longer required.
 - xi. This relates to the transfer of staff to the Learning Trust. At the point of transfer in August 2002, current indications are that there was a shortfall in the actuarial valuation of the Pension Fund relating to these staff.
 - xii. Provision was previously made for the ongoing costs of service reviews which have either been utilised or are no longer required.
 - xiii. Provision has been made for the costs of redundancy and re-grading arising from changes in structures agreed during 2006/07.
 - xiv. Provision has been made for a potential over-recovery of energy costs which were recharged during 2006/07 and are subject to further analysis.
 - xv. Provision has been made for a number of unresolved potential liabilities within children's social care services.

32. Movements on Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans. The following movements on reserves took place during the year.

Notes to the Core Statements

	Note	B/fwd 1st April £'000	(Gains)/ Losses for the year £'000	Movement between reserves £'000	C/fwd 31st March £'000
ICT Systems Replacement Reserve	i	(8,345)	2,387	0	(5,958)
Fleet Maintenance & Replacement	ii	(1,725)	709	54	(962)
Corporate Debt Restructuring	iii	(1,725)	0	0	(1,725)
Government Initiatives	iv	(6,325)	0	0	(6,325)
School Asset Management Plan Reserve	v	(9,522)	(1,965)	0	(11,487)
Redundancies	vi	(1,243)	(665)	0	(1,908)
Unspent Contingencies and Balances	vii	(13,825)	(1,139)	2,648	(12,316)
Pensions Backfunding	viii	(21,333)	602	0	(20,731)
Parking Schemes & Systems	ix	(1,050)	(348)	0	(1,398)
Service 1st Accommodation & Implementation	x	(10,096)	(1,228)	0	(11,324)
Revenue Contribution to Capital	xi	(29,454)	(10,233)	(2,300)	(41,987)
Homelessness	xii	(6,838)	550	0	(6,288)
Leisure & Sports Facilities Improvement	xiii	(12,195)	4,797	0	(7,398)
General Legal Costs	xiv	(2,000)	625	0	(1,375)
Highways Improvement	xv	(2,662)	1,943	0	(719)
Olympics	xvi	(9,901)	689	0	(9,212)
Insurance	xvii	(7,600)	1,051	0	(6,549)
Adults & Older People	xviii	(2,515)	(860)	(88)	(3,463)
Other Community Services	xix	(958)	78	0	(880)
Children & Young People	xx	(608)	(774)	(1,003)	(2,385)
Neighbourhood & Regeneration	xxi	(4,110)	1,856	(54)	(2,308)
Corporate & Customer	xxii	(40)	(1,636)	0	(1,676)
HRA General	xxiii	(17,405)	(4,594)	0	(21,999)
Other General Fund	xxiv	(3,514)	(4,463)	743	(7,234)
Total General Earmarked Reserves		(174,989)	(12,618)	0	(187,607)
Capital Related Reserves	xxv	(1,410,895)	(261,976)	0	(1,672,871)
General Fund (incl Schools Balances)	xxvi	(26,536)	(331)	0	(26,867)
Housing Revenue Account	xxvii	(10,200)	(1,066)	0	(11,266)
Collection Fund	xxviii	(7,783)	(2,167)	0	(9,950)
Pensions Reserve	xxix	436,860	(86,686)	0	350,174
Total Equity		(1,193,543)	(364,844)	0	(1,558,387)

- i. This reserve has been used to meet the costs of replacing key IT systems such as the Human Resource system, Revenues & Benefits system and the Financial Management System (FMS) as well as wider ICT improvements. The balance will be used to finance the implementation of further improvements of the FMS programme and to meet the costs of ICT improvements and developments within the approved Capital Programme.
- ii. This reserve has been set up to finance the cost of maintenance and eventual replacement of Council vehicles.
- iii. The Corporate Debt Restructuring Reserve is earmarked to contribute towards the costs of additional premiums payable as a result of the early redemption of external borrowing. Such redemption takes place on the advice of professional treasury management advisors and is timed to take maximum advantage of market conditions. The timing of such transactions is not therefore known substantially in advance. The reserve is required in the context of the Council's overall aim to reduce borrowing.
- iv. This reserve is to meet the Council's likely contributions towards setting up the structure and arrangements to deliver new Government initiatives including the

Notes to the Core Statements

- Building Schools for the Future (BSF) initiative. This reserve will be used over the lifetime of the BSF programme.
- v. This reserve has been set up to meet potential Council contributions towards the delivery of improved school facilities and demand for additional school places arising from new housing developments.
 - vi. This reserve is earmarked to cover the potential costs of redundancies arising from reshaping of the Council's service delivery.
 - vii. This reserve consists of directorate underspends that are being carried forward from 2006/07 and previous financial years which will be utilised to meet planned service priorities, one-off costs and spend-to-save schemes in future years.
 - viii. This reserve was set up in 2002/03 and additional sums added in subsequent financial years. £1.5m has been released in 2006/07 and the balance will be used over a number of future financial years to fund additional payments to the Pension Fund not provided within the Council's budget.
 - ix. This reserve has been earmarked to cover the costs of a number of parking related schemes including the replacement of the parking enforcement fines collection software.
 - x. This reserve has been established to finance the ongoing costs of the Council's Service First initiative including forward funding in advance of capital receipts income from the sale of assets.
 - xi. This reserve is derived from unused Revenue Contributions to Capital Outlay (RCCO) which have been budgeted for in previous years, partly reflecting one-off resources arising from Collection Fund surpluses which have been earmarked to meet capital expenditure. It will be fully utilised in 2007/08 and future years for funding schemes within the approved Capital Programme.
 - xii. This reserve provides for a number of potential liabilities including changes to the level of Government contributions towards the cost of temporary accommodation and supporting people risks. The reserve will be used for one-off items of expenditure and spend-to-save projects that enable any future net cost reduction requirements to be achieved.
 - xiii. This reserve includes monies set aside for the future improvement of leisure facilities within the borough, including the Clissold and King's Hall Leisure Centres.
 - xiv. This reserve has been established to finance future legal costs arising that are not covered within directorate baseline budgets.
 - xv. This reserve was established to finance schemes aimed at improving the Council's highway infrastructure. It is anticipated that such expenditure will lead to fewer insurance claims against the Council as well as improve the general character of the borough.
 - xvi. This reserve is in respect of costs of initiatives that will ensure that Hackney derives the maximum ongoing benefits from the 2012 London Olympics.
 - xvii. The insurance reserve provides contingency cover for uninsured losses and potential future insurance claims.
 - xviii. There are a number of service-specific reserves relating to services for Adults and Older People of which the most significant are £0.986m to meet reductions in Supporting People grant and renegotiation of contracts and £0.954m for future costs associated with adult care packages.
 - xix. There are a number of smaller reserves relating to other Community Services of which the most significant is £0.3m in respect of the libraries service review.

Notes to the Core Statements

- xx. There are several service-specific reserves relating to services for Children and Young People of which the most significant are £1m towards mitigating the risk of additional commissioning costs associated with the volatility of demand for children's placements and £0.868m to fund continuing costs associated with the implementation of the Children's service.
- xxi. There are a range of smaller service-specific reserves within Neighbourhood and Regeneration services of which the largest is £0.356m for the NLWA levy reserve, which represents the funding to meet the likely cost increases arising from the proposals to upgrade and enhance the NLWA's waste recycling and disposal facilities.
- xxii. These are a number of smaller reserves relating to Customer and Corporate Services, the majority of which are in respect of the Council's corporate property service initiatives.
- xxiii. This represents largely the HRA Right Sizing Reserve of £21.765m which is intended to help plan to reduce costs and/or increase income to eliminate future years deficits estimated in the HRA Medium Term Planning Forecast.
- xxiv. There are finally a number of other General Fund reserves not specifically related to particular services of which the most significant are the Technology and Learning Centre Rent Reserve of £2.72m which will be utilised to equalise the net cost of the PFI scheme over the term of the 30 year contract and a reserve of £1.9m in respect of potential Housing & Council Tax Benefit subsidy reductions in future years.
- xxv. This balance represents the total on the Capital Financing Account, the Fixed Asset Restatement Account, and the Useable Capital Receipts Reserve which relate to capital transactions which are set out in detail in notes 35, 34 and 36 respectively.
- xxvi. This represents the balance as set out in the Statement of Movement on the General Fund Balance and includes balances held under schemes to finance schools.
- xxvii. This represents the balance as set out in the Statement of Movement on the HRA Balance included in the Supplementary Financial Statements.
- xxviii. This represents the balance as set out in the Collection Fund included in the Supplementary Financial Statements.
- xxix. The debit balance on the Pension Reserve is equal to the amount of the net liability for retirement benefits included in the Balance Sheet, as estimated for the purposes of the accounting requirement of FRS17.

33. Schools' Balances

The General Fund revenue balance is now £26.867 million (£26.536 million in 2005/06) and includes £11.873 million under Local Management of Schools (LMS) (£11.542 million in 2005/06). These LMS balances are committed to be spent on the Education Service. The following is an analysis of LMS balances between under-spent and overspent balances.

2005/06		2006/07
£'000		£'000
(12,929)	Underspent balances	(12,487)
1,387	Overspent balances	614
(11,542)	Net LMS balances	(11,873)

Notes to the Core Statements

34. Fixed Asset Restatement Account

The Fixed Asset Restatement Account represents principally the balance of surpluses or deficits arising on the periodic revaluation of assets.

2005/06		2006/07
£'000		£'000
(1,388,213)	Balance at 1st April	(1,015,332)
33,432	Disposals	19,035
339,449	Revaluations and other movements	(249,495)
(1,015,332)	Balance at 31st March	(1,245,792)

35. Capital Financing Account

The Capital Financing Account provides a balancing mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.

2005/06		2006/07
£'000		£'000
(313,806)	Balance at 1st April	(331,654)
38,533	Surplus depreciation over repayment of long term debt	44,220
	Capital financing	
(4,947)	- Government grant	(10,450)
(11,730)	- Capital receipts	(39,641)
(28,363)	- Major Repairs Reserve	(21,164)
(18,150)	Revenue contributions	(41,597)
6,787	Write-off of deferred charges	5,398
0	Impairment adjustment	3,157
22	Other	(320)
(331,654)	Balance at 31st March	(392,051)

36. Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve distinguishes amounts in the reserve from any capital receipts that have been posted to the Capital Financing Account to reduce the Council's underlying requirement to borrow or pay to the Government.

2005/06		2006/07
£'000		£'000
	Source of capital receipts	
(64,290)	Brought forward from previous year	(63,909)
(22,333)	Sale of Council Dwellings	(17,222)
(3,384)	Sale of other land & property	(1,630)
(263)	Mortgage principal repayments	(185)
(332)	Housing Association mortgage repayments	0
(65)	Improvement grants	(46)
(90,667)	Total Receipts	(82,992)
	Application of capital receipts	
11,730	Financing of capital expenditure	39,641
15,028	Appropriation to I&E A/C re pooled Housing capital receipts	8,323
63,909	Total usable capital receipts carried forward to next year	35,028
90,667		82,992

Notes to the Core Statements

37. Contingent Liabilities and Contingent Assets

Legal claims are being considered for professional negligence against two of the Council's consultants in relation to a leisure facility. An estimate of either the value or timing of the contingency cannot be made at this time.

Whilst the Council has largely completed the implementation of Single Status across its workforce, there are various issues that remain to be resolved. These include agreeing rights of appeal and the implications of having placed staff on anchor points with no incremental progression, the implications of the recently completed equal pay audit and consideration to the division of scale points 2-8 into separate grades as staff currently on these points do not enjoy incremental progression. It is believed that the potential financial impact of these issues is limited given the number and grade of staff involved and because the trade union side was fully consulted on the implementation.

Under the management agreement with Hackney Homes Limited, the Council is liable for any remaining FRS 17 deficit in relation to the pre transfer value at inception, on the company's pension fund, should the company be liquidated. At 31st March 2007 the FRS17 actuarial valuation showed a £3.858 million deficit on the Hackney Homes Limited pension scheme.

The Council are in discussions with the Home Office regarding its entitlement to Asylum Seekers grant in respect of prior financial years from 2002/03 to 2004/05. The Council are seeking full reimbursement of the amount of £3.7 million currently accrued in respect of these years but the Home Office are seeking to reduce the amount payable.

38. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by Tim Hannam, Interim Director of Finance and Resources, on 22nd June 2007. There were no significant events to report which took place between the balance sheet date (31st March 2007) and the date of authorisation for issue.

39. Trust Funds and Other Third Party Funds

The Council administers a number of Trust Funds as sole trustee, which do not form part of the Council's assets, as follows.

	B/fwd 1st April £'000	Receipts £'000	Payments £'000	C/fwd 31st March £'000
Saunders Trust Fund	(252)	(11)	0	(263)
Chalmers Bequest Trust Fund	(21)	(13)	13	(21)
Albion Grove Trust Fund	(10)	(2)	1	(11)
Others	(16)	0	0	(16)
	<u>(299)</u>	<u>(26)</u>	<u>14</u>	<u>(311)</u>

Notes to the Core Statements

The Saunders Trust was established in 1936 to provide deserving men and women residing in the former Metropolitan Borough of Hackney with benefits and pensions.

The Chalmers Bequest Fund was established to provide funding for the Chalmers Gallery and scholarships for students.

The Albion Grove Trust was established to provide or assist in providing facilities for the recreation or other leisure time occupation in the interest of social welfare with the object of improving the conditions of life for the inhabitants of the area of benefit.

The other trust funds are held for a variety of purposes including prize funds and war memorial funds.

There were no material liabilities outstanding as at 31st March 2007 in relation to the Trust Funds.

In addition to the above Trust Funds, the Council administers funds on behalf of vulnerable service users amounting to a value of £403k as at 31st March 2007 (£391k as at 31st March 2006).

40. Reconciliation of Net (Surplus)/Deficit on the Income and Expenditure Account to Revenue Activities Net Cash Flow from Cash Flow Statement

2005/06 £'000		2006/07 £'000
2,837	Operating Deficit/(Surplus) on Income and Expenditure Account	(3,565)
	Movement in current assets/liabilities	
(7)	- Stocks	63
21,405	- Debtors	4,140
7,912	- Creditors	9,973
(28,821)	Movement in provisions and reserves	(1,939)
	Items accounted for elsewhere and non-cash items	
(114,697)	- Capital charges	(58,206)
18,084	- Interest received	16,053
(18,150)	- Contribution to capital outlay	(41,597)
44,069	- Other internal transfers	(11,650)
(67,368)	Net cash flow on revenue activities	(86,728)

41. Reconciliation of Movement in Cash to Movement in Net Debt

	Balance at 1st April £'000	Cash Inflow £'000	Cash Outflow £'000	Balance at 31st March £'000
Long term borrowing	(671,123)		26,353	(644,770)
Temporary borrowing	(5,466)	(20,906)	19	(26,353)
Total loans	(676,589)	(20,906)	26,372	(671,123)
Cash inflow from increase in liquid resources	380,519	(64,512)		316,007
Decrease in cash overdraft	(8,085)	(8,098)		(16,183)
Total movement in net debt	(304,155)	(93,516)	26,372	(371,299)

Notes to the Core Statements

42. Reconciliation of Financing and Management of Liquid Resources items in the Cash Flow Statement to related items in the opening and closing Balance Sheets for the period

	Balance at 1st April	Movement in year	Balance at 31st March
	£'000	£'000	£'000
Liquid resources			
Temporary investments	380,519	(64,512)	316,007
Financing			
Long term borrowing	(671,123)	26,353	(644,770)
Temporary borrowing	(5,466)	(20,887)	(26,353)
	<u>(676,589)</u>	<u>5,466</u>	<u>(671,123)</u>

43. Liquid Resources

The Council's liquid resources are short-term investments (up to 364 days) of cash which is surplus to immediate requirements. During 2006/07 the Council took an investment decision to place £75 million in long term investments (over 364 days).

44. Analysis of Government Grants shown in the Cash Flow Statement

2005/06 £'000		2006/07 £'000
0	Dedicated Schools Grant	(140,069)
(56,769)	Housing Subsidy	(53,688)
(20,128)	Neighbourhood Renewal Fund	(18,131)
(22,900)	Supporting People	(22,504)
(25,134)	Standards Fund	(26,185)
(67,114)	Miscellaneous Grants	(116,784)
<u>(192,045)</u>		<u>(377,361)</u>

45. Discretionary Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the UK and mayoral appeals. The Council incurred no expenditure under this power during 2006/07 or in the previous five years.

The Supplementary Financial Statements

The Housing Revenue Account Income and Expenditure Account

2005/06 £000		Note	2006/07 £000	2006/07 £000
Income				
(77,985)	Dwelling rents (gross)		(82,130)	
(2,221)	Non-dwelling rents (gross)		(2,318)	
(15,639)	Charges for services and facilities		(17,833)	
(3,048)	Contributions towards expenditure		(1,633)	
(54,102)	HRA subsidy receivable (including the MRA element)	8	(54,322)	
(1,870)	Amortisation of government grants		(2,183)	
(449)	Bad debts provision		(475)	
<u>(155,314)</u>				(160,894)
Expenditure				
34,682	Repairs and maintenance		33,101	
43,561	Supervision and management		49,153	
757	Rents, rates, taxes and other charges		730	
22,807	Depreciation and impairment of fixed assets	6	24,289	
159	Debt Management Costs		152	
<u>101,966</u>				107,425
(53,348)	Net Cost of HRA Services as included in the Income and Expenditure Account			(53,469)
5,374	Amortisation of deferred charges	7		3,179
0	HRA services share of Corporate and Democratic Core			403
<u>(47,974)</u>	Net Cost of HRA Services			(49,887)
0	Gain or loss on sale of HRA fixed assets			0
45,266	Interest payable and similar charges			45,843
703	Amortisation of premiums and discounts			0
(2,157)	Interest and investment income			(2,106)
0	Pensions interest cost and expected return on pensions assets			0
<u>(4,162)</u>	Surplus or deficit for the year on HRA services			(6,150)

The Statement of Movement on the HRA Balance

2005/06 £000		Note	2006/07 £000
(4,162)	Increase or decrease in the HRA Balance comprising:		(6,150)
	(Surplus) / Deficit for the year on the Income and Expenditure		
	Additional items required by statute and non-statutory proper practices		
227	- Difference between interest payable and similar charges including amortisation of premiums and discounts		968
(3,504)	- Difference between other items of income and expenditure		(2,420)
0	- Gain or loss on sale of HRA fixed assets		0
1,876	- HRA share of contributions to or from the Pensions Reserve	9	3,173
0	- Capital expenditure funded by the HRA		250
(911)	- Transfer to/from Major Repairs Reserve	3	(1,701)
6,474	- Transfers to / (from) revenue reserves		4,814
0			(1,066)
<u>(10,200)</u>	HRA Balance brought forward		(10,200)
<u>(10,200)</u>	HRA Balance carried forward		(11,266)

The Supplementary Financial Statements

1. Land, Housing Stock and Other Property

2005/06			2006/07	
No.	Number of dwellings		No.	
44	Hostels		42	
2,157	Houses and bungalows		2,149	
21,862	Flats and maisonettes		21,680	
<u>24,063</u>	Stock at 31st March		<u>23,871</u>	
£'000	Value of assets		£'000	
1,446,556	Dwellings		1,588,810	
35,562	Other Property		38,960	
63,313	Non-operational assets		99,635	
<u>1,545,431</u>	Values at 31st March		<u>1,727,405</u>	

2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at 1st April 2006 was £4,137 million (£3,856 million as at April 2005). The difference of £2,543 million between vacant possession value and the Balance Sheet value of dwellings within the HRA shows the economic cost to Government of providing council housing at less than open market rents.

3. Major Repairs Reserve

2005/06			2006/07	
£'000			£'000	
(6,467)	Balance at 1st April		0	
(22,807)	Amount transferred to Major Repairs Reserve during financial year		(22,865)	
911	Transfer to the HRA for amount of depreciation on non-dwellings		1,701	
28,363	Capital expenditure on houses during financial year		21,164	
<u>0</u>	Balance at 31st March		<u>0</u>	

4. Capital Expenditure

The following summarises HRA capital expenditure on land, houses and other property during the financial year and the sources of funding used.

2005/06		2005/06			2006/07		2006/07	
Houses	Other Property	Houses	Other Property		Houses	Other Property	Houses	Other Property
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
61,430	0	61,430	0	Expenditure	88,791	0	88,791	0
<u>61,430</u>	<u>0</u>	<u>61,430</u>	<u>0</u>		<u>88,791</u>	<u>0</u>	<u>88,791</u>	<u>0</u>
				<i>Funded by</i>				
16,626	0			Borrowing	18,929	0		
11,730	0			Usable capital receipts	39,891	0		
4,711	0			Grants and contributions	8,807	0		
28,363	0			Major Repairs Reserve	21,164	0		
<u>61,430</u>	<u>0</u>				<u>88,791</u>	<u>0</u>		

The Supplementary Financial Statements

5. Capital Receipts

The following is a summary of capital receipts from disposals of land, houses and other property within the HRA during the financial year.

2005/06 £'000		2006/07 £'000
100	Land	0
25,842	Houses	18,753
0	Other Property	275
<u>25,942</u>		<u>19,028</u>

6. Depreciation and Impairment Charges

The Item 8 Determination states that the Housing Revenue Account should be charged with depreciation, and this has been calculated as follows.

2005/06 £'000		2006/07 £'000
	Operational assets	
21,896	Dwellings	21,164
911	Other land and buildings	1,701
<u>22,807</u>		<u>22,865</u>

There was £1.424 million impairment of HRA fixed assets during 2006/07.

7. Deferred Charges

There is an amount of £3.179 million (£5.374 million in 2005/06) in respect of the amortisation of deferred charges included within the cost of capital charge, determined in accordance with proper practice, in respect of land, houses or any other property within the Council's Housing Revenue Account.

8. HRA Subsidy

HRA Subsidy is a Government grant paid by Communities and Local Government (CLG) towards the costs of local authority housing. It represents the shortfall of notional rent and other income against expenditure deemed by central government to have been incurred for management and maintenance and charges for capital within the elements set out in the general formula in paragraph 3.1 of the General Determination of Housing Revenue Account Subsidy for the respective financial years. The calculation of HRA Subsidy is as follows.

The Supplementary Financial Statements

2005/06		2006/07
£'000		£'000
57,066	Management and maintenance	59,105
21,896	Major Repairs Allowance	21,164
53,508	Charges for capital	54,712
163	Other expenditure	46
<u>132,633</u>	Total notional expenditure	<u>135,027</u>
	<i>less</i>	
(76,019)	Rents	(80,629)
(59)	Other income	(76)
<u>(76,078)</u>	Total notional income	<u>(80,705)</u>
<u>56,555</u>	Housing Revenue Account (HRA) Subsidy	<u>54,322</u>

The amount shown in the HRA Income and Expenditure Account for 2005/06 is further reduced by £2.453 million representing an adjustment to prior year subsidy control account.

9. Pension Reserve

The Housing Revenue Account contributed £3.173 million to the Pension Fund Reserve in 2006/07 (£1.876 million in 2005/06). This is a result of including a charge to the HRA in accordance with FRS17: Accounting for Retirement Benefits. The Council has adopted option (c) of the guidance received from CIPFA in respect of the HRA and the FRS17 accounting requirements, which allows for only the current service cost to be included in the HRA on the grounds of proper practice. This is reversed out through the Statement of Movement on the HRA Balance and therefore has no impact on the statutory increase or decrease in the HRA Balance.

10. Rent Arrears

During 2006/07 permanent tenants and licence arrears, as a proportion of gross income due, remained at 17% representing no change from 2005/06. The arrears at 31st March 2007 are set out below.

2005/06		2006/07
£'000		£'000
	Type of tenancy	
15,322	Permanent (including licences)	14,798
1,176	Temporary	1,297
<u>16,498</u>	Total arrears	<u>16,095</u>
(15,828)	Less Provision for bad and doubtful debts	(15,528)
<u>670</u>	Net Arrears	<u>567</u>

The average rent for permanent tenants was £75.18 per week in 2006/07, an increase of £2.24 (3.1%) over the 2005/06 average rent of £72.94 per week.

The total provision included in the balance sheet in respect of all HRA uncollectible debts is £19.4 million (£19.6 million as at 31st March 2006).

The Supplementary Financial Statements

11. Exceptional Items and Prior Period Adjustments

The following prior year adjustments were required to the 2006/07 Housing Revenue Account statements, in accordance with the accounting policy changes outlined in note 1 to the core financial statements (page 28).

	HRA in 2005/06 Statement of Accounts £'000	Removal of capital financing charges £'000	Relocation of government grants deferred £'000	Treatment of premiums and discounts £'000	2005/06 comparatives in Income and Expenditure Account £'000
Impact on Net Cost of Services	4,527	(50,631)	(1,870)	-	(47,974)
Asset management revenue account (interest payable and similar charges in 2006/07)	(10,739)	56,005	0	-	45,266
Amortisation of premiums and discounts	930	-	-	(227)	703
Interest and investment income	(2,157)	0	0	0	(2,157)
Impact on Net Operating Expenditure	(7,439)	5,374	(1,870)	(227)	(4,162)

The Supplementary Financial Statements

The Collection Fund

2005/06 £000		Note	2006/07 £000
	Income		
(60,449)	Council Tax (net of benefits, discounts and transitional relief)	1	(65,960)
	Transfers from General Fund		
(29,501)	- Council Tax benefits		(29,818)
0	- Transitional relief		3
0	- Discounts for prompt payment		0
(51,270)	Income collectable from business ratepayers		(53,755)
(101)	Adjustment of previous years' community charges Contributions		0
0	- Towards previous year's Collection Fund deficit		0
	Expenditure		
	Precepts and demands from County and District		
64,559	- London Borough of Hackney		66,869
16,463	- Greater London Authority		19,329
	Business rate		
50,735	- Payment to national pool		53,229
535	- Costs of collection		526
	Bad and doubtful debts		
0	- Write-offs not already provided for		0
2,223	- Provisions	3	(589)
	Contributions towards current year's estimated Collection Fund surplus		
2,056	- Preceptors		2,325
	Contributions towards previous year's estimated Collection Fund surplus		
9,214	- London Borough of Hackney		5,674
2,270	- Preceptors		0
6,734	Movement on fund balance		(2,167)
(14,517)	Accumulated balance brought forward at 1st April 2006	4	(7,783)
<u>(7,783)</u>	Accumulated balance at 31st March 2007		<u>(9,950)</u>

1. Council Tax Base

Council Tax income was received from the following sources.

2005/06 £'000		2006/07 £'000
89,950	Gross bills	95,775
(29,501)	Less Council Tax Benefit	(29,818)
0	Add Transitional relief adjustment	3
<u>60,449</u>	Income from Council Tax	<u>65,960</u>

Council Tax income derives from charges raised according to the value of residential properties. These have been classified into eight valuation bands utilising estimated 1st April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Greater London Authority and the Council for the forthcoming year and dividing this by the Council Tax Base (the total number of properties in each band, adjusted by a proportion to convert the number to a Band D equivalent, and adjusted for discounts and non collection), which is 66,973 for 2006/07 (64,659 for 2005/06). This basic amount of Council Tax for Band D property, £1,287.06 for 2006/07 (£1,253.07 for

The Supplementary Financial Statements

2005/06), is multiplied by the proportion specified for the particular band to give an individual amount due.

2005/06 No.		Ranges from/to £	£	Valuation List	After Discounts and Adjustments	Proportion	2006/07 No.
2,351.61	Band A	up to	40,000	4,648	3,534	0.67	2,356
19,715.31	Band B	40,001	52,000	31,149	25,367	0.78	19,730
21,387.11	Band C	52,001	68,000	28,836	24,421	0.89	21,708
12,540.25	Band D	68,001	88,000	14,931	13,013	1.00	13,013
9,688.25	Band E	88,001	120,000	8,825	8,021	1.22	9,803
5,192.06	Band F	120,001	160,000	3,880	3,614	1.44	5,220
1,706.67	Band G	160,001	320,000	1,120	1,020	1.67	1,700
69.00	Band H	320,001	and above	45	33	2.00	67
<u>72,650.26</u>				<u>93,434</u>	<u>79,023</u>		<u>73,597</u>
89%	Collection rate assumed in the budget setting						91%
<u>64,659</u>	Council Tax base						<u>66,973</u>

2. National Non-Domestic Rates

NNDR is organised on a national basis. The Government specifies an amount (43.3 pence in 2006/07 and 42.2 pence in 2005/06) and, subject to the effects of transitional arrangements following the revaluation in 2005, local businesses pay rates calculated by multiplying their rateable value by that amount. From 2005/06, the Government also specified a small business non-domestic rating multiplier (42.6 pence in 2006/07 and 41.5 pence in 2005/06). The Council is responsible for collecting rates due from Business Ratepayers in its area but pays the proceeds into an NNDR Pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population. Total Non Domestic Rateable Value, for the Council's area, was £184.953 million at 31st March 2007 (£188.569 million at 31st March 2006).

3. Bad Debts

2005/06 Total £'000		2006/07 Council Tax £'000	2006/07 NNDR £'000
(46,824)	Provision brought forward	(34,600)	(12,171)
(2,604)	Provision (made)/released	589	5,098
2,657	Write-offs charged directly to the bad debt provision	3,858	0
<u>(46,771)</u>	Provision carried forward	<u>(30,153)</u>	<u>(7,073)</u>

Only the movements on the provision made or released are charged to the Collection Fund directly. For Council Tax, this is shown as a discrete item on the face of the Collection Fund, whereas movement in the NNDR provision is included within the payment to the National Pool.

4. Collection Fund Surplus

The estimate of the surplus on the Collection Fund as at 31st March 2007, which was made on the 15th January 2007 for the purposes of the 2007/08 budget, was £7.936 million. An element of this surplus amounting to £1.780 million will be paid to the Greater London Authority (GLA) in 2007/08.

The Supplementary Financial Statements

The actual overall surplus on the Collection Fund at 31st March 2007 is £12.885 million. The increase in the surplus compared with the estimate made in January will be taken into account in the calculation of the surplus as at 31st March 2008 for the purposes of the 2008/09 budget. The amount of the additional surplus which will be paid to the GLA in 2008/09 is estimated at £1.154 million.

The total amount of the surplus of £12.885 million which will therefore be paid to the GLA is estimated at £2.934 million. This amount has been included in the Collection Fund as a creditor and the accumulated balance of £9.950 million at 31st March 2007 therefore represents the estimated amount available to support this Council's budget in 2007/08 and 2008/09.

The Group Accounts

The Group Income and Expenditure Account

2005/06 Net Expenditure £000	Expenditure by Service	2006/07 Gross Expenditure £000	2006/07 Gross Income £000	2006/07 Net Expenditure £000
13,117	Central Services to the Public	240,186	231,993	8,193
44,832	Cultural, Environmental and Planning Services	67,075	19,139	47,936
153,685	Education Services	169,046	150,688	18,358
14,015	Highways, Roads and Transport Services	38,511	22,419	16,092
(47,974)	Local Authority Housing (HRA)	114,835	163,371	(48,536)
3,583	Other Housing Services	52,958	41,592	11,366
98,609	Social Services	150,885	38,945	111,940
6,699	Corporate and Democratic Core	29,360	20,673	8,687
4,341	Non Distributed Costs	4,563	8,817	(4,254)
<u>290,907</u>	Net Cost of Services	<u>867,419</u>	<u>697,637</u>	<u>169,782</u>
0	(Gain) / Loss on disposal of fixed assets			0
6,406	Levies			5,845
0	(Surplus) / Deficit on trading undertakings or other operations			0
58,962	Interest payable and similar charges			56,451
15,028	Amounts payable into the Housing Capital Receipts Pool			8,323
(18,084)	Interest and investment income			(16,254)
14,362	Pensions interest cost and expected return on pensions assets			10,429
0	Taxation of group entities			0
0	Minority interest share of profits of subsidiaries			0
<u>367,581</u>	Net Expenditure			<u>234,576</u>
(73,773)	Income from the Collection Fund			(72,543)
(249,179)	General government grants			(32,860)
(69,436)	Distribution from non-domestic rate pool			(163,851)
<u>(24,807)</u>	(Surplus) / Deficit for the year			<u>(34,678)</u>

Reconciliation of the Single Entity Surplus or Deficit For the Year to the Group Surplus or Deficit

2005/06 £000		2006/07 £000
(24,807)	Surplus or deficit on the authority's single entity Income and Expenditure Account for the year	(35,422)
0	Less: subsidiary dividend income and any other distributions from group entities	0
0	Add: surplus or deficit arising from subsidiary included in group accounts	744
<u>(24,807)</u>	Group Account surplus or deficit for the year	<u>(34,678)</u>

The Group Statement of Total Recognised Gains and Losses

2005/06 £000		2006/07 £000
(24,807)	(Surplus) / Deficit for the year	(34,678)
339,449	(Surplus) / Deficit arising on revaluation of fixed assets	(249,496)
33,009	Actuarial gains and losses on pension fund assets and liabilities	(69,572)
0	Movement on the Collection Fund Balance	(2,167)
0	Movement on reserves within the Housing Revenue Account	(4,814)
0	Any other gains and losses required to be included in the STRGL	(259)
<u>347,651</u>	Total recognised gains and losses for the year	<u>(360,986)</u>

The Group Accounts

The Group Balance Sheet

2005/06 £000		Note	2006/07 £000	2006/07 £000
5,445	Intangible assets			5,715
	Tangible fixed assets			
	Operational assets			
1,461,985	- Council dwellings		1,593,876	
502,967	- Other land and buildings		545,675	
4,808	- Vehicles, plant, furniture and equipment		4,567	
83,466	- Infrastructure assets		98,245	
9,887	- Community assets		13,000	
			<hr/>	2,255,363
	Non-operational assets			
44,057	- Investment properties		48,093	
4,132	- Assets under construction		5,230	
52,929	- Surplus assets, held for disposal		180,986	
			<hr/>	234,309
2,169,676	Total fixed assets			2,495,387
0	Long-term investments			10,000
6,415	Long-term debtors			6,717
7,302	Deferred charges			6,638
5,896	Deferred premiums on early repayment of debt			4,586
	Current assets			
352	- Stocks and work in progress		415	
69,297	- Debtors (net of bad debt provision)	7	70,662	
502	- Payments in advance	7	926	
380,519	- Investments		316,007	
156	- Cash and Bank		3,283	
	Total current assets		<hr/>	391,293
	Current liabilities			
(5,466)	- Borrowing repayable on demand or within 12 months		(26,353)	
(142,535)	- Creditors	7	(133,646)	
(905)	- Receipts in advance		(269)	
(8,241)	- Bank overdraft		(16,587)	
	Total current liabilities		<hr/>	(176,855)
	Net current assets / (liabilities)			214,438
(671,123)	Long-term borrowing			(644,770)
(20,012)	Deferred liabilities			(19,692)
(106,290)	Government grants deferred			(121,066)
(22,401)	Capital contributions unapplied			(21,910)
(810)	Deferred credits			(622)
(739)	Deferred discounts on early repayment of debt			(554)
(436,860)	Liability related to defined benefit pension scheme	5		(354,032)
(31,190)	Provisions			(20,591)
1,193,543	Total net assets			<hr/>
				1,554,529
(331,654)	Capital Financing Account			(392,051)
(1,015,332)	Fixed Asset Restatement Account			(1,245,792)
436,860	Pensions reserve			353,288
(63,909)	Usable capital receipts reserve			(35,028)
0	Profit and Loss			744
(174,989)	Other reserves			(187,607)
(26,536)	General Fund Balance			(26,867)
(10,200)	Housing Revenue Account Balance			(11,266)
(7,783)	Collection Fund Balance			(9,950)
(1,193,543)	Total group balances and reserves			<hr/>
				(1,554,529)

The Group Accounts

The Group Cash Flow Statement

2005/06 £000		2006/07 £000	2006/07 £000
	Revenue Activities		
(67,368)	Net cash inflow from revenue activities		(89,413)
	Returns on Investments and Servicing of Finance		
	Cash outflows		
57,600	- Interest paid	54,945	
	Cash inflows		
(17,809)	- Interest received	(15,283)	
			39,662
0	Taxation		0
	Capital Activities		
	Cash outflows		
92,621	- Purchase of fixed assets	147,768	
500	- Purchase of long-term investments	10,000	
8,864	- Other capital cash payments	12,447	
	Total capital cash outflows	170,215	
	Cash inflows		
(26,219)	- Sale of fixed assets	(19,083)	
(26,779)	- Capital grants received	(29,461)	
(1,970)	- Other capital cash receipts	(7,745)	
	Total capital cash inflows	(56,289)	
	Net cash flow from capital activities		113,926
	Acquisitions and Disposals		
	Cash outflows		
0	- Investments in subsidiary undertakings		0
19,440	Net cash inflow/(outflow) before financing		64,175
	Management of Liquid Resources		
(60,969)	Net increase/(decrease) in short-term deposits	(64,512)	
0	Net increase/(decrease) in other liquid resources	0	
			(64,512)
	Financing		
	Cash outflows		
37,062	- Repayments of amounts borrowed	5,558	
0	- Capital element of finance lease rental payments	0	
	Cash inflows		
(13)	- New loans raised	(2)	
0	- New short-term loans	0	
(4,480)	Net decrease/(increase) in cash		5,556
			5,219

Notes to the Group Accounts

Notes have only been made to the group accounts where disclosures are materially different from those shown in the Council's single entity accounts.

1. The Group

The Accounts and Audit Regulations 2003 require local authorities with interests in subsidiaries, associates and joint ventures to prepare group accounts in addition to their single entity financial statements. The Council has considered its interests in and relationships with all types of entity to determine the scope of its local authority group.

In compliance with the 2006 Statement of Recommended Practice (SORP) for Local Authorities, group accounts have been prepared for the one organisation which falls within the definition of group accounts and has a material effect on the financial statements. This organisation is Hackney Homes Limited (HHL). In accordance with the SORP the Council has accounted for its interest in HHL as a wholly owned subsidiary.

HHL is a Council controlled company established with no share capital and limited by guarantee. The Council can appoint one third of the board, with the balance of directors being drawn from Council tenants (including Leaseholders) and members of the wider community.

The Council delegated responsibility for managing council homes in Hackney to HHL, with effect from April 2006, under a 5 year management agreement. This includes managing council housing, collecting council housing rents, repairing and maintaining council homes. The Council continues to be involved in housing and is committed to the strategic management of social housing.

2. Accounting Policies

The financial statements in the group accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 7 to 14, with the following additions and exceptions.

1. Retirement Benefits

The employees of HHL are members of a company occupational pension scheme, which is a defined benefits scheme. Accounting policies consistent with those of the Council have been adopted. The Council has indemnified HHL against any under-funding of the Pension Scheme relating to any transferred employees up to 31st March 2006. Any deficit from April 2007 is the responsibility of HHL.

3. Basis of Consolidation

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and the balances of the Council and HHL. This is in accordance with FRS 2 (Accounting for Subsidiary Undertakings).

Notes to the Group Accounts

At the time of consolidation both the Council's and Hackney Homes' accounts were still subject to audit.

4. Hackney Homes Net Assets and Results of Operations

In 2006/07 HHL reported a turnover of £37.063 million, a loss for the year of £0.744 million and a balance sheet net liability of £3.858 million. The net liability is in respect of the FRS 17 Pension Liability.

5. Pension Fund Liabilities

2005/06 LBH £'000	2005/06 HHL £'000	2005/06 Total £'000		2006/07 LBH £'000	2006/07 HHL £'000	2006/07 Total £'000
620,600	0	620,600	Present value of Fund assets	631,471	55,478	686,949
(1,057,460)	0	(1,057,460)	Present value of Fund liabilities	(981,645)	(59,336)	(1,040,981)
<u>(436,860)</u>	<u>0</u>	<u>(436,860)</u>		<u>(350,174)</u>	<u>(3,858)</u>	<u>(354,032)</u>

The movement in net pension liabilities for 2006/07 is as follows.

2005/06 LBH £'000	2005/06 HHL £'000	2005/06 Total £'000		2006/07 LBH £'000	2006/07 HHL £'000	2006/07 Total £'000
(407,740)	0	(407,740)	Net liability 1st April	(436,860)	(8,809)	(445,669)
30,552	0	30,552	Contributions paid	30,664	3,546	34,210
(16,564)	0	(16,564)	Current service cost	(18,289)	(4,588)	(22,877)
(10)	0	(10)	Past service cost	(204)	0	(204)
(180)	0	(180)	Settlement and curtailment costs	(500)	(115)	(615)
(14,362)	0	(14,362)	Net return on assets	(10,842)	413	(10,429)
4,453	0	4,453	Other finance charge	4,362	0	4,362
(33,009)	0	(33,009)	Actuarial (loss)/gain	81,495	5,695	87,190
<u>(436,860)</u>	<u>0</u>	<u>(436,860)</u>	Deficit as at 31st March	<u>(350,174)</u>	<u>(3,858)</u>	<u>(354,032)</u>

The opening liability for HHL is based on an actuarial valuation of past service liabilities and assets allocated to Hackney Homes at 1st April 2006 (the date HHL joined the Pension Fund).

6. Pension Reserves

Unrealised actuarial gains and losses on pension reserves for the group are as follows.

Notes to the Group Accounts

2005/06 LBH £'000	2005/06 HHL £'000		2006/07 LBH £'000	2006/07 HHL £'000
86,710	0	Difference between the expected return and the actual return on assets	13,828	1,251
38	0	Difference between actuarial assumptions about liabilities and actual experience	9,874	11
(119,757)	0	Changes in the demographic and financial assumptions used to estimate liabilities	57,793	4,433
<u>(33,009)</u>	<u>0</u>		<u>81,495</u>	<u>5,695</u>

7. Debtors and Creditors

All intra-group transactions have been removed from both the Council's and HHL debtors and creditors.

2005/06 LBH £'000	2005/06 HHL £'000	2005/06 Total £'000		2006/07 LBH £'000	2006/07 HHL £'000	2006/07 Total £'000
69,297	0	69,297	Debtors	66,953	3,709	70,662
502	0	502	Payments in advance	926	0	926
(142,535)	0	(142,535)	Creditors	(131,818)	(1,828)	(133,646)

8. Reconciliation of Net Surplus or Deficit on the Group Income and Expenditure Account to the Revenue/Operating Activities Net Cash Flow

2005/06 £'000		2006/07 £'000
2,837	Net Deficit/(Surplus) on Group Income and Expenditure Account	(3,370)
	Movement in current assets/liabilities	
(7)	- Stocks	63
21,405	- Debtors	9,229
7,912	- Creditors	2,085
(28,821)	Movement in provisions and reserves	(2,019)
	Items accounted for elsewhere and non-cash items	
(114,697)	- Capital charges	(58,206)
18,084	- Interest received	16,053
(18,150)	- Contribution to capital outlay	(41,597)
44,069	- Other internal transfers	(11,651)
<u>(67,368)</u>	Net cash flow on revenue activities	<u>(89,413)</u>

The Pension Fund Accounts

The Pension Fund Account

2005/06 £000	Note	2006/07 £000	2006/07 £000
Dealings with members, employers and others directly involved in the scheme			
	3		
(14,691)	Contributions receivable from employers	(20,497)	
0	Normal	0	
(19,200)	Special	(18,100)	(38,597)
	3		
(6,545)	Contributions receivable from members		(7,045)
0	Normal		
	Transfers in		
(7,862)	Group transfers in from other schemes and scheme mergers	(33)	
	Individual transfers in from other schemes	(6,422)	(6,455)
	Other income		
0	Claims on term insurance policies	0	
0	Other income	0	0
	Benefits payable		
25,335	Pensions	25,982	
1,793	Commutation of pensions and lump sum retirement benefi	2,346	
0	Purchased annuities	0	
207	Lump sum death benefits	252	28,580
	Payments to and on account of leavers		
44	Refunds of contributions	14	
190	State scheme premiums	20	
0	Purchased annuities	0	
0	Group transfers out to other schemes	626	
9,281	Individual transfers out to other schemes	5,860	6,520
783	Administrative expenses borne by the scheme		812
<u>(10,665)</u>	Net additions/(withdrawals) from dealings with members		<u>(16,185)</u>
Returns on investments			
	Investment income		
(1,666)	Interest from fixed interest securities	(1,778)	
(10,858)	Dividends from equities	(12,771)	
(341)	Income from index-linked securities	(286)	
0	Income from pooled investment vehicles	0	
(19)	Net rents from properties	(1)	
(523)	Interest on cash deposits	(735)	
0	Share of profit/losses of associates and joint ventures	0	
0	Other investment income	(9)	
(111,294)	Change in market value of investments	(40,487)	
0	Taxation	0	
1,857	Investment management expenses	2,124	
<u>(122,844)</u>	Net returns on investments		<u>(53,943)</u>
(133,509)	Net increase/(decrease) in the fund during the year		<u>(70,128)</u>
(482,254)	Add: Opening net assets of the scheme		<u>(615,763)</u>
<u>(615,763)</u>	Closing net assets of the scheme		<u>(685,891)</u>

The Pension Fund Accounts

The Net Assets Statement

2005/06 £000	Note	2006/07 £000	2006/07 £000
Investment assets			
26,786		39,906	
13,489		14,420	
22,998		22,901	77,227
300,454		342,577	
139,050		138,602	481,179
13,248		10,458	
60		53	
373		374	10,885
0		0	
0		0	
0		0	0
0		0	
79,514		91,427	91,427
0			0
0			0
14,800			7,694
51			46
(9,514)			3,415
<u>601,309</u>	8		<u>671,873</u>
0			0
Fixed assets			
Borrowings			
0		0	
0		0	0
Net current assets and liabilities			
1,196		2,666	
(433)		(14)	
9,265		10,644	
4,426		722	
<u>14,454</u>			<u>14,018</u>
<u>615,763</u>			<u>685,891</u>

1. Basis of Preparation

The financial statements have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme, and deal with net assets at the disposal of the Pensions Sub-Committee. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in note 10 of these financial statements.

2. Accounting Policies

The London Borough of Hackney Pension Fund is operated under regulations made by Communities and Local Government (CLG) under Section 7 of the Superannuation

The Pension Fund Accounts

Act 1972. The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (ACOP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Pension Fund statements have been prepared in accordance with the provisions of chapter 2 of the Pensions SORP. The Pension Fund Accounts are not consolidated in the accounts of the Council. The Pension Fund Accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis in accordance with ACOP. The Accounts do not take account of pension liabilities, or other liabilities, relating to periods after 31st March 2007.

Investments are shown in the accounts at market values (at the close of business on 31st March 2007) which have been determined as follows.

- a) Listed Securities are valued at mid market prices.
- b) Unlisted Securities are valued by the respective Fund Managers using the most appropriate financial information.
- c) Unit Trusts are valued at the mid point price quoted by their respective Managers, or at the global closing price where there is a single price point.
- d) Overseas Investments are valued at their sterling equivalent value at the Balance Sheet date.
- e) The fund does not currently hold any direct property holdings and therefore does not employ a separate property valuer at this stage.

3. Contributions Receivable and Transfers In

Employee contributions are prescribed in the Local Government Pension Scheme Regulations 1997. For most employees, the rate is 6% of pensionable pay, although some employees have a lower rate of 5% if employed before April 1998 in certain occupations.

Employer contributions are determined by the Fund's Actuary on the basis of triennial actuarial valuations of the Fund to take account of the current service cost of future pension liabilities and any deficits in the valuation of the Fund at the valuation date. The employer contribution rate in 2006/07 was 15.3% of pensionable pay plus a lump sum cash payment of £18.1 million.

The number of employees contributing towards the Fund in 2006/07 was 4,669 (4,363 in 2005/06) including employees of external organisations undertaking works or services transferred from the Council, and who were treated as "Admitted Bodies" within the Pension Scheme Regulations. In addition there were four scheduled bodies. Active members employed by external organisations during 2006/07 were 1,174 (741 in 2005/06). The significant increase in the number of employees under scheduled bodies occurred following the establishment of Hackney Homes Ltd which saw significant numbers of employees being TUPEd to the new organisation. The employer contribution rate for admitted bodies and scheduled bodies is set by the Actuary taking into account their respective employee profiles, and the assets and liabilities of those employers.

The Pension Fund Accounts

Contributions for all employers and employees in the Scheme amounted to £45.6 million for 2006/07 (£40.4 million in 2005/06). The contributions received from the respective employers within the Fund are as follows.

2005/06		2006/07
£'000		£'000
37,419	LB Hackney	37,063
2,815	Admitted Bodies	3,608
202	Scheduled Bodies	4,971
40,436		45,642

Admitted Bodies during 2006/07 were Renaisi Ltd, Kingsmead Homes Ltd, Northgate Information Solutions (UK) Ltd, Clapton Community Housing, The Learning Trust, Hanover Housing Association, Wetton Cleaning Ltd, Shoreditch Trust, KGB Cleaning Services Ltd and Greenwich Leisure Ltd. Separate scheduled bodies during the year were Brooke House Sixth Form College, Mossbourne Community Academy, Petchey Academy and Hackney Homes.

In addition to the employer contributions paid as a percentage of annual pensionable pay to the Pension Fund, additional monetary contributions have been paid to reduce the historic service deficit and these amounted to £18.1 million during 2006/07 (£19.2 million in 2005/06).

Group transfers into the Hackney Pension Scheme during 2006/07 amounted to £0.03 million (nil in 2005/06).

ACOP requires the analysis of employer and employee contributions to be shown between normal, additional and special contributions. There were no special contributions from either employers or employees during 2006/07 or the previous year. The analysis of employee contributions between normal and additional is not broken down separately.

4. Benefits Payable

Pensions paid out during the year amounted to £26.0 million (£25.3 million in 2005/06). Due to changes in the regulations from 1st April 2006, commuted pensions were £0.86 million during 2006/07. At the end of 2006/07, there were 5,818 persons in receipt of pensions from the Fund (5,811 in 2005/06) including 1,160 (1,135 in 2005/06) who were widow(ers) or dependants of former employees. The respective benefit payments by employer are set out below.

2005/06		2006/07
£'000		£'000
26,999	LB Hackney	28,000
336	Admitted Bodies	506
0	Scheduled Bodies	74
27,335		28,580

The Pension Fund Accounts

5. Payments To and On Account of Leavers

Deferred members of the Pension Fund transferring membership to new employers gave rise to transfer payments out of the Scheme during 2006/07 of £5.9 million (£9.3 million in 2005/06). Group transfers out to other schemes during the year were £0.63 million for 2006/07 (2005/06 – nil).

6. Administration Expenses

The costs of investment management and pension administration are charged to the Pension Fund. Investment Management Expenses in 2006/07 were £2.124 million compared to £1.857 million in 2005/06. Administration expenses in 2006/07 were £0.812 million (£0.783 million in 2005/06). An analysis of the breakdown of administrative expenses is shown below.

2005/06 £'000		2006/07 £'000
250	Finance Department Recharge	280
480	Pension Administration	491
53	Miscellaneous	41
<u>783</u>		<u>812</u>

7. Change in Market Value of Investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year including profits and losses on sales of investments during the year.

2005/06 £'000		2006/07 £'000
(51,322)	Opening balance as at 1st April unrealised (profit)/loss	(133,197)
<u>(133,197)</u>	Closing balance as at 31st March unrealised (profit)/loss	<u>(138,123)</u>
(81,875)	Movement during the year unrealised (profit)/loss	(4,926)
<u>(29,419)</u>	(Profit)/Loss realised during the year	<u>(35,561)</u>
<u>(111,294)</u>	Net change in market value of investments	<u>(40,487)</u>

The rate of return on the Fund (capital appreciation/depreciation and investment income) was 9.1% over the financial year ended 31st March 2007 (26.2% in 2005/06).

8. Investments

The Fund's investments are held in a wide range of assets to ensure diversification, and to optimise returns whilst having regard to the management of risk. The movement in asset classes over the year is largely a reflection of the relative performance of those assets; there have been no major asset allocation decisions taken over the year. The following is a breakdown of investments across the various asset classes.

The Pension Fund Accounts

2005/06			2006/07	
£'000	%		£'000	%
		Investment Asset		
		Fixed Interest Securities (UK)		
26,786	4.46	Government Bonds	39,906	5.94
22,998	3.83	Corporate Bonds	22,901	3.41
		Fixed Interest Securities (overseas)		
13,489	2.24	Government Bonds	14,420	2.14
		Index Linked Securities (UK)		
13,248	2.20	Government Bonds	10,458	1.56
373	0.06	Corporate Bonds	374	0.05
		Index Linked Securities (Overseas)		
60	0.01	Government Bonds	53	0.01
		Equities		
300,454	49.97	United Kingdom	342,577	50.99
139,050	23.12	Overseas	138,602	20.63
		Property		
0	0.00	Freehold	0	0.00
79,514	13.22	Unit Trust	91,427	13.61
51	0.01	Unquoted Managed Funds	46	0.01
5,286	0.88	Fund Manager Cash Deposits	11,109	1.65
601,309	100.00		671,873	100.00

The value of purchases at cost in 2006/07 was £358.5 million (£314.4 million in 2005/06) and the value of disposals for 2006/07 was £298.5 million (£296.2 million in 2005/06).

9. Fund Management

The Fund's investments are managed by five principal Investment Managers according to defined benchmarks which are set out in the Statement of Investment Principles. The following is a breakdown of the investments between the Investment Managers.

2005/06			2006/07	
£'000	%		£'000	%
		Investment Manager		
156,403	26.01	RCM (Global Equities)	172,139	25.62
162,141	26.97	AXA Rosenberg (Global Equities)	178,236	26.53
123,463	20.53	UBS (Indexed UK Equities)	138,075	20.55
78,188	13.00	ISIS (Fixed Interest)	90,269	13.44
79,514	13.22	Threadneedle Property Unit Trust	91,405	13.61
579	0.10	Other Direct Investments	884	0.13
95	0.02	Credit Suisse (Direct Property)	94	0.01
926	0.15	London Borough of Hackney	771	0.11
601,309	100.00		671,873	100.00

10. Actuarial Valuation

The actuarial valuation of the Pension Fund is carried out every three years by an independent actuary appointed by the Fund; the current actuary Hymans Robertson last carried out a full valuation of the Pension Fund as at 31st March 2004. The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund, and the expected rate of

The Pension Fund Accounts

investment returns held by the Fund. Other factors which influence the valuation, and are taken into account by the actuary, include anticipated pay and pension inflation, and mortality rates.

The Fund's actuary Hymans Robertson used the projected unit method of valuation for the fund as a whole, and for employers who continue to admit new members. For employers who no longer admit new entrants, the attained age method was used. The key financial assumptions adopted by the actuary were as follows.

- Discount Rate – before retirement 6.3% nominal, 3.4% real.
- Discount Rate – after retirement 6.3% nominal, 3.4% real.
- Pay Increases – 4.4% nominal, 1.5% real.
- Price Inflation/Pension Increases – 2.9% nominal, 0% real.

The primary purpose of the valuation is to establish appropriate rates for each employer participating in the Fund, and the rates applied will reflect the experience of each employer during the three year period between valuations. The contribution rates for employers paying into the Fund in 2006/07 were determined by the actuary following the valuation carried out as at 31st March 2004. The valuation at that date indicated that the Fund held assets of £427 million but that the anticipated liabilities of the Fund were £668 million, giving rise to a valuation deficit of £241 million, or a funding level equivalent to 64%. Following consultation with the actuary, and targeting a recovery period of 14 years for the Council, an employer contribution rate of 11.9% of pensionable pay was set commencing on 1st April 2005 plus cash lump sum payments of £19.2 million for the financial year to 31st March 2006, £20.9 million for the year ended 31st March 2007, and £21.8 million for the year ended 31st March 2008.

Following the revocation of the '85 year rule' in 2005, the actuary undertook an interim valuation of the Fund to determine the costs to the Fund of the revocation and to assess the funding level. Following that valuation and subsequent discussions with the actuary, it was agreed by the Pensions Sub-Committee of the Council to increase the contribution rate to 15.3% to better reflect the future service costs of paying for future pensions of current employees. The new rate of 15.3% had been applied for the financial year 2006/07 and will be applied to 2007/08, but effective only for the Council itself. However, to offset this increase, the additional cash lump sum payment was reduced for the financial year 2006/07 to £18.1 million and for 2007/08 the additional lump sum will be £18.8 million. None of the other employers in the Fund were affected by this change.

11. Additional Voluntary Contributions

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund. The scheme provider is Prudential, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions. Funds are invested across a range of Funds with the majority of investments being made into a With Profits Cash Accumulation Fund. The total value of sums invested in the AVC funds as at 31st March 2007 was £6.75 million (£6.39 million as at 31st March 2006). Contributions received into the AVC facility during the year amounted to £0.38 million

The Pension Fund Accounts

(£0.32 million in 2005/06). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

Additional voluntary contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

12. Transactions with Related Parties

The Pension Fund is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Pension Fund, or to be controlled or influenced by the Pension Fund. Details of the Pension Fund's related party transactions for 2006/07 are as follows.

- Hackney Council Recharge to the Pension Fund included in the Administration costs for £0.28 million (£0.25 million in 2005/06).
- Council Members of the Pensions Sub-Committee - The following Councillors were also members of the Local Government Pension Scheme (LGPS) during the year – Cllr James Cannon, Cllr Daniel Kemp, Cllr Samantha Lloyd, Cllr Christopher Sills, Cllr Geoff Taylor, Cllr Faizullah Khan, Cllr James Carswell, Cllr Matthew Coggins and Cllr Rob Chapman.
- Cllr Samantha Lloyd is a board member of Hackney Homes Ltd, which became a scheduled body within the Pension Fund from 1st April 2006.
- Cllr James Carswell is a board member of Shoreditch Trust which was an admitted body to the pension fund during the financial year 2006/07.

13. Statement of Investment Principles

The Pension Fund has a Statement of Investment Principles (SIP) which was last reviewed and consulted upon before being approved by the Pensions Fund Sub-Committee in September 2005. A copy of the SIP is included in the full Pension Fund Report and Accounts; alternatively a copy can be found on the pension website www.yourpension.org.uk/hackney or obtained from Treasury and Pensions, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU.

The Pension Fund is broadly compliant with the principles laid down by the Myners Report, and is compliant with the ten principles of investment practice set out in the CIPFA pension panel, with the exception of two minor points under Activism: the Fund does not employ an external voting agency and does not believe that there are sufficient means to currently measure the effectiveness of voting activism; also the Fund has yet to comply with the performance measurement for external advisors, other than fund managers.

14. Events after the Balance Sheet date

Since the year end, Northgate Information Solutions has ceased to be a separate admitted body following the loss of the ICT contract; the new contractor had a broadly comparable scheme and did not seek admission status to the pension fund.

The Pension Fund Accounts

On 4th April 2007 the Communities and Local Government Department issued amending regulations – the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 which come into force on 1st April 2008. These form part of the overall reform of the LGPS, with further regulations due to be issued shortly which will cover transitional arrangements and the administration arrangements. These will impact on the funding and administration of the Pension Fund going forward. The actuary will be taking the new regulations into account when undertaking the actuarial review as at 31st March 2007 and will impact upon the contribution rates that employers in the Fund have to pay from 1st April 2008.

Glossary of terms

Accounting standard: Those developed by the Accounting Standards Board (ASB) are contained in Financial Reporting Standards (FRSs). Soon after it started its activities, the ASB adopted the standards issued by the Accounting Standards Committee (ASC), so that they also fall within the legal definition of accounting standards. These are designated Statements of Standard Accounting Practice (SSAPs). Whilst some of the SSAPs have been superseded by FRSs, some remain in force. Auditors expect accounting standards to be complied with and any departure must be disclosed in the published accounts.

Asset: Something of worth which is measurable in monetary terms and relates to items in the Balance Sheet. Assets can be fixed (tangible or intangible) or current.

Balance sheet: A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period. The Balance Sheet shows the financial position of an organisation at a point in time.

Band proportions: The proportion that a domestic property bears in relation to the 'standard' Band D Council Tax, expressed in ninths as specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' and so on.

Capital charge: Charge to revenue for the use of fixed assets in providing services, consisting of depreciation, amortisation of intangible assets and/or impairment of fixed assets.

Capital expenditure: Expenditure on items which have a long term benefit for more than one financial year, e.g. the purchase of land and property, design and construction of buildings, purchase of major equipment and vehicles etc.

Capital grants deferred: Contains capital grants applied, offset by the release of grant to service revenue accounts to match the depreciation charged over the useful life of the asset for which the grant was used. The total release of grant is fully offset by a transfer to the Capital Financing Account.

Capitalisation: Certain items of revenue expenditure may be deemed to be of a "capital nature" and therefore transferred to the capital accounts to be funded from capital receipts or borrowing. This normally applies to such items as salaries of staff engaged on work related to the capital programme etc.

Capital receipts: Income from the sale of capital assets, mainly Council dwellings but including all sales of land, buildings and plant. Capital receipts can be used to repay the debt on outstanding loans (the reserved part of capital receipts) or to finance new capital expenditure (the usable part of capital receipts).

Collection Fund: A separate account into which Community Charge, Council Tax and NNDR are paid in order to meet payments due to the Council's General Fund, the Greater London Authority and contribution to the NNDR Pool.

Comprehensive Performance Assessment (CPA): This was introduced in 2002 as a way of supporting councils to deliver improvements in services to local people. CPA

Glossary of terms

brings together existing information on service performance in councils with a corporate assessment of a council's ability to improve. This is used to reach an overall judgement of whether a council is excellent, good, fair, weak or poor.

Council tax: A system of local taxation introduced from 1st April 1993 as a replacement for community charge. It is set by both the billing and precept authorities at a level determined by the council tax base for the area.

Council tax base: An amount calculated by the Council by applying the band proportions to the total properties in each band to ascertain the number of band D equivalent properties in the Council's area. The tax base is used by the precept and levying bodies in determining their charge to the area.

Creditor: Amounts owed by the Council (for work done, goods received or services rendered). Sundry creditors relate to those amounts owed by the Council, which are outstanding at the end of the financial year.

Current service cost: The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.

Curtailement: The cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

Debtor: Amounts owed to the Council. Sundry debtors reflect those debts that are collectable or outstanding at the end of the financial year.

Deferred charges: Expenditure of a capital nature but for which there is either no Council-owned fixed asset or where there is no tangible asset (e.g. improvement grants).

Depreciation/Amortisation: The loss in value of an asset as a result of wear and tear through usage. Amortisation is the depreciation of intangible assets such as purchased software licences.

Emoluments: All sums paid to or receivable by an employee including the monetary value of any benefit received other than in cash.

Financial Reporting Standards (FRS): These are Statements of recommended accounting practice issued by the Accounting Standards Board intended to enable accounts to reflect a "true and fair" view.

General Fund: The account which summarises the revenue costs of providing services which are met by the Council's demand on the Collection Fund, specific government grants and other income unrelated to housing services provided for Council tenants.

Gross expenditure: Total expenditure before deduction of income.

Housing Revenue Account (HRA): An account that includes the expenditure and income arising in connection with the provision of housing. All items in the account are

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prescribed by regulations and are as determined by the Local Government and Housing Act 1989.

Impairment: Where the value of a fixed asset is reviewed and is found to be below the value carried in the Balance Sheet due to a consumption of economic benefits (e.g. physical damage or deterioration in the quality of service provided by the asset) or a general fall in prices, the resulting loss is classified as impairment. If the loss arises from a consumption of economic benefits, the impairment loss is charged to the relevant service revenue account. In other cases, the loss is charged to the Fixed Asset Restatement Account.

Levies: The Council is required to pay levies to a number of statutory London-wide bodies e.g. Environment Agency.

Minimum Revenue Provision (MRP): The minimum amount that must be charged to an authorised revenue account each year and set aside. It is currently based on 4% for General Fund (non-Housing) debt.

National Non Domestic Rates (NNDR): NNDR are collected by each Council and paid to a central pool (the NNDR Pool) managed by Central Government. The Government, in turn, pays back to all Authorities their share of the Pool at a standard rate per head of the local adult population.

Net expenditure: Gross expenditure less income.

Past service cost: These included discretionary benefits awarded on early retirement such as added years and unreduced pension benefits awarded before the rule of 85 age actually becomes effective.

Precepts: The amount paid from the Collection Fund to the Council's General Fund and the Greater London Authority in accordance with those authorities' demands.

Private Finance Initiative (PFI): This is one of the mechanisms that central government supports for involving the private sector in public sector projects. Under PFI schemes the council buys the services of a private company or consortium to design, build, finance and operate a public facility e.g. a technology and learning centre. The private sector borrows the money for the scheme and then the council pays an annual fee to the consortium under a long term operating contract for the services.

Prudential Framework: As part of the Local Government Act 2003 the detailed rules that controlled local authority borrowing were replaced by the Prudential Framework which is a self regulating system based upon CIPFA's Prudential Code. The Code defines a number of Prudential Indicators which the Council must annually determine and monitor.

Rateable value: The District Valuer assesses the rateable value of non-domestic properties and business rate bills are calculated by multiplying rateable value by one of two annual NNDR specified amounts set by the government.

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Revenue expenditure: The regular day to day running costs a Council incurs in providing services.

Revenue Support Grant (RSG): A general grant given to local authorities by Central Government to support the cost of General Fund services.

Settlement: Pension settlements take account of outgoing bulk transfers and will show the difference between the FRS 17 liability and the amount paid to settle the liability.

Statement of standard accounting practice (SSAP): Statements of recommended accounting practice issued by the former Accounting Standards Committee and adopted by the Accounting Standards Board and intended to enable accounts to reflect a “true and fair” view.

Statement of recommended practice (SORP): These are recommendations on accounting practices for specialised industries or sectors. They supplement Accounting Standards and other legal and regulatory requirements. For local government, SORPS are issued by CIPFA and incorporate all relevant SSAP’s and FRS’s (see Accounting Standards).

Support services: These are back-up activities of a professional, technical and administrative nature which are not direct local Council services (i.e. services in their own right like Social Services or Housing) but which give technical, organisational and administrative support to those services.

TUPE: Transfer of Undertakings (Protection of Employment) refers to UK legislation under which the undertakings (commitments) of a business to its employees are required to be honoured by any employer to which they are involuntarily transferred.