

AUDIT COMMITTEE

Tuesday, 28 June 2016 at 7.00 p.m.

Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

SUPPLEMENTAL AGENDA

This meeting is open to the public to attend.

Contact for further enquiries:

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an electronic
agenda:

For further information including the Membership of this body and public information, see the main agenda.

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| 3. MINUTES OF THE PREVIOUS MEETING | 1 - 10 |
| To confirm the minutes of the Audit Committee held on 22 March 2016. | |
| 4. AUDIT COMMITTEE TERMS OF REFERENCE, QUORUM, MEMBERSHIP AND DATES OF MEETINGS | 11 - 20 |
| To confirm the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2016/17 and to determine the preferred start time for the meetings in the municipal year. | |
| 6 .1 Draft Annual Financial Report 2015-16 | 21 - 140 |
| To consider the Draft Annual Financial Report. | |
| 6 .5 Anti-Fraud and Corruption Strategy 2016-17 | 141 - 214 |
| The report is for note. | |

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.10 P.M. ON TUESDAY, 22 MARCH 2016

TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Candida Ronald (Chair)
Councillor Clare Harrisson
Councillor Andrew Wood

Apologies:

Councillor Sabina Akhtar
Councillor Amina Ali

Others Present:

Andrew Sayers – (Engagement Lead Auditor, KPMG)
Antony Smith – (Engagement Manager, KPMG)

Officers Present:

Kate Bingham – (Service Head, Children's and Adults Resources)
Zena Cooke – (Corporate Director, Resources)
Minesh Jani – (Head of Audit and Risk Management, Resources)
Kevin Miles – (Chief Accountant, Resources)
Karen Sugars – (Interim Service Head, Commissioning and Health)
Kathryn Robinson – (Head of Legal Operations, Legal Services, Law Probity and Governance)
Antonella Burgio – (Democratic Services)

APOLOGIES

Apologies for absence were received from Councillors Amina Ali and Sabina Akhtar

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of the meeting held on 8th December 2015 were **approved** subject to the following corrections:

That the term “cross issuing” at minute 3.1 be replaced with the term “cross matching” and that the format of the resolution at minute 4.4 be corrected to reflect to 3 resolutions agreed.

3. KPMG ITEMS FOR CONSIDERATION

3.1 Report to Those Charged with Governance - ISA260 2014/15

At the Chair's invitation, Andrew Sayers, Engagement Partner, KPMG presented the Annual External Auditors Report 2014/15. This summarised the results of the work carried out by KPMG on the Council's 2014/15 grant claims and returns

Mr Sayers highlighted relevant matters from the section “Summary of Certification Work Outcomes”.

The Committee was informed that:

Completion of the audit had been delayed by the investigation carried out under the Secretary of State's instruction by PWC. This audit fieldwork could now be completed and the report signed after the resolution of a complaint from the public regarding LOBO. Mr Sayers:

- submitted that the Committee approved this ISA260 report subject to the resolution of this complaint after which KPMG expected to issue an unqualified auditors statement
- noted that there were no significant adjustments required to the figures but some minor presentational matters had been addressed
- noted that the audit had identified one key risk, this related to plant.
- noted it was necessary to identify grants to be issued through commissioners' and testing done to ensure that payments were properly discharged (there had been one illegal grant payment of a small value)
- noted that value for money (VFM) issues relating to Brady Youth would be kept under audit
- noted that Section 106 arrangements were tested and no issues identified
- noted that the Grant Thornton delay related to the VFM aspects of the Section 106 monies
- noted that KPMG's VFM position continued from 2013/14 therefore the auditors opinion had been made accordingly and was being kept under review
- noted that Section 11 conditions still remained at present; however auditors had noted the actions that had been taken to address these Section 11 notice was issued in November 2015

Responding to Members' questions the following information was provided:

Councillor Woods was dissatisfied with the CIL value that had been set; in his view the CIL values had been underestimated. The rates did not give value

for money causing potential loss to the Council in this area. The Committee noted the complaint and it was agreed that this matter would be pursued outside of the meeting. Mr Sayers noted that the Auditor's remit in this matter was not to consider whether the appropriate values had been achieved, but that the appropriate processes for setting theCIL levels had been carried out.

A number of objections had been received. Two related to parking on private land. Since these don't give rise to material adjustments to the account, Mr Sayers was happy to sign these off. A third objection related to PCLP charged by DCLG and was not material to the accounts. The objection relating to LOBOS would be material to the accounts; the objection being that such loans were illegal therefore and could not be entered into by local authorities. It was argued that those which had approved the loan on behalf of the authority did not understand the arrangement fully therefore leading to an illegal act. The value of these loans were material to the accounts and if this matter was determined, then KPMG would take action and share the auditors view with the objector. Should this occur, KPMG would also need to consider whether a public interest report was required. If this situation were to come to pass, then the auditors would be unable to issue an opinion and would be required to present the accounts again at a future meeting; therefore the auditors aimed to discharge the complaint as soon as possible. It was noted that Hammersmith and Fulham Council had set a precedent; however the determination for each circumstance was individual and dependent on the pattern of facts. It was noted that there were 250 councils in England and Wales that had entered into LOBOS arrangements.

RESOLVED

1. That the Auditor's ISA 260 report be approved subject to the satisfactory resolution of the LOBO complaint.
2. That the headline messages in Section 2 of the report be noted
3. That the Auditor's findings and comments in relation to financial statements be noted
4. That the VFM conclusion be noted
5. That the specific VFM risks reported be noted
6. That the follow-up actions of previous year recommendations be noted

3.2 Annual Financial Report 2014/15 (Incorporating KPMG's Report to Those Charged With Governance 2014/15)

Kevin Miles, Chief Accountant introduced the annual financial report which (following completion of the external audit by KPMG) contained the statement of accounts for the financial year ending 31 March 2015. He noted that there were some minor changes to the account; this did not affect the overall

financial position which remained unchanged from the draft circulated to members in July 2015.

Members noted the report presented and did not wish to ask questions, or raise any matters in addition to those that had been discussed when the report had been previously presented.

RESOLVED

That the Annual Financial Report for the financial year ending 31 March 2015 be approved having regard to the Auditor's annual governance report presented and discussed at item 3.1 of the agenda.

3.3 Annual Report on Grants and Returns Work - 2014/15

Antony Smith of KPMG presented the report which summarised the work carried out by the Council's external auditors on the grant claims returns. He noted that a few matters were identified with claims which did not result in adjustments to the amounts of housing benefit subsidy due to the Council or to the amount paid regarding the share of right-to-buy receipts payable to the Government or teacher pension contributions

Members noted the Committee's appreciation for the support that had been given to KPMG auditors in providing the information requested during the audit work

RESOLVED

That the certification work outcomes relating to the annual report on grants and returns work 2014/15 be noted

VARY ORDER OF BUSINESS

The Chair received a request to vary the order of business. The Chair **moved** and it was:

RESOLVED

That the order of business be amended to the following item order for the remainder of the meeting:

- 4.2 Annual Governance Statement 2014/15
- 4.3 Quarterly Assurance Report
- 4.1 Treasury Management Activities Report
- 4.4 Audit Plan 2016/17
- 5. Any Other Urgent Business

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Treasury Management Activities Report for Quarter Ending 31 January 2016

Kevin Miles, Chief Accountant introduced the report which provided quarterly data on Treasury management and investment performance. He informed Members that

- the report was in compliance with the Treasury Management Strategy
- interest rates in Europe and USA were low and therefore there was little scope for the Council to improve its investment performance at present
- the rate of return reported was 0.78%, an increase from the previous 0.77%
- the Council's share in Lloyds Bank was still under Government authority
- details at page 146 indicated the Council's risk appetite was slightly higher

Cllr Wood noted that the graph at page 156 provided a useful comparator.

RESOLVED

That the report be noted

4.2 Annual Governance Statement 2014/15

Minesh Yani, Head of Audit and Risk Management presented the report which summarised the internal audit work in the period December 2015 to February 2016. The report set out the assurance rating of each audit finalised in the period and provided an overall assurance rating of the Council's processes.

Responding to questions from Members, the following information was provided:

Concerning how the annual governance statement was monitored in the organisation, Members were informed that Corporate Directors must put in place mechanisms of control; part of the Council's corporate management system. There must be six monthly updates to Audit Committee in order that members may monitor and scrutinise mechanisms.

Concerning audit processes to review areas of governance, where outcomes incomplete, in order to ensure that the actions that have been taken are effective, Members were informed that checks and balances exist to review the governance arrangements of the Council were multi-layered throughout the organisation. These knit together to make the overall governance framework.

Members noted that the report was retrospective and did not agree with the data of quarterly insurance report; they were informed that auditors work

retrospectively but because of the delays in issuing the ISA 260 report, synchronisation with the annual governance statement had presently been lost. Notwithstanding, officers were working on the actions and recommendations identified by KPMG and confident that the action plan deadlines would be achieved. Additionally officers were exploring ways to improve the format and make it more accessible. Members noted the proposal and asked that some matters should be reported in a more active rather than once a year. They felt that governance should be mainstreamed in the organisation. The Corporate Director, Resources advised that the annual governance statement would be on track by September 2016.

Referring to para. 3.9 of the draft annual governance statement (appendix 1), Members noted that Audit Committee was not representative of the whole Council as its meetings were not attended by all of the political parties. The Corporate Director, Resources agreed to address this matter through the Political groups.

RESOLVED

1. That the actions taken since July 2015 and the reasons for further work on the statement be noted and
2. That the updated to draft annual governance statement for the financial year 2014/15 as attached at appendix 1 be approved

4.3 Quarterly Assurance Report

Minesh Yani, Head of Audit and Risk Management presented the report. He informed the Committee:

- that 26 audits had been finalised in the period December 2015 to February 2016. Of these five had received limited assurance.
- that auditors were close to delivering 100% of the planned audits in the current schedule of audits.
- that 95% of the priority one recommendations had been implemented at the time of follow-up audits and 80% of priority two recommendations had been implemented.
- that where necessary, escalation actions to the relevant Service Head and Corporate Director had been undertaken.

The following limited assurances were reported:

Framework 1

Minesh Yani, Head of Audit and Risk Management reported that this audit concerned a database operated by Social Care which interfaces with TRIM. The audit revealed that over all systems of control were good, but there were issues around:

- The timely review of Care Plus
- Delays in payments to adults with care plans
- Some functions had not been reviewed
- Some KPI had not been set

Because of these, a limited assurance had been returned

Karen Sugars, Interim Service Head, Commissioning and Health, informed the committee that:

- the software in use dealt with up to 6000 cases at any one time and all of these concerned vulnerable people
- there had been changes in the way that Social Care was delivered and now the responsibility to take control of cases lay with the social worker
- new quality standards that have been implemented
- in November 2015 a new quality assurance process had been put in place and audited
- a new case management system had been implemented
- responsibility for the management of cases occurred through the service levels
- delays in payment of invoices were caused by invoices in dispute. The system was largely manual and needed monitoring, however new software for home care invoices was expected soon
- although the software was the same, the system and work differently in children social services than adult social services
- Much work was being done to embed the process and learning to use the software appropriately.

The Head of Audit and Risk Management confirmed that the findings revealed that assurance was limited as the operation of I Framework is considered a key risk area. A follow-up audit would be undertaken six months hence to verify that issues had been addressed. The Chair requested that a report back be made after the follow-up audit had been completed.

Youth Offending Team

Minesh Yani, Head of Audit and Risk Management introduced the item informing the Committee that a limited assurance had been returned because one in 10 DBS checks were not current.

Kate Bingham, Service Head, Children's and Adults Resources responded to Members questions and provided the following information

- the audit had returned a limited assurance because it was difficult to distinguish between historic and current information was current
- further to the audit, management had now indicated that the issues had been addressed and could be tested through the follow-up audits
- as at 26 February 2016, all non-compliances revealed by the audit had been remedied.

Contracts

Minesh Yani, Head of Audit and Risk Management introduced the item informing the Committee that a limited assurance had been returned as the processes for signing and sealing contracts were insufficient and there was no method to identifying sources or causes of delay in signing contracts.

Kathryn Robinson, Head of Legal Operations, responded to questions from the Committee and provided the following information:

- the Authority had a contracts forward plan which provides the Council has a plan of the forthcoming contract processes
- the Authority also has a Competition Board which assesses the performance of contracts and whether they are likely to be reviewed
- there had been an excess of contracts for renewal which needed a political decision/procurement and therefore it had been necessary to extend these temporarily pending a decision
- work was being carried out to ensure that legal and financial mechanisms were joined-up to produce a more efficient contracts management process.

The Chair recommended that there should be a function at Member level which monitors the management of contracts. The Head of Audit and Risk Management acknowledged the request and advised that officers were working to develop a scheme to improve contracts. Financial levels had been altered to ensure that governance arrangements were improved.

Schools Audits

Minesh Yani, Head of Audit and Risk Management informed the Committee that two limited assurances had been returned for the following reasons:

- minutes of meetings did not capture decision-making or issues discussed
- there were issues relating to purchase orders
- documents to support the procedures needed for recruitment
- documents were not kept up-to-date

Kate Bingham, Service Head, Children's and Adults Resources responded to Members questions and provided the following information

- support had been given to the schools in question according to the needs identified by the audits
- Kobe School had returned a limited assurance as it had significant HR issues, shortened IEB and had come out of special measures. A new headteacher and Governors could now focus on governance of the school.
- Bonner School had previously been rated outstanding for many years and the causes of the limited assurance were currently being investigated by the Council. There was confidence that the limited assurance was not caused by a systemic issue and can be rectified

The Chair requested that the Council's clerking services should be provided to the schools, where a lack of appropriate skills was revealed.

The Chair, asked:

- that details of audits returning a limited assurance should not only be reported in the appendices but be incorporated into the main report
- that a summary of the headlines concerning the audits undertaken in the period be incorporated into the main report

RESOLVED

1. That the quarterly insurance report be noted
2. That the actions requested by the Committee be implemented and outcomes reported back to the Committee

4.4 Audit Plan for 2016/17

Minesh Yani, Head of Audit and Risk Management introduced the update report which outlined the plan of audits to be undertaken for the financial year 2016/17 and asked Members to comment on the content of the plan.

The Corporate Director, Resources informed the Committee that in future was proposed to present a paper on the development of internal audit services across East London using a self-assessment tool provided by CIPFA.

The following topics were requested to be added to the plan:

- an item concerning the control processes on the CIL
- oversight of road-works processes
- review S106 arrangements. (It was this suggested that officers from Development and Renewal Directorate be invited to speak to Committee regarding monitoring of S106 arrangements in relation to governance controls)
- audits of processes in school were monitored which were not much represented in the quarterly assurance report
- the Council's ability to meet demand for school places
- risks around the conversion processes of community schools to academy chains (The committee was in informed that the Council was looking at how to develop the Tower Hamlets Education Partnership to ensure that schools were supplied through regulated charges).
- an audit of mother tongue language and foreign-language classes/courses
- an audit of major tourist and crime and disorder risks
-

The Chair noted:

- that the number of audit days contained in the plan was lower than expected and queried whether this was as a result of the continued Commissioners interventions under directions from the Secretary of State. She was advised that it was possible that there would be some increase in audits and these would be monitored to ensure that necessary audits were undertaken in a cost-effective manner
- governance issues around the Pensions Board and audit support of the structure of the recently established Pensions Board and Pensions Committee. She was informed that is related to work on the financial assistance of these procedures

RESOLVED

1. That the report be noted
2. That the areas identified by the Committee be added to the Audit Plan


5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

The Clerk informed the Committee of the proposed, draft meeting dates for the forthcoming municipal year and noted that it was planned to deliver five meetings during the period. The draft dates were noted.

The meeting ended at 9.20 p.m.

Chair, Councillor Candida Ronald
Audit Committee

Agenda Item 4

| | |
|---|---|
| Non-Executive Report of the: Audit Committee 28 June 2016 |  TOWER HAMLETS |
| Report of: Melanie Clay, Director, Law Probity and Governance | Classification: Unrestricted |
| Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings | |

| | |
|-------------------------------|--------------|
| Originating Officer(s) | Kate Boulter |
| Wards affected | All Wards |

Reasons for Urgency

The Chair is of the opinion that the item should be considered at the meeting as a matter of urgency by reason of special circumstances due to the need for the Committee to consider its membership and terms of reference at its first meeting in the municipal year.

The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of continuing work to finalise the report.

Summary

This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2016/17 for the information of members of the Committee and asks Committee Members to determine its preferred start time for the meetings in the municipal year.

Recommendations:

The Audit Committee is recommended to:

1. Note its Terms of Reference, Quorum, Membership, and Dates of future meetings as set out in Appendices 1, 2 and 3 to this report.
2. Determine the preferred time at which the scheduled meetings will start.

1. REASONS FOR THE DECISIONS

- 1.1 The report is brought annually to assist new and returning Members by informing them of the framework of the Committee set out in the Council's Constitution.

2. ALTERNATIVE OPTIONS

- 2.1 The report asks Members solely to confirm its constitutional arrangements and therefore they are not required to consider any alternative options.

3. DETAILS OF REPORT

- 3.1 Each year, following the establishment of the Committee at the Council's Annual Meeting, it is customary that the newly established Committee considers its procedural arrangements.

4. Audit Committee Arrangements

- 4.1 At the reconvened Annual General Meeting of the full Council held on 18 May 2016, the Authority approved proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto. The membership of Audit Committee for the municipal year 2016/17 was among the committees' memberships approved and these details are set out at Appendix 2 to the report.
- 4.2 Having been established by Council, it is customary that the committee (at its first meeting of the municipal year) note its terms of reference, and quorum. These are set out in Appendix 1 to the report.
- 4.3 The Committee's meetings for the remainder of the year, as agreed at the same meeting of the Council, are also provided at Appendix 3.
- 4.4 The Constitution provides that, the meetings will take place at 7.30pm unless the Chair otherwise decides. The Chair and Audit Committee Members, in the past, have agreed the meetings will take place at 7.00pm in accordance with the programme of meetings for principal committees as this time is deemed to be more convenient for members and public. Additionally any meetings that fall during the holy month of Ramadan are scheduled to commence at 5.30pm. Members may wish to determine their own meeting time in the forthcoming municipal year and are permitted to offer their views to the Chair.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

Matters brought before the Committee under its terms of reference during the year will include comments on the financial implications of decisions provided by the Chief Finance Officer. There are no specific comments arising from the recommendations in this report.

6. LEGAL COMMENTS

The information provided for the Committee to note is in line with part 3.3.11 of the Council's Constitution and the resolutions made by Full Council on 18 May 2016. There are no specific legal implications arising from this report.

7. ONE TOWER HAMLETS CONSIDERATIONS

There are no specific One Tower Hamlets considerations arising from the recommendation in the report.

8. BEST VALUE (BV) IMPLICATIONS

There are no specific Best Value considerations arising from the recommendation in the report.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

[Authors should explain how the proposals in the report will contribute to a sustainable environment and/or identify any environmental implications of the proposals and the action proposed to address these.]

9. RISK MANAGEMENT IMPLICATIONS

There are no specific risk management implications arising from the recommendations in the report.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There no specific crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Reports

- NONE.

Appendices

- Appendix 1 – Audit Committee Terms of Reference
- Appendix 2 – Membership
- Appendix 3 – Scheduled meetings for the Municipal Year

Local Government Act, 1972 Section 100D (As amended)**List of “Background Papers” used in the preparation of this report**

List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

- N/A

AUDIT COMMITTEE TERMS OF REFERENCE
(Part 3 of the Council's Constitution April 2014)

Delegation of Council Function

| FUNCTION | PROVISION OF ACT OR STATUTORY INSTRUMENT | DELEGATION OF FUNCTION |
|--|--|-------------------------------|
| 45. Duty to approve authority's statement of accounts, income and expenditure and balance sheet, or record of payments and receipts (as the case may be). | The Accounts and Audit Regulations 1996 (S.I. 1996/590). | Audit Committee |

Terms of Reference

3.3.11 Audit Committee

| Membership: Seven Members of the Council. Up to three substitutes may be appointed for each Member. The Audit Committee shall not be chaired by a Member of the Executive. | |
|---|--------------------------------|
| Functions | Delegation of Functions |
| <p>1. To consider the Audit Plan and review the performance of Internal Audit against this target.</p> <p>2. To review internal audit findings and the annual report from the Head of Audit and seek assurance that action has been taken where necessary.</p> <p>3. To act as a forum for the external auditors to bring issues to Members' attention including both specific reports and general items such as the Annual Audit Letter and the Annual Governance Report.</p> <p>4. To be satisfied that the authority's assurance statement including the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.</p> <p>5. To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption.</p> <p>6. To consider reports of audit activity together with specific investigations.</p> | No delegations |

7. To monitor the Authority's Risk Management arrangements and seek assurance that action is being taken on risk related issues identified by auditors and inspectorates.

8. To make arrangements for the proper administration of the Council's financial affairs and for the proper stewardship of public funds except the appointment of the Chief Finance Officer which shall remain the duty of the Council.

9. To meet the obligations of the Accounts and Audit (England) Regulations 2011 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be).

Quorum

Three Members of the Committee

LONDON BOROUGH OF TOWER HAMLETS

COMMITTEE MEMBERSHIPS 2016-2017

NOMINATIONS SUBMITTED TO THE ANNUAL COUNCIL MEETING ON 18 MAY 2016

| AUDIT COMMITTEE (Seven members of the Council) | | |
|---|---|--|
| <i>Labour Group (4)</i> | <i>Independent Group (2)</i> | <i>Conservative Group (1)</i> |
| Councillor Candida Ronald Councillor Sabina Akhtar Councillor Andrew Cregan Councillor Denise Jones Substitutes:- <i>Councillor Helal Uddin</i> <i>Councillor Rajib Ahmed</i> <i>Councillor Marc Francis</i> | Councillor Ohid Ahmed Councillor Harun Miah Substitutes:- | Councillor Craig Aston Substitutes:- <i>Councillor Andrew Wood</i> |

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AUDIT COMMITTEE

SCHEDULE OF MEETING DATES 2016-17

Tuesday, 28th June, 2016

Tuesday, 20th September, 2016

Tuesday, 8th November, 2016


Tuesday, 31st January, 2017

Tuesday, 21st March, 2017

Note

All meetings will start at 7.00 pm unless otherwise determined by the Chair.

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| Non-Executive Report of the: Audit Committee 28 th June 2016 |  TOWER HAMLETS |
| Report of: Zena Cooke, Corporate Director of Resources | Classification: [Unrestricted or Exempt] |
| Annual Financial Report 2015/16 | |

| | |
|-------------------------------|-------------------------------|
| Originating Officer(s) | Kevin Miles, Chief Accountant |
| Wards affected | [All wards] |

Special Circumstances and Reasons for Urgency

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of continuing work to finalise and review the accounting statements.
- To comply with CIPFA best practice, the Corporate Director of Resources recommends that the Audit Committee note the Draft Statement of Accounts prior to submission to the auditors.

1. **SUMMARY**

- 1.1 This report presents the Annual Financial Report for 2015/16 which comprises a Narrative Report by the Corporate Director, Resources and the draft Statement of Accounts which is subject to audit. The full Annual Financial Report will also contain the Annual Governance Statement which is the subject of a separate report on this Committee's agenda. The draft is both for information and comment prior to the commencement of the external audit proper by KPMG.
- 1.2 Some minor changes may become necessary as a result of the audit process but these are not expected to have any material impact on the Council's overall financial position. The audit is planned to be concluded in late August and the results reported to the Committee on 20th September 2016.

2. **RECOMMENDATIONS**

Audit Committee is recommended to:-

- 2.1 Note the Annual Financial Report for the financial year ending 31st March 2016 comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.
- 2.2 Note that the 2014/15 Accounts are still to be signed off by KPMG as their consideration of the LOBO loans objection continues alongside other audit firms who are looking at the matter for their council clients.

3. REASONS FOR DECISIONS

- 3.1 The Accounts and Audit Regulations require that each Local Authority publish a draft financial report by 30th June each year. The external auditors are required to audit this report by 30th September and to provide an opinion.
- 3.2 Though it is not a legal requirement to table the draft financial report, it is considered good practice to table the report where possible.

4. ALTERNATIVE OPTIONS

- 4.1 It is not a legal requirement to table draft financial statements to Audit Committee until they have been audited, therefore an alternative option would be not to table this report until the September committee.

5. BACKGROUND

- 5.1 The Annual Financial Report 2015/16 comprises three elements:

- A Narrative Report
- The Statement of Accounts
- The Annual Governance Statement

The draft Statement of Accounts is attached as Appendix 1 and is subject to audit. The Annual Governance Statement is the subject of a separate report.

- 5.2 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The accounts must be prepared and certified by 30th June by the Corporate Director, Resources (the 'responsible financial officer') that it presents a true and fair view of the financial position of the Council. By no later than 30th September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value in giving Members early notification of the financial outcome of the previous financial year.
- 5.3 For 2015/16 the audit is being conducted by KPMG. The main audit is due to commence in late July, 2016. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 20th September for consideration and formal approval.
- 5.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to the September Audit Committee. The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to the Audit Committee at the end of September.
- 5.5 Note that KPMG's appointment continues until December 2017. The Council has the right to select its next auditor or it might choose to take part in a group tender exercise organised by the Local Government Association. This group

tender is intended to reduce procurement costs and will also demonstrate that the auditor appointment process was completely impartial.

6. STATEMENT OF ACCOUNTS 2015/16

- 6.1 The draft Statement of Accounts is attached to the report as Appendix 1. The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the “Code of Practice on Local Authority Accounting” and “Standard of Professional Practice on Financial Reporting” published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRSs). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.
- 6.2 The title of the document tabled is the Annual Financial Report rather than the Statement of Accounts. The title is to acknowledge that the Auditor’s opinion will just apply to the Statement of Accounts section of the document. Though the Auditor’s will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 6.3 The purpose of the Statement of Accounts is to provide clear information about the authority’s finances and should answer such questions as:
- What did the authority’s services cost in the year?
 - Where did the money come from?
 - What were the authority’s assets and liabilities at the year end
 - Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations. The accounts also form the basis of the Medium Term Financial Planning process.

- 6.4 The Council’s 2015/16 outturn report, detailing net expenditure against individual service budgets, will be reported to Cabinet and Overview and Scrutiny Committee in July.
- 6.5 Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

| | |
|---|---|
| <p>Comprehensive Income and Expenditure Account</p> | <p>This summarises the revenue activities of the Council during 2015/16 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of</p> |
|---|---|

| | |
|---------------------------------------|---|
| | <p>service income and expenditure is one used by all local authorities for comparison purposes and differs from the Council's own budget and service organisational structure.</p> <p>The draft accounts show gross revenue spend in 2015/16 of £1.25 billion with a net surplus of £70 million. The surplus was mainly due to an increase in HRA stock values. This surplus includes a number of accounting entries which do not form part of the Council's actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund adjustments are then 'reversed out' in the Movement in Reserves Statement.</p> |
| <p>Movement in Reserves Statement</p> | <p>The Movement in Reserves Statement combines the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The statement analyses the movements in reserves as they appear on the balance sheet.</p> <p>The adjusted increase in the General Fund Balance was £0.6 million leaving a balance as at 31st March 2016 of £72.1 million.</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. These total £186 million including school balances of £31.8 million, the HRA reserve, the insurance reserve of £22 million and various Directorate ear-marked reserves. The accounts assume certain transfers to Earmarked reserves requested by Directorates which have yet to be formally approved, and are reported to the July Cabinet. In the event that Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process subject to the auditor's agreement. As earmarked reserves are considerable, a review of reserves will be conducted in 2016/17 to identify which ones can be used to assist the overall medium term financial plan.</p> |

| | |
|--------------------------------|---|
| <p>Balance Sheet</p> | <p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2016. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment have increased to £2.16 billion in value, an increase of around £114 million due to general increase in value of housing stocks and spend on the capital programme.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £1.8 billion, which was an increase from 31st March 2015 when the figure was £1.5 billion. The main reason for the increase in long term asset values and the decrease in the IAS19 pension liability.</p> |
| <p>Housing Revenue Account</p> | <p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 11,884 dwellings.</p> <p>The HRA balance as at 31st March 2016 is £32 million. The increase was due to recovery of previous stock transfer costs and lower energy costs. The required bad debt provision was lower than originally anticipated.</p> |
| <p>Group Accounts</p> | <p>For a number of years it has been agreed in principle with the auditors that the Group Accounts is not required as the asset and liabilities of Tower Hamlets Homes (THH) are not material enough to warrant the production of a group account. THH is 100% owned by the Council and does all of its business with the Council. Note 44 of the accounts shows a summary of THH's draft accounts.</p> |

| | |
|-----------------------|--|
| Collection Fund | <p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of itself, the Greater London Authority) and National Non-Domestic Rates (NNDR) which is collected on behalf of the Government. The account shows the distribution of the amount of Council Tax collected between the Council and the GLA and the payment of non-domestic rates to the Government pool. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000. The supplementary business rates is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a deficit of £8.1m million for 2015/16. The overall balance carried forward on the Fund is a deficit of £5.9 million. The 2015/16 deficit was due to new business premises not being on the Valuation Office's list in time for bills to be raised in 2015/16. Backdated NNDR invoices will be raised in 2016/17.</p> <p>This is the third year that new arrangements have been in place for collection of business rates (NNDR). Previously the Council used to collect NNDR on behalf of CLG. The new system requires NNDR receipts to be split between the Council (30%), GLA (20%) and the CLG (50%). This means the Council retained some of the business rates collected; however there has been a reduction in Revenue Support Grant (RSG).</p> <p>The Council is awaiting the Government's announcement on how the business rates system will change in future.</p> |
| Cash Flow Statement | The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year. |
| Pension Fund Accounts | The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with |

| | |
|--|--|
| | <p>the assets and liabilities of the Pension Fund as at 31st March 2016.</p> <p>The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The market value of the assets of the fund at the end of the year was £1.126 billion (a decrease of 1% from the £1.138 billion March 2015 valuation). The pension fund cash balances stood at £149m, this increase is due to redeemed investments awaiting reinvestment with new bond managers (Goldman Sachs and Insight) at the balance sheet date.</p> <p>The results of the triennial revaluation completed during 2013/14 estimated a funding deficit of £365 million and a funding level of 71.8%. The next triennial valuation will be in 2017. Officers have started working with the actuary to prepare this valuation.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p> |
|--|--|

6.6 Members are now invited to note the Annual Financial Statement and the Statement of Accounts in particular and to contact Financial Services if there are any queries that arise after the Committee Meeting. The auditor is expected to issue his opinion in September. Any material issues arising from the audit will be reported back to the Committee. Any immaterial but more than merely trifling issues will be reported to the Audit Committee.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

7.1 The comments of the chief financial officer are incorporated within this report.

8. LEGAL COMMENTS

8.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.

- 8.2 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.
- 8.3 As indicated in section 3 of the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.
- 8.4 The Council 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. This is referred to as the Council's best value duty. The Annual Financial Report for 2015/16 will go towards demonstrating that the Council is meeting this duty.
- 8.5 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.
- 9.2 The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor. Details of these rights are published in local newspapers at appropriate stages.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 10.1 There are no SAGE implications arising out of this report.

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 There are no specific risk management implications.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no crime and disorder reduction implications.

13. BEST VALUE (BV) IMPLICATIONS

13.1 The Council's achievement of the principles of Best Value are assessed annually as part of the final audit of the Council's financial statements by the Council's external auditors KPMG. KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter published alongside the committee decision to approve the accounts later this year.

14. APPENDICES

Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31st March 2016 (subject to audit)

Local Government Act, 2000 (SECTION 97)

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

| Brief description of "background papers" | Name and telephone number of holder and address where open to inspection |
|--|--|
| Closure of Accounts Working Papers | Kevin Miles, Ext. 6791 |
| Capital Working Papers | Alison Gebbett, Ext. 3360 |
| HRA Closure of Accounts Working Papers | Paul Leeson, Ext. 4995 |

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LONDON BOROUGH OF TOWER HAMLETS

DRAFT ANNUAL FINANCIAL REPORT 2015-16

DRAFT ANNUAL FINANCIAL REPORT 2015-16

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NARRATIVE REPORT

Overview by Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2015/16, which reports our financial results for the year.

The accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produces a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at www.towerhamlets.gov.uk

Through sound financial management the Council's spend for the year is in line with the revenue budget and the level of general reserves increased by £0.6 million to £72.1 million. This increase is in line with the revised plan in the 2015/16 budget and is the result of unallocated contingencies for price increases that did not materialise – these unused contingencies also funded the £7.8m deficit within the original budget.

This solid financial base has helped to underpin the delivery of the Council's key objectives, namely: improving the condition of social housing; increasing the supply of affordable social housing (particularly family sized housing); maintaining the provision of services for young people; delivering programmes of skills development, employment and enterprise activity; maintaining support to vulnerable adults; minimising the impact on resident household budgets and; protecting investment in activity that promotes community safety.

Key achievements in 2015/16 include:

1. Delivering over 1,000 affordable homes, including stock which are family sized for social rent
2. Increasing the number of properties let to overcrowded households
3. Increasing educational attainment at early years, key stage 2, GCSE and A Level
4. Reducing further the teenage conception rate
5. Offering free school meals to all primary school children in the borough
6. Making our borough greener, including a programme of tree planting in streets, parks and open spaces.

Many of the key policy objectives have been delivered in conjunction with the Council's strategic partners including the; Police, NHS Tower Hamlets, Jobcentre Plus and the Voluntary and Community sector (VCS). This joined up approach to the provision of services for our residents is fundamental to improving the outcomes for service users and is overseen by the Local Strategic Partnership Executive.

The Council has continued to invest in its infrastructure with £90.7 million spent on its capital programme. The main areas of investment were in housing and schools, with £66.4 million of improvement works through the housing capital programme and £13.9 million into providing school places.

The circumstances have been challenging for the Council, and improvement plans have been developed and agreed with the Commissioners, in parallel, the Council remains committed to focussing on the delivery of quality services that are valued by residents.

Looking forward the Council will continue to face significant financial challenges. Currently work is underway to deliver the £17.4m savings required for 2016/17.

In addition to this, the 2016-2020 Medium Term Financial Plan agreed by Full Council in March 2016 includes a £58m million savings programme in the years 2017/18 to 2019/20.

Members are currently engaged in an outcome based budgeting approach to help deliver the future savings.

Whilst this forms the basis of a balanced budget over the next Four years, further challenges lay ahead not least any potential impact the business rates devolution and changes to the government's deficit reduction plans may have.

Whilst the strength of the Council's balance sheet will enable it to effectively manage those risks in the short term, over the longer term there will need to be a further, more fundamental review of the way in which local services are delivered.

Review of the Year

Delivering against our strategic priorities

The Council made progress against the delivery of a range of strategic priorities throughout 2015/16 - a selection of this activity is presented below:

Tackling fuel poverty

Fuel poverty programmes and initiatives have been delivered throughout the year to reduce household bills and levels of fuel poverty in the borough. 10 energy auctions have been held since the programme commenced in 2013; the last auction achieved an average saving per household of £275.

Supporting high quality early years' provision, expanding free early education places of high quality, including for disadvantaged two-year-olds

A local marketing campaign to increase the take up of disadvantaged 2 year old places was undertaken and resulted in an increase in take up of 23 percent. The marketing plan is focussing on volunteering and mentoring to improve parental understanding of early learning years for 2 year olds. During the last year, 873 places were created or approved through capital funding.

Delivering the Women and Health employment programme focusing on the priority of maternity and early years

138 women were engaged in the programme with 54 women offered placements and 50 taking up a job. A further 35 were referred to further training provision through Idea Stores or college; 42 referred to advisory services for barriers to work and learning and 8 referred to the Troubled Families Programme of support. Progression routes for the end of placements have been developed into longer term learning and job opportunities.

Working collaboratively across London to enhance investment and opportunity

Economic partnerships across East London, North London and Central London have been promoted to explore funding and investment options. LBTH has secured £2.4m as part of the Growth Boroughs partnership and £8.5m ESF programme for Employment & Skills.

Supporting children to live healthier lives

Several milestones have contributed to the successful completion of this activity including: a campaign to ensure children are registered with a GP and dentist; and a new school health (nursing) contract where there is a named

nurse for every school, closer partnership working and training for school nurses and training about children's emotional and health well-being needs. The Healthy Schools Programme has been successfully implemented; Tower Hamlets currently has the highest number of gold, silver and bronze GLA Healthy School Awards across London.

Improving support to Carers

The Carer's Centre has been commissioned to deliver carer assessments in order to comply with the Council's statutory responsibilities under the Care Act 2014. The Carer's Centre now carry out carer assessments to the same standard as social workers - it is a 'person centred, person led' approach. The Centre has received positive feedback to date. In addition, a new Carers Plan with monitoring mechanisms is now in place and work with the voluntary sector to provide employment, wellbeing and respite support for carers is being undertaken.

Housing - In 2015/16 1,073 affordable homes were delivered. Whilst the minimum expectation of 1,100 was not met, the total number of homes delivered was 438 more than last year. The number of social rented housing completions for family housing in 2015/16 was 328, meaning 143 extra units were delivered this year compared to last. In addition, this year, 1,123 overcrowded families were rehoused; 174 more than last year. The target of 950 lets was exceeded.

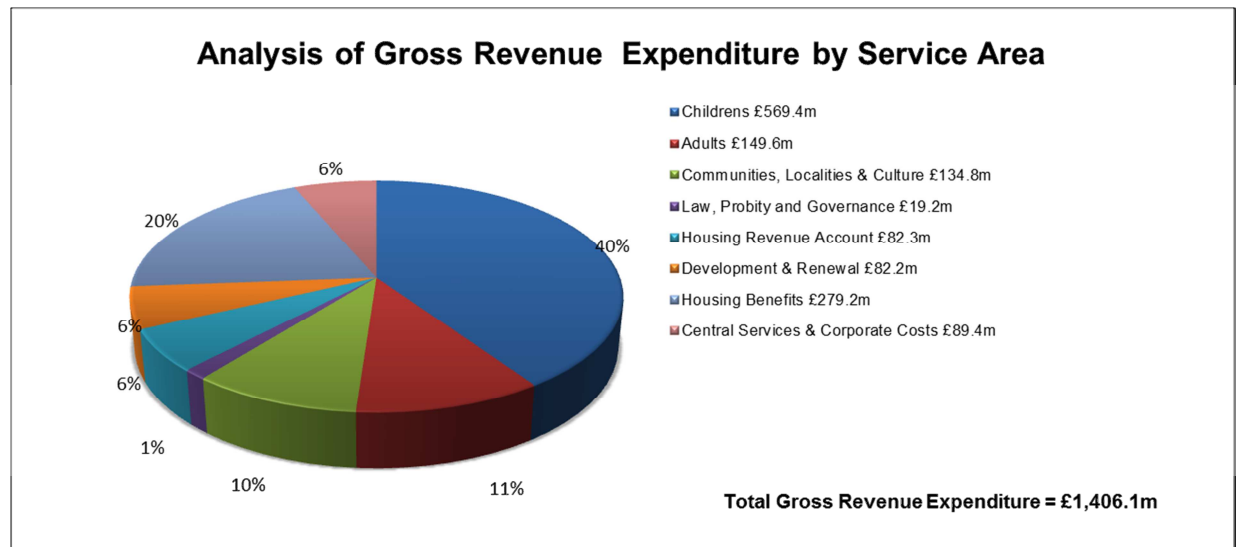
Progress against our Strategic Priorities for 2016/17 and associated performance measures will be tracked throughout the coming year to ensure we continue to build on the good work of 2015/16.

Revenue Income and Expenditure

To provide a comparable analysis of income and expenditure across all local authorities there is a standard service analysis. However, it is worth pointing out that the Council budget is structured in line with its service directorates; this sometimes makes it difficult to compare the analysis in the Statement of Accounts with say, the budget analysis in Council Tax Leaflet.

Overall, the Council's Directorate spend was £0.6m below the net General Fund budget of £282.9 million after the planned transfer of £8.7 million of unused contingencies to General Fund Reserves. The HRA account showed an additional surplus of some £10.4 million against budget.

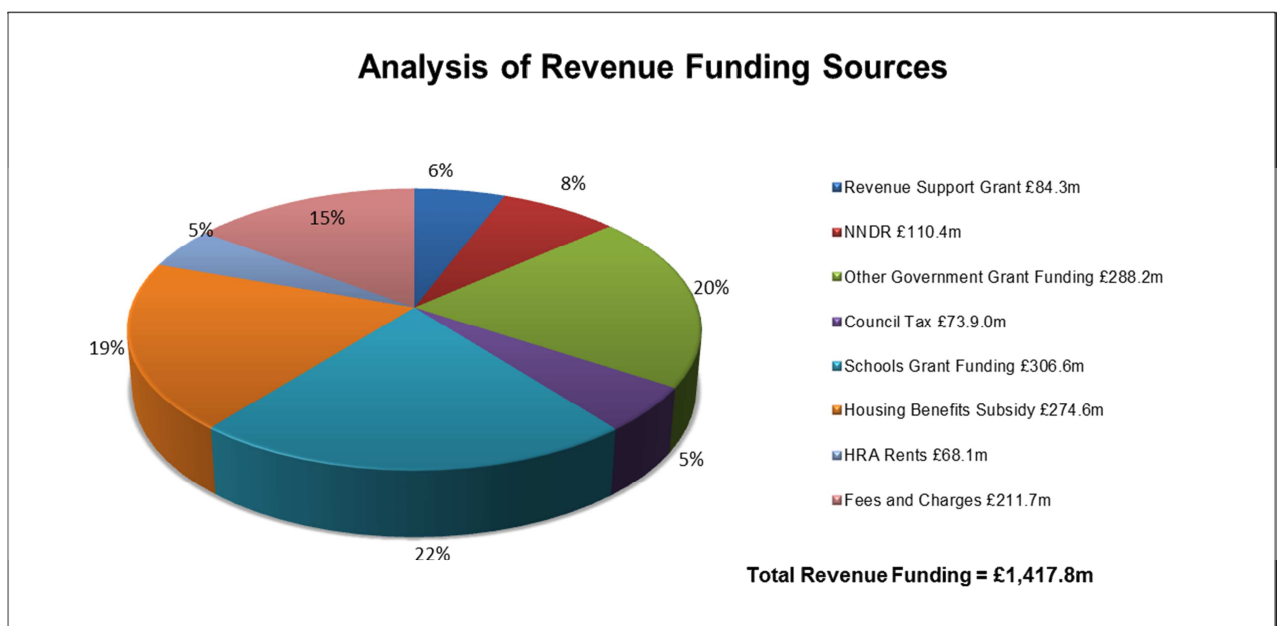
The Council's gross expenditure on services, excluding accounting adjustments, was £1.4 billion (£1.5 billion in 2014/15). An analysis by directorate is shown in the following diagram.



Revenue Funding

Government grants and subsidies continue to be the main sources of revenue funding (£0.64 billion).

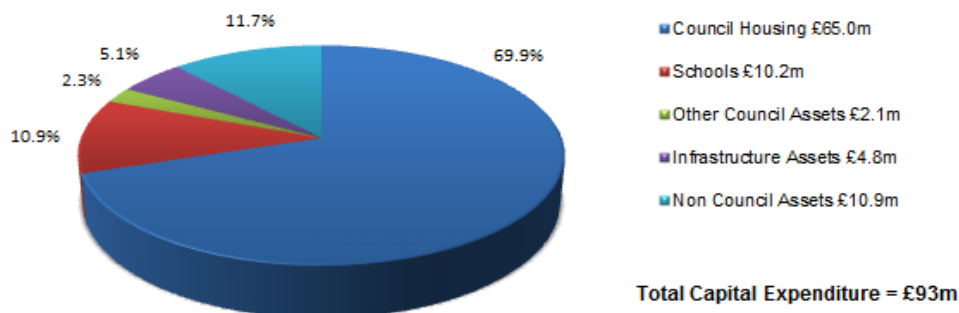
The main specific grant continues to be the Dedicated Schools Grant which can only be used to fund the education services and is largely 'passported' directly to the schools. An analysis of all the funding sources is shown in the diagram below.



Capital Investment

The Council has continued to invest in its property with £93.0 million spent on its capital programme. The main areas of investment were in housing and schools. £65.0 million was spent on improving the existing council housing stock and providing new housing. Investment in schools totalled £10.2m for the provision of new school places and improvement works to the existing buildings. An increase in council dwellings values contributed towards an increase in the Council property, plant and equipment of £114m during 2015/16.

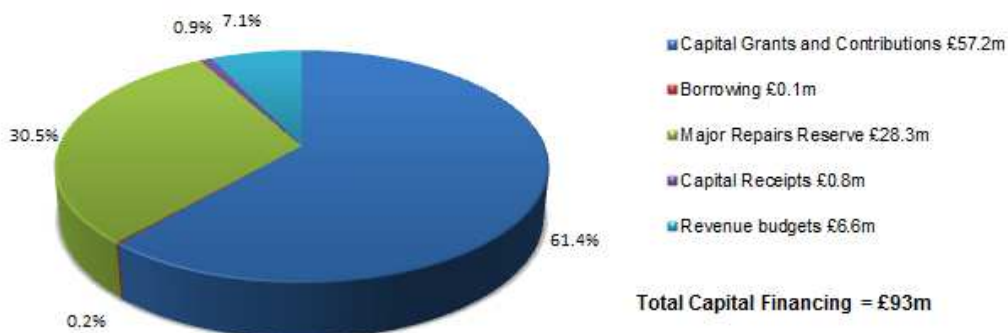
Analysis of Capital Expenditure



Investment shown as being in 'non-Council assets' includes £5.1m of expenditure on schools, £1.4m of expenditure on leaseholder properties and £1.2m of private sector home improvement grants.

The table below shows the sources of funding for the capital programme. The majority of this funding was from capital grants and contributions. In addition, £28.3m was also used from the Major Repairs Reserve which is set aside from the Housing Revenue Account for capital investment.

Analysis of Capital Financing



Borrowing

At the year end the Council had outstanding borrowings of £88.2 million (£89 million 2014/15). This was reduced by PWLB loans that matured during the year.

Pensions

The Council offers retirement pensions to its staff under a statutory scheme and also makes contributions on their behalf. Although the pension benefits are not payable until employees retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared with the pension fund assets (investments) and the net amount is included in the accounts as the Council's pension net surplus or liability.

At the end of 2015/16 there was a net liability of £516 million (£638 million 2014/15). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed by contributions to the scheme in future years and returns from the investment strategy. These increased contributions have been reflected in the Council's Medium Term Financial Plan.

Though the value of pension investments and assets decreased in value by £12m in the year (around 1%) mainly due to falling equity markets, the IAS19 deficit reduced as at 31 March 2016 compared to the value reported at 31 March 2015. This is principally due to the impact of unfavourable financial assumptions used at 31 March 2015. A decrease in the net present value discount rate has led to a lower value being placed on liabilities - this has been the case for most LGPS funds. This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes took place at 31 March 2013 reporting a deficit of £365 million (LBTH only).

FURTHER INFORMATION

Further information about the accounts and a copy of the summary are available from the Head of Corporate Finance, Mulberry Place, 5 Clove Crescent, London, E14 2BG. The summary is also on the Council's website at www.towerhamlets.gov.uk

THE ACCOUNTING STATEMENTS

These comprise:

The **Statement of Accounting Policies** on which the figures in the accounts are based.

The **Core Financial Statements**:

The **Movement in Reserves Statement**, as well as showing reserve movements during the year, it also splits reserves between 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The **Surplus or (Deficit) on the Provision of Services** line shows the true economic cost of providing the Council's services, more details of which are shown in the **Comprehensive Income and Expenditure Statement**.

The **Comprehensive Income and Expenditure Account** which reports the net cost for the year of all the functions for which the Council is responsible and demonstrates how the cost has been financed from general Government grants and income from local taxpayers. It brings together income and expenditure relating to all the Council's functions in three distinct sections, each divided by a sub-total, to give the net deficit or surplus for the year.

The **Balance Sheet** which shows the Council's financial position at the year-end - its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operational activities together with summarised information on the fixed assets held.

The **Cash Flow Statement** which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

Notes to the Core Financial Statements

The **Housing Revenue Account (HRA)** which reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989, and details the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year. It is accompanied by the **Statement of Movement on the HRA Balance** and appropriate **Notes**.

The **Collection Fund** which shows the transactions of the Council in relation to non-domestic rates and Council Tax and illustrates the way these have been distributed between Tower Hamlets Council and the Greater London Authority. It reflects the statutory requirement for billing authorities such as the Council to maintain a separate account.

The **Pension Fund Accounts** which provide information about the financial position, performance and the financial adaptability of the statutory pension fund. They show the results for the fund for the year and the disposition of its assets at the period end.

We try to produce the statements in a form that is understandable to most stakeholders. However, they include some technical terms which are explained in the **Glossary**.

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

| | NOTES | USABLE RESERVES | | | | | | UNUSABLE RESERVES | | | | | | | | TOTAL UNUSABLE RESERVES £'000 | TOTAL AUTHORITY RESERVES £'000 |
|--|-------|-------------------------------|---|--|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|------------------------------|-------------------------------------|---------------------------|---|--|---------------------------------------|------------------------------------|----------------------------------|-----------------------------------|
| | | GENERAL FUND BALANCE £'000 | EARMARKED GENERAL FUND RESERVES* £'000 | HOUSING REVENUE ACCOUNT BALANCE £'000 | MAJOR REPAIRS RESERVE £'000 | CAPITAL RECEIPTS RESERVE £'000 | CAPITAL GRANTS UNAPPLIED £'000 | TOTAL USABLE RESERVES £'000 | REVALUATION RESERVE £'000 | CAPITAL ADJUSTMENT ACCOUNT £'000 | PENSIONS RESERVE £'000 | COLLECTION FUND ADJUSTMENT ACCOUNT £'000 | FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000 | ACCUMULATED ABSENCES ACCOUNT £'000 | DEFERRED CAPITAL RECEIPTS £'000 | | |
| Balance as at 31 March 2014 | | 64,986 | 141,806 | 18,152 | 16,396 | 20,948 | 54,537 | 316,825 | 347,108 | 1,226,255 | (495,946) | 767 | 852 | (3,427) | 47 | 1,075,656 | 1,392,481 |
| <u>Movement in reserves during 2014/15</u> | | | | | | | | | | | | | | | | | |
| Surplus or (Deficit) on the Provision of Services | | (7,202) | 0 | 258,213 | 0 | 0 | 0 | 251,011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 251,011 |
| Other comprehensive expenditure and income | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,477) | 0 | (139,066) | 0 | 0 | 0 | 0 | (140,543) | (140,543) |
| Total Comprehensive Expenditure and Income | | (7,202) | 0 | 258,213 | 0 | 0 | 0 | 251,011 | (1,477) | 0 | (139,066) | 0 | 0 | 0 | 0 | (140,543) | 110,468 |
| Adjustments between accounting basis and funding basis under regulations | | 28,511 | 0 | (255,220) | 5,778 | 28,188 | 947 | (191,796) | (3,367) | 202,316 | (14,552) | 7,280 | (284) | 439 | (36) | 191,796 | 0 |
| Net Increase or Decrease before Transfers to Earmarked Reserves | | 21,309 | 0 | 2,993 | 5,778 | 28,188 | 947 | 59,215 | (4,844) | 202,316 | (153,618) | 7,280 | (284) | 439 | (36) | 51,253 | 110,468 |
| Transfers to or from earmarked reserves | 8 | (13,581) | 13,581 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from school reserves | 8 | (1,264) | 1,264 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Increase or (Decrease) in 2014/15 | | 6,464 | 14,845 | 2,993 | 5,778 | 28,188 | 947 | 59,215 | (4,844) | 202,316 | (153,618) | 7,280 | (284) | 439 | (36) | 51,253 | 110,468 |
| Balance as at 31 March 2015 carried forward | | 71,450 | 156,651 | 21,145 | 22,174 | 49,136 | 55,484 | 376,040 | 342,264 | 1,428,571 | (649,564) | 8,047 | 568 | (2,988) | 11 | 1,126,909 | 1,502,949 |
| <u>Movement in reserves during 2015/16</u> | | | | | | | | | | | | | | | | | |
| Surplus or (Deficit) on the Provision of Services | | (24,471) | 0 | 94,939 | 0 | 0 | 0 | 70,468 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 70,468 |
| Other comprehensive expenditure and income | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 64,703 | 0 | 151,822 | 0 | 0 | 0 | 0 | 216,525 | 216,525 |
| Total Comprehensive Expenditure and Income | | (24,471) | 0 | 94,939 | 0 | 0 | 0 | 70,468 | 64,703 | 0 | 151,822 | 0 | 0 | 0 | 0 | 216,525 | 286,993 |
| Adjustments between accounting basis and funding basis under regulations | | 22,308 | 0 | (83,992) | (12,998) | 37,247 | 711 | (36,724) | (5,312) | 67,883 | (18,853) | (7,319) | (284) | 618 | (9) | 36,724 | 0 |
| Net Increase or Decrease before Transfers to Earmarked Reserves | | (2,163) | 0 | 10,947 | (12,998) | 37,247 | 711 | 33,744 | 59,391 | 67,883 | 132,969 | (7,319) | (284) | 618 | (9) | 253,249 | 286,993 |
| Transfers to or from earmarked reserves | 8 | (1,368) | 1,368 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from school reserves | 8 | 4,177 | (4,177) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Increase or (Decrease) in Year | | 646 | (2,809) | 10,947 | (12,998) | 37,247 | 711 | 33,744 | 59,391 | 67,883 | 132,969 | (7,319) | (284) | 618 | (9) | 253,249 | 286,993 |
| Balance as at 31 March 2016 | | 72,097 | 153,842 | 32,092 | 9,176 | 86,383 | 56,195 | 409,785 | 401,655 | 1,496,454 | (516,595) | 728 | 284 | (2,370) | 2 | 1,380,158 | 1,789,943 |

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations - this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| Gross Expenditure | 2014/15 | | Note | 2015/16 | | |
|---|----------------|------------------|--|-------------------|----------------|------------------|
| | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| Continuing Operations | | | | | | |
| 108,770 | 21,733 | 87,037 | Adult Social Services | 114,464 | 32,721 | 81,743 |
| 6,193 | 5,035 | 1,158 | Central Services | 8,182 | 2,878 | 5,303 |
| 565,398 | 452,525 | 112,873 | Children's and Education Services | 571,852 | 461,966 | 109,887 |
| 37,476 | 18,720 | 18,756 | Corporate and Democratic Core | 26,782 | 5,468 | 21,314 |
| 37,369 | 5,071 | 32,298 | Cultural and Related Services | 21,056 | 4,879 | 16,177 |
| 46,528 | 7,625 | 38,903 | Environment and Regulatory Services | 44,580 | 6,124 | 38,456 |
| 31,249 | 21,935 | 9,314 | Highways and Transport Services | 29,980 | 21,597 | 8,383 |
| 333,104 | 306,415 | 26,689 | Housing Services | 332,655 | 310,043 | 22,612 |
| -118,296 | 89,126 | (207,422) | Local Authority Housing (Housing Revenue Account) ¹ | 33,985 | 92,177 | (58,192) |
| 38 | 0 | 38 | Non-distributed Costs | 5,939 | 0 | 5,939 |
| 22,084 | 13,544 | 8,540 | Planning Services | 24,234 | 15,282 | 8,951 |
| 32,355 | 33,434 | (1,079) | Public Health | 36,484 | 36,396 | 88 |
| 1,102,268 | 975,163 | 127,105 | NET COST OF SERVICES | 1,250,192 | 989,531 | 260,661 |
| | | (1,533) | Other Operating Expenditure | | | (13,150) |
| | | 28,660 | Financing and Investment Income and Expenditure | | | 26,783 |
| | | (405,243) | Taxation and Non-Specific Grant Income | | | (344,762) |
| | | (251,011) | (SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES | | | (70,468) |
| | | | Other Comprehensive Income and Expenditure | | | |
| | | 1,477 | (Surplus)/Deficit on revaluation of non-current assets | | | (64,703) |
| | | 139,066 | Actuarial (gains) or losses on pension assets and liabilities | | | (151,822) |
| | | 140,543 | OTHER COMPREHENSIVE INCOME AND EXPENDITURE | | | (216,525) |
| (110,468) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE | | | | (286,993) | | |

¹ HRA gross expenditure includes reversal of previous valuation losses of £42.3m

BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2015.

| 31 March 2015 £'000 | | Notes | 31 March 2016 £'000 |
|------------------------------|--|--------------------|---------------------------|
| Long-term Assets | | | |
| 2,042,623 | Property, plant and equipment | 12 | 2,156,575 |
| 9,310 | Heritage Assets | 43 | 9,310 |
| 613 | Long Term Debtors | 13 | 572 |
| 2,052,546 | Total Long-term assets | | 2,166,457 |
| Current Assets | | | |
| 215,748 | Short-term investments | 15 | 291,589 |
| 225 | Assets held for sale | 21 | 13,695 |
| 115,248 | Short-term debtors | 19 | 97,268 |
| 202,357 | Cash and cash equivalents | 20 | 160,712 |
| 533,578 | Total Current Assets | | 563,264 |
| Current liabilities | | | |
| 1,710 | Short-term borrowing | 15 | 3,644 |
| 215,640 | Short-term creditors | 22 | 204,158 |
| 4,741 | Provisions | 23 | 2,076 |
| 222,091 | Total Current liabilities | | 209,878 |
| Long Term Liabilities | | | |
| 7,340 | Provisions | 23 | 7,623 |
| 88,528 | Long-term borrowing | 15 | 85,936 |
| 649,564 | Liability related to defined benefit pension schemes | 41 | 516,595 |
| 76,190 | Capital grants receipts in advance | 37 | 76,126 |
| 37,509 | Deferred liabilities | 40 | 42,040 |
| 1,947 | Deferred Income - Receipt in Advance | | 1,576 |
| 861,078 | Total Long-Term Liabilities | | 729,896 |
| 1,502,956 | NET ASSETS | | 1,789,947 |
| Reserves | | | |
| Usable Reserves | | | |
| 71,457 | General Fund | | 72,100 |
| 21,145 | Housing Revenue Account | | 32,092 |
| 120,663 | Earmarked reserves | 8 | 122,031 |
| 35,988 | Schools reserves | 8 | 31,811 |
| 49,136 | Capital receipts reserve | | 86,383 |
| 55,484 | Capital grants unapplied | | 56,195 |
| 22,174 | Major repairs reserve | | 9,176 |
| 376,047 | Total Usable Reserves | | 409,788 |
| Unusable Reserves | | | |
| 342,264 | Revaluation Reserve | 25 | 401,655 |
| 1,428,571 | Capital Adjustment Account | | 1,496,454 |
| 0 | Collection Fund | | 0 |
| 8,047 | Collection Fund Adjustment Account | | 728 |
| 568 | Financial Instruments Adjustment Account | | 284 |
| (649,564) | Pensions reserve | | (516,595) |
| (2,988) | Accumulated Absences Account | | (2,369) |
| 11 | Deferred capital receipts | | 2 |
| 1,126,909 | Total Unusable Reserves | | 1,380,159 |
| 1,502,956 | TOTAL RESERVES | | 1,789,947 |

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

| 2014/15 £'000 | | Notes | 2015/16 £'000 |
|------------------|---|------------|------------------|
| 251,011 | Net surplus or (deficit) on the provision of services | | 70,468 |
| (43,815) | Adjustments to net surplus or deficit on the provision of services for non cash movements | <u>26A</u> | 52,405 |
| (59,632) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | <u>26A</u> | (55,854) |
| 147,564 | Net cash flows from Operating Activities | | 67,019 |
| (81,972) | Investing Activities | <u>27</u> | (105,757) |
| (1,346) | Financing Activities | <u>28</u> | (2,907) |
| 64,246 | Net increase or decrease in cash and cash equivalents | | (41,645) |
| 138,111 | Cash and cash equivalents at the beginning of the reporting period | | 202,357 |
| 202,357 | Cash and cash equivalents at the end of the reporting period | <u>20</u> | 160,712 |

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31st March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the *Service Reporting Code of Practice (SeRCOP) 2015/16*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of long-term assets and financial instruments.

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31st March 2016 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the:

- Materiality concept means that information is included where the information is of such significance as to justify its inclusion.
- Accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
- Going concern concept assumes that the Council will continue in operational existence for the foreseeable future
- Primacy of Legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that

economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. This includes the accounting for fees, charges and rents due from customers; these are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimis of £10,000 below which items of income and expenditure are not required.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice. Cash equivalents are investments that mature no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand within the short-term and form an integral part of the Council's cash management.

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise or not material) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in Accounting Policy:

Future Changes in Accounting Policy - The Code of Practice on Local Council Accounting in the United Kingdom 2015/16 (the Code) has introduced several changes in accounting policies which will be required from 1st April 2016.

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) takes effect from 1 April 2016. This will require a Highways Network Asset to be recognised in the balance sheet at depreciated replacement cost. This will replace items of infrastructure such as roads and bridges currently shown in the balance sheet at depreciated historic cost. This will be a significant material change, likely to result in a revaluation gain which will increase the value of Property, Plant and Equipment on the balance sheet. New accounting standards usually require retrospective changes to the prior year's accounts, however this change does not require retrospective restatement.

Other changes - *In addition there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts. These comprise:*

- **Amendments to IAS 19 Employee Benefits** (Defined Benefit Plans: Employee Contributions)
- **Amendment to IFRS 11 Joint Arrangements** (Accounting for Acquisitions of Interests in Joint Operations)
- **Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets** - Clarification of Acceptable Methods of Depreciation and Amortisation for long-term assets
- **Amendment to IAS 1 Presentation of Financial Statements** (Disclosure Initiative) – this will change format of Comprehensive Income & Expenditure account to make it based on the council Directorate structure, a new expenditure and funding analysis statement and minor changes to the movement in reserve statement.

6. Charges to Revenue for Long-term Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation losses (general fall in prices across the board) and impairment losses (fall in price specific to an asset) on tangible non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by

way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2015/16 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

7. Employee Benefits

a. Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. If material, an accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b. Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy and a reliable estimate can be made of the cost.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c. Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

All the schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits 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. The Children's and Education Services line in the Comprehensive Income

and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has indemnified THH in respect of all liabilities that have arisen or may arise from its pension obligations.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – 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, etc. and estimates of projected earnings for current employees.

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2016.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted or unitised securities are valued at current bid price; unquoted securities on the basis of professional estimate; and property at market value.

The change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- 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 Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- expected rate of 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 Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- gains and 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, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- 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, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the

amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees as calculated under IAS19.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- a. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such material events
- b. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect, or a statement that an estimate cannot be reliably made.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue

9. Financial Instruments

a. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive

Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b. Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

10. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

11. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (revenue grants) or Capital Grants Receipts in Advance account (capital grants). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Unapplied revenue grants without repayment conditions are shown as earmarked reserves.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Heritage assets

The Code of Practice on Local Authority Accounting in the United Kingdom requires material heritage assets held by the Council to be disclosed.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £9.3 million at 31 March 2016. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

Valuations are made by any method that is appropriate, including reference to sale proceeds of similar items by same artist to demonstrate values are clearly under materiality values. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. The Council has four heritage assets that have material values, these values are reviewed periodically, however the real value would only be established upon sale as valuations on assets of this nature are subjective.

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its balance sheet. Where this information is not available and the historical cost information cannot be obtained the asset is excluded from the balance sheet.

Heritage assets (other than operational heritage assets) shall normally be included in the balance sheet at their current value where material. The Council has a materiality threshold of £50,000 for considering heritage assets for valuation. Where it is not practical to obtain a

valuation at a reasonable cost heritage assets are valued at cost where known. Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value.

Operational heritage assets (i.e. those that in addition to being held for their heritage characteristics are also used for other activities or provide other services) are accounted for as operational assets and valued in the same way as other assets of that type.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a material heritage asset or doubts arise to its authenticity the value of the asset would be reviewed.

13. Interests in Companies and Other Entities

The Council has an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be prepared (a summary of this interest can be found in note 45). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

14. Inventories and Long Term Contracts

Inventories (stocks) are included in the Balance Sheet at the lower of cost and net realisable value. Where material, the council would select a valuation process appropriate for the asset.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The Council as a Lessee

The Council has reviewed its leases in detail and has determined that, except for PFI agreements, there are a small number of finance leases with immaterial asset values, so the agreement costs are charged to revenue. For finance leases (including the PFI assets), the accounting policy is as follows;

a. Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease, matched with a

tangible property, plant or equipment asset – the liability is written down as the rent becomes payable), and

- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

b. Operating Leases

Leases that do not meet the definition of finance leases as described above are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account within the Comprehensive Income and Expenditure Statement on an equalised basis over the term of the lease, to reflect the economic benefits consumed over the life of the lease, irrespective of fluctuations in annual payments.

The Council as a Lessor

The council has some operating leases as a lessor; the accounting policy is as follows:

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

16. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – costs not attributable to services such as depreciation and impairment losses chargeable on non-operational properties

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The de minimus level above which expenditure on tangible property, plant and equipment assets is classified as capital is £50,000 except where the expenditure is financed by grants or contributions; or where lesser amounts on the same asset accumulate above that level.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value – this is commonly used as a basis for valuing vehicles, plant and equipment.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- **dwelling**s - equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- **other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer
- **vehicles, plant, furniture and equipment** – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. For equipment, over five years
- **infrastructure** – straight-line allocation over 40 years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately if they have a materially different remaining life from the underlying asset.

Any assets with a depreciable value below £1 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £1 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus

or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of long-term assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

18. Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment long-term assets needed to provide services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029.

The original recognition of these long-term assets at current value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – recognised as long-term assets on the Balance Sheet if capital in nature

MRP policy for PFI schemes - a minimum revenue provision is charged based on a share of the charge paid within the above contracts - this represents repayment of the contract liability for the long-term assets within the contract.

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. As the Council does not pay for this scheme, there is no MRP chargeable. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance, both of which are written down over the term of the contract.

19. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service account.

Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the Council settles the obligation.

b. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 45 to the accounts.

c. Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement of Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the relevant service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

The Council treats transfers from the insurance reserve as above the line income to services rather than below the line transfers between reserves. This is a deviation from the Accounting Code of Practice but does not have a material effect on the financial statements.

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement of Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

22. Fair value measurement

The authority measures some of its non-financial assets such as surplus assets and asset held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

23. Value added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

24. Collection Fund

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax, Business Rate Supplements (BRS) and Non-Domestic Rates (NDR). This account receives income on behalf of the Council, Central Government and its other preceptor the Greater London Authority (GLA).

Collection Fund income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included within the Movement of Reserves Statement.

The cash collected by the Council from Council Tax, BRS & NDR debtors belongs proportionately to the billing authority, Central Government and the preceptors. This results in a debtor / creditor position between the Council, Central Government and preceptors for the difference between the cash collected from Council Tax, BRS & NDR debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax & NNDR arrears and impairment for bad debts, Council Tax & NDR over payments and prepayments and the debtor/ creditor from the preceptors.

The Council's share of net cash collected from Council Tax & NDR debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to the precepting authorities is included in the net cash-flows for financing activities.

The amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Central Government & GLA or has been overpaid to the Central Government & GLA on the Balance Sheet date.

3 Restated Accounting Statements

There were no restated accounting statements.

4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

Valuations at 1st April 2015 and 31st March 2016 have been used to construct the balance sheet. Valuers have indicated that market values for housing properties have increased by roughly 8.5%, this would equate to £93m. The impact of these increases will be taken into account in a more detailed valuation exercise for the 2016/17 Accounts.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1.1 million for every year that useful lives had to be reduced.

Heritage Assets - In valuing material heritage assets, valuations have been obtained from independent Valuers where practicable. Where a value has been given between a certain band, then the mid-point valuation is used. However, because of their unique nature the value of heritage assets is difficult to predict. There is a risk that the value of heritage assets is incorrectly stated, but this would only become apparent if the asset is sold. Most heritage items have been given a nil value in the Accounts as their values are significantly below the materiality threshold - any risk is the assets' value is understated.

NNDR Appeals - There are approximately 6,200 NNDR (Business Rates) appeals that are yet to be heard by the Government's Valuation Tribunal. Of these 3,467 will not result in a reduction in rateable value and 1,936 are considered speculative. Provision has been made for the remaining appeals.

Pensions Liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2015/16, the Council's actuaries advised that the net pensions liability had decreased by £133.0 million to £516.6 million mainly as a result of a higher discount factor used to calculate the net present value of future pension payments. The value of the pension fund decreased in value by £12 million in the year due to falling investment values.

5 Material Items of Income and Expense

Current Year Items

Actuarial gain on pension fund - there was a £133.0 million actuarial gain on the pension fund mainly due to an increase in the discount factor used to calculate the net present value of future pension payments.

Revaluation of HRA dwellings - The valuation of property, plant and equipment as at 1st April 2015 resulted in an increase in the value of dwellings of £90.4m, of which £40.9m was credited to HRA gross expenditure as a reversal of previous revaluation losses. The remaining £49.5m was credited to the revaluation reserve and is shown as part of other comprehensive income and expenditure.

6 Events After the Balance Sheet Date

There are no financial post balance sheet events that are not mentioned elsewhere in these Accounts.

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

| 2015/16 | USABLE RESERVES | | | | | | | UNUSABLE RESERVES | TOTAL AUTHORITY RESERVES |
|---|----------------------|----------------------------------|---------------------------------|-----------------------|--------------------------|--------------------------|-----------------------|-------------------------|--------------------------|
| | GENERAL FUND BALANCE | EARMARKED GENERAL FUND RESERVES* | HOUSING REVENUE ACCOUNT BALANCE | MAJOR REPAIRS RESERVE | CAPITAL RECEIPTS RESERVE | CAPITAL GRANTS UNAPPLIED | TOTAL USABLE RESERVES | TOTAL UNUSABLE RESERVES | TOTAL AUTHORITY RESERVES |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Adjustments involving the Capital Adjustment Account | | | | | | | | | |
| <u>Reversal of items debited or credited to the Comprehensive I&E</u> | | | | | | | | | |
| Charges for depreciation and impairment of non current assets | 24,159 | 0 | 0 | 15,321 | 0 | 0 | 39,480 | (39,480) | 0 |
| Revaluation losses on PPE (charged to SDPS) | 4,717 | 0 | (40,892) | 0 | 0 | 0 | (36,175) | 36,175 | 0 |
| Capital grants and contributions applied | (6,097) | 0 | (9,903) | 0 | 0 | (41,073) | (57,073) | 57,073 | 0 |
| Revenue expenditure funded from capital under statute | 9,533 | 0 | 1,365 | 0 | 0 | 0 | 10,898 | (10,898) | 0 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | 4 | 0 | 23,221 | 0 | 0 | 0 | 23,225 | (23,225) | 0 |
| <u>Inclusion of items not debited or credited to the Comprehensive</u> | | | | | | | | | |
| Statutory provision for the financing of capital investment | (7,084) | 0 | (82) | 0 | 0 | 0 | (7,166) | 7,166 | 0 |
| Capital expenditure charged against the General Fund and HRA balances | (1,929) | 0 | (4,671) | 0 | 0 | 0 | (6,600) | 6,600 | 0 |
| Adjustments involving the Capital Receipts Reserve | | | | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | (82) | 0 | (36,063) | 0 | 36,145 | 0 | 0 | 0 | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 0 | 0 | 0 | (841) | 0 | (841) | 841 | 0 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 1,774 | 0 | 0 | 0 | (1,774) | 0 | 0 | 0 | 0 |
| Unattached capital receipts | (1,897) | 0 | (1,811) | 0 | 3,708 | 0 | 0 | 0 | 0 |
| Deferred Capital Receipts | 0 | 0 | 0 | 0 | 9 | 0 | 9 | (9) | 0 |
| Adjustment involving the Major Repairs Reserve | | | | | | | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | (28,319) | 0 | 0 | (28,319) | 28,319 | 0 |
| Adjustments involving the Financial Instruments Adjustment Account | | | | | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 102 | 0 | 182 | 0 | 0 | 0 | 284 | (284) | 0 |
| Adjustment involving the Pensions Reserve | | | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 60,306 | 0 | 4,093 | 0 | 0 | 0 | 64,399 | (64,399) | 0 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (42,713) | 0 | (2,833) | 0 | 0 | 0 | (45,546) | 45,546 | 0 |
| Adjustments involving the Collection Fund Adjustment Account | | | | | | | | | |
| Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements | 7,319 | 0 | 0 | 0 | 0 | 0 | 7,319 | (7,319) | 0 |
| Adjustments involving the Unequal Pay Back Pay Adjustment Account | | | | | | | | | |
| Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>Other adjustments include</u> | | | | | | | | | |
| Adjustments involving the Capital Grants Unapplied Account | | | | | | | | | |
| Capital grants and contributions unapplied credited to CIES when receivable | (25,186) | 0 | (16,598) | 0 | 0 | 41,784 | 0 | 0 | 0 |
| Adjustment between the Capital Adjustment Account and the Revaluation Reserve | | | | | | | | | |
| Depreciation of non-current asset revaluation gains | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revaluation gains written out on disposal | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers from General Fund (as directed by Secretary of State) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Adjustments involving the Accumulated Absences Account | | | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (618) | 0 | 0 | 0 | 0 | 0 | (618) | 618 | 0 |
| Total Adjustments | 22,308 | 0 | (83,992) | (12,998) | 37,247 | 711 | (36,724) | 36,724 | 0 |

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

| 2014/15 | USABLE RESERVES | | | | | | | UNUSABLE RESERVES | |
|---|----------------------|----------------------------------|---------------------------------|-----------------------|--------------------------|--------------------------|-----------------------|-------------------------|--------------------------|
| | GENERAL FUND BALANCE | EARMARKED GENERAL FUND RESERVES* | HOUSING REVENUE ACCOUNT BALANCE | MAJOR REPAIRS RESERVE | CAPITAL RECEIPTS RESERVE | CAPITAL GRANTS UNAPPLIED | TOTAL USABLE RESERVES | TOTAL UNUSABLE RESERVES | TOTAL AUTHORITY RESERVES |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Adjustments involving the Capital Adjustment Account | | | | | | | | | |
| <u>Reversal of items debited or credited to the Comprehensive I&E</u> | | | | | | | | | |
| Charges for depreciation and impairment of non current asset | 23,632 | 0 | 0 | 15,718 | 0 | 0 | 39,350 | (39,350) | 0 |
| Revaluation losses on PPE (charged to SDPS) | 31,911 | 0 | (194,072) | 0 | 0 | 0 | (162,161) | 162,161 | 0 |
| Capital grants and contributions applied | (18,748) | 0 | (1,803) | 0 | 0 | (68,134) | (88,685) | 88,685 | 0 |
| Movement in the donated assets account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue expenditure funded from capital under statute | 16,951 | 0 | 4,044 | 0 | 0 | 0 | 20,995 | (20,995) | 0 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | 0 | 0 | 33,497 | 0 | 0 | 0 | 33,497 | (33,497) | 0 |
| <u>Inclusion of items not debited or credited to the Comprehensive</u> | | | | | | | | | |
| Statutory provision for the financing of capital investment | (6,881) | 0 | 0 | 0 | 0 | 0 | (6,881) | 6,881 | 0 |
| Capital expenditure charged against the General Fund and HRA balances | (7,720) | 0 | (8,855) | 0 | 0 | 0 | (16,575) | 16,575 | 0 |
| Adjustments involving the Capital Receipts Reserve | | | | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | 0 | 0 | (34,814) | 0 | 34,814 | 0 | 0 | 0 | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 0 | 0 | 0 | (8,549) | 0 | (8,549) | 8,549 | 0 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | 1,572 | 0 | 0 | 0 | (1,572) | 0 | 0 | 0 | 0 |
| Unattached capital receipts | (681) | 0 | (2,778) | 0 | 3,459 | 0 | 0 | 0 | 0 |
| Deferred Capital Receipts | 0 | 0 | 0 | 0 | 36 | 0 | 36 | (36) | 0 |
| Adjustment involving the Major Repairs Reserve | | | | | | | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | (9,940) | 0 | 0 | (9,940) | 9,940 | 0 |
| Adjustments involving the Financial Instruments Adjustment | | | | | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 102 | 0 | 182 | 0 | 0 | 0 | 284 | (284) | 0 |
| Adjustment involving the Pensions Reserve | | | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 55,603 | 0 | 1,296 | 0 | 0 | 0 | 56,899 | (56,899) | 0 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (39,814) | 0 | (2,533) | 0 | 0 | 0 | (42,347) | 42,347 | 0 |
| Adjustments involving the Collection Fund Adjustment Account | | | | | | | | | |
| Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements | (7,280) | 0 | 0 | 0 | 0 | 0 | (7,280) | 7,280 | 0 |
| Adjustments involving the Unequal Pay Back Pay Adjustment | | | | | | | | | |
| Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>Other adjustments involving</u> | | | | | | | | | |
| Adjustments involving the Capital Grants Unapplied Account | | | | | | | | | |
| Capital grants and contributions unapplied credited to CIES when receivable | (19,697) | 0 | (49,384) | 0 | 0 | 69,081 | 0 | 0 | 0 |
| Adjustment between the Capital Adjustment Account and the | | | | | | | | | |
| Depreciation of non-current asset revaluation gains | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revaluation gains written out on disposal | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers from General Fund (as directed by Secretary of State) | | | | | | | | | |
| Adjustments involving the Accumulated Absences Account | | | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (439) | 0 | 0 | 0 | 0 | 0 | (439) | 439 | 0 |
| Total Adjustments | 28,511 | 0 | (255,220) | 5,778 | 28,188 | 947 | (191,796) | 191,796 | 0 |

8 TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts

| | BALANCE AT 1 APRIL 2014 £'000 | TRANSFERS OUT 2014/15 £'000 | TRANSFERS IN 2014/15 £'000 | BALANCE AT 31 MARCH 2015 £'000 | TRANSFERS OUT 2015/16 £'000 | TRANSFERS IN 2015/16 £'000 | BALANCE AT 31 MARCH 2016 £'000 |
|--|-------------------------------------|-----------------------------------|-------------------------------|---|-----------------------------------|-------------------------------|---|
| GENERAL FUND | | | | | | | |
| General Fund Reserve | 64,989 | 0 | 6,467 | 71,456 | 0 | 644 | 72,100 |
| EARMARKED RESERVES | | | | | | | |
| Corporate | | | | | | | |
| 1 Improvement & Transformation | 12,493 | (927) | 5,351 | 16,917 | (1,936) | 9,047 | 24,028 |
| 2 Severance | 11,000 | 0 | 4,000 | 15,000 | (4,152) | 1,152 | 12,000 |
| 3 Finance Systems | 2,510 | 0 | 0 | 2,510 | 0 | 0 | 2,510 |
| 4 ICT Refresh | 1,855 | (676) | 370 | 1,549 | (218) | 0 | 1,331 |
| 5 Olympic Legacy Schemes | 651 | 0 | 0 | 651 | (651) | 0 | 0 |
| 6 Education Grant Reduction | 2,093 | (760) | 0 | 1,333 | 0 | 1,110 | 2,443 |
| 7 Employment and other Corporate Initiatives | 14,464 | (3,366) | 2,747 | 13,845 | (4,471) | 3,859 | 13,233 |
| 8 Other | 3,464 | 0 | 70 | 3,534 | (2,334) | 0 | 1,200 |
| Service Specific | | | | | | | |
| 9 Homelessness | 2,575 | (361) | 0 | 2,214 | (559) | 0 | 1,655 |
| 10 Parking Control | 913 | 0 | 1,006 | 1,919 | 0 | 1,376 | 3,295 |
| 11 Development & Renewal Other | 2,865 | (100) | 1,789 | 4,554 | (113) | 1,440 | 5,881 |
| 12 Communities, Localities & Culture | 1,216 | (88) | 709 | 1,837 | (190) | 1,013 | 2,660 |
| 13 Children, Schools & Families | 1,595 | (402) | 988 | 2,181 | (1,610) | 667 | 1,238 |
| 14 Adults, Health & Wellbeing | 800 | 0 | 1,138 | 1,938 | (328) | 1,092 | 2,702 |
| 15 Chief Executives & Resources | 564 | 0 | 0 | 564 | 0 | 60 | 624 |
| Revenue Reserves - Other | | | | | | | |
| 16 Insurance | 20,911 | (582) | 2,736 | 23,065 | (1,005) | 0 | 22,060 |
| 17 Schools Balances | 34,724 | (2,148) | 3,412 | 35,988 | (4,177) | 0 | 31,811 |
| 18 CSF - Early Intervention | 2,316 | 0 | 146 | 2,462 | (2,244) | 0 | 218 |
| 19 Housing Revenue Account (HRA) | 17,153 | (1) | 2,993 | 20,145 | 1,000 | 10,947 | 32,092 |
| 20 Housing Revenue Account - Future Housing Supply | 1,000 | 0 | 0 | 1,000 | (1,000) | 0 | 0 |
| Capital Reserves | | | | | | | |
| 21 Capital Programme (General Fund) | 24,795 | (7,800) | 7,593 | 24,588 | (288) | 651 | 24,951 |
| Earmarked Reserve Total | 159,957 | (17,211) | 35,048 | 177,794 | (24,276) | 32,414 | 185,932 |
| Total Usable Reserve Total | 224,946 | (17,211) | 41,515 | 249,250 | (24,276) | 33,058 | 258,032 |

Corporate Reserves

- 1 Reserve created to support the delivery of the Council's transformation programme.
- 2 Reserve for potential severance / redundancy payments.
- 3 & 4 Reserve to support the planned investment in Council's finance systems.
- 5 Reserve created from grant income to support initiatives related to the Olympics programme.
- 6 Reserve to mitigate the impact of reductions to education improvement grant funding.
- 7 Reserve for employment, business support and corporate initiatives.
- 8 Other reserves for community based initiatives.

Service Specific Reserves

- 9 A reserve to mitigate the impact of the increased cost of dealing with homelessness.
- 10 Reserve to finance highways and transport related improvements.
- 11-15 Reserves held for service specific initiatives.

Revenue Reserves - Other

- 16 The Council is self insured for most liability and property risks below £1 million. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.
- 17 Reserves held by schools under the scheme of delegation.
- 18 Reserve created from grant for Children, School & Families early intervention schemes.
- 19 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 20 An earmarked HRA reserve to fund housing projects.

Capital Reserves

- 21 Reserves to support the financing of the capital programme.

9 Other Operating Expenditure

| 2014/15 £'000 | Note | 2015/16 £'000 |
|------------------|---|------------------|
| Levies | | |
| 236 | - Lee Valley Regional Park Authority | 237 |
| 173 | - Environment Agency | 180 |
| 1,261 | - London Pensions Fund Authority | 1,286 |
| 1,670 | Total Levies | 1,703 |
| 1,572 | Payments to Housing Capital Receipts Pool | 1,774 |
| (1,316) | Net (gain)/loss on disposal of non-current assets | (12,919) |
| (3,459) | Unattached capital receipts | (3,708) |
| (1,533) | Total | (13,150) |

10 Financing and Investment Income and Expenditure

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|---|------------------|
| 9,745 | Interest payable and similar charges | 9,761 |
| 21,175 | Pensions interest cost and expected return on pensions assets | 20,509 |
| (2,254) | Interest receivable and similar income | (3,131) |
| (6) | Surplus or deficit of trading operations | (356) |
| 28,660 | Total | 26,783 |

11 Taxation and Non Specific Grant Income

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|----------------------------------|------------------|
| (67,576) | Council Tax income | (71,793) |
| (108,528) | Non domestic rates | (112,493) |
| (146,321) | Non-ringfenced Government grants | (111,500) |
| (82,818) | Capital grants and contributions | (48,976) |
| (405,243) | Total | (344,762) |

12 PROPERTY, PLANT AND EQUIPMENT

| MOVEMENTS IN 2015/16 | COUNCIL DWELLINGS | OTHER LAND AND BUILDINGS | VEHICLES, PLANT, FURNITURE & EQUIPMENT | INFRA-STRUCTURE ASSETS | COMMUNITY ASSETS | SURPLUS ASSETS | ASSETS UNDER CONSTRUCTION | TOTAL PROPERTY, PLANT AND EQUIPMENT | PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT |
|--|-------------------|--------------------------|--|------------------------|------------------|----------------|---------------------------|-------------------------------------|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | | | | |
| At 1 April 2015 | 1,125,613 | 958,446 | 24,176 | 149,030 | 53,577 | 24,873 | 2,840 | 2,338,555 | 278,021 |
| Additions | 60,244 | 11,802 | 252 | 4,773 | 253 | 7 | 10,741 | 88,072 | 6,302 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 35,852 | 2,046 | 0 | 0 | 0 | 5,896 | 0 | 43,794 | (176) |
| Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services | 40,892 | 980 | 0 | 0 | 0 | (4,322) | 0 | 37,550 | (29) |
| Derecognition - Disposals | (22,213) | (440) | 0 | 0 | 0 | 0 | 0 | (22,653) | 0 |
| Derecognition - Other | 0 | (418) | 0 | 0 | 0 | 0 | 0 | (418) | 0 |
| Assets Reclassified (to)/from Held for Sale | 0 | (223) | 0 | 0 | 0 | (14,029) | 0 | (14,252) | 0 |
| Other Reclassification of Assets | 4,006 | (651) | 0 | 0 | 61 | (540) | (2,876) | 0 | (33,493) |
| At 31 March 2016 | 1,244,394 | 971,542 | 24,428 | 153,803 | 53,891 | 11,885 | 10,705 | 2,470,648 | 250,625 |
| Accumulated Depreciation and Impairment | | | | | | | | | |
| At 1 April 2015 | 152,134 | 80,036 | 20,177 | 42,619 | 0 | 966 | 0 | 295,932 | 14,424 |
| Depreciation charge | 13,753 | 21,222 | 944 | 3,601 | 0 | 157 | 0 | 39,677 | 5,971 |
| Depreciation written out to the Revaluation Reserve | (13,635) | (6,060) | 0 | 0 | 0 | (1,214) | 0 | (20,909) | (134) |
| Derecognition - Disposals | (289) | 0 | 0 | 0 | 0 | 0 | 0 | (289) | 0 |
| Derecognition - Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assets reclassified (to)/from Held for Sale | 0 | (3) | 0 | 0 | 0 | (335) | 0 | (338) | 0 |
| Other Reclassification of Assets | 0 | (5) | 0 | 0 | 5 | 0 | 0 | 0 | (3,011) |
| At 31 March 2016 | 151,963 | 95,190 | 21,121 | 46,220 | 5 | (426) | 0 | 314,073 | 17,250 |
| Net Book Value | | | | | | | | | |
| At 31 March 2016 | 1,092,431 | 876,352 | 3,307 | 107,583 | 53,886 | 12,311 | 10,705 | 2,156,575 | 233,375 |
| At 31 March 2015 | 973,479 | 878,410 | 3,999 | 106,411 | 53,577 | 23,907 | 2,840 | 2,042,623 | 263,597 |

12 PROPERTY, PLANT AND EQUIPMENT (continued)

| COMPARATIVE MOVEMENTS IN 2014/15 | COUNCIL DWELLINGS | OTHER LAND AND BUILDINGS | VEHICLES, PLANT, FURNITURE & EQUIPMENT | INFRASTRUCTURE ASSETS | COMMUNITY ASSETS | SURPLUS ASSETS | ASSETS UNDER CONSTRUCTION | TOTAL PROPERTY, PLANT AND EQUIPMENT | PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT |
|---|----------------------|--------------------------------|--|--------------------------|---------------------|-------------------|------------------------------|--|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | | | | |
| At 1 April 2014 | 905,913 | 974,232 | 23,414 | 143,975 | 49,677 | 24,588 | 0 | 2,121,799 | 270,854 |
| Additions | 69,969 | 32,881 | 762 | 5,055 | 3,900 | 285 | 2,840 | 115,692 | 7,167 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (10,338) | (16,748) | 0 | 0 | 0 | 0 | 0 | (27,086) | 0 |
| Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services | 194,071 | (31,919) | 0 | 0 | 0 | 0 | 0 | 162,152 | 0 |
| Derecognition - Disposals | (34,002) | 0 | 0 | 0 | 0 | 0 | 0 | (34,002) | 0 |
| Derecognition - Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assets Reclassified (to)/from Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Reclassification of Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2015 | 1,125,613 | 958,446 | 24,176 | 149,030 | 53,577 | 24,873 | 2,840 | 2,338,555 | 278,021 |
| Accumulated Depreciation and Impairment | | | | | | | | | |
| At 1 April 2014 | 152,733 | 71,326 | 19,106 | 38,976 | 0 | 359 | 0 | 282,500 | 6,722 |
| Depreciation charge | 14,141 | 20,086 | 1,071 | 3,643 | 0 | 607 | 0 | 39,548 | 7,702 |
| Depreciation written out to the Revaluation Reserve | (14,234) | (11,376) | 0 | 0 | 0 | 0 | 0 | (25,610) | 0 |
| Derecognition - Disposals | (506) | 0 | 0 | 0 | 0 | 0 | 0 | (506) | 0 |
| Derecognition - Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assets reclassified (to)/from Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Reclassification of Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2015 | 152,134 | 80,036 | 20,177 | 42,619 | 0 | 966 | 0 | 295,932 | 14,424 |
| Net Book Value | | | | | | | | | |
| At 31 March 2015 | 973,479 | 878,410 | 3,999 | 106,411 | 53,577 | 23,907 | 2,840 | 2,042,623 | 263,597 |
| At 31 March 2014 | 753,180 | 902,906 | 4,308 | 104,999 | 49,677 | 24,229 | 0 | 1,839,299 | 264,132 |

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – As a method of depreciation, the council has used the Major Repairs Allowance (MRA) to adjust the value of the housing stock to reflect the effects of use, deterioration and obsolescence. In 2015/16, the council compared the MRA figure to a depreciation figure calculated based on figures from a qualified valuer to ensure the depreciation charge to the HRA was adequate to finance the HRA's long-term financial plan.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £82.186 million at 31st March 2016 (£98.525 million at 31st March 2015).

| | Committed sum £m | Costs to 31/3/2016 £m | 2016/17 onwards £m | Contract End Date |
|-------------------------------|---------------------|--------------------------|-----------------------|-------------------|
| Decent Homes Contract | 175.000 | 119.394 | 55.606 | 31/03/2017 |
| Watts Grove - GLA Pipeline | 23.897 | 8.802 | 15.095 | 10/03/2017 |
| Olga Primary School Expansion | 10.472 | 6.586 | 3.886 | 25/08/2017 |
| St Paul's Way Trust School | 11.379 | 3.780 | 7.599 | 24/08/2018 |
| TOTAL | 220.748 | 138.562 | 82.186 | |

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. In 2015/16, school assets were also subject to a desktop valuation as at 31st March 2016. A summary of total valuation per asset category is shown below.

In 2015/16, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2010'.

All surplus assets and assets held for sale are valued at fair value under IFRS 13. These have been categorised by the valuers as being within level 2 of the fair value hierarchy, which are based on observable inputs such as market rents and recent sales of similar properties. Further details of fair value can be found within the accounting policies.

| ANALYSIS OF ROLLING REVALUATION PROGRAMME | COUNCIL DWELLINGS £'000 | OTHER LAND AND BUILDINGS £'000 | VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000 | INFRASTRUCTURE ASSETS £'000 | COMMUNITY ASSETS £'000 | SURPLUS ASSETS £'000 | ASSETS UNDER CONSTRUCTION £'000 | TOTAL PROPERTY, PLANT AND EQUIPMENT £'000 |
|---|----------------------------|-----------------------------------|---|--------------------------------|---------------------------|-------------------------|------------------------------------|--|
| Valued at historic cost | - | 9,558 | 3,307 | 107,583 | 53,886 | - | 10,705 | 185,039 |
| Valued at current value in: | | | | | | | | |
| 2015/16 | 1,092,431 | 51,625 | - | - | - | 12,311 | - | 1,156,367 |
| 2014/15 | - | 75,128 | - | - | - | - | - | 75,128 |
| 2013/14 | - | 94,952 | - | - | - | - | - | 94,952 |
| 2012/13 | - | 622,104 | - | - | - | - | - | 622,104 |
| 2011/12 | - | 22,985 | - | - | - | - | - | 22,985 |
| Value at 31 March 2016 | 1,092,431 | 876,352 | 3,307 | 107,583 | 53,886 | 12,311 | 10,705 | 2,156,575 |

13 LONG TERM DEBTORS

| | 1st April 2014 £'000 | Advances £'000 | Income and Adjustments £'000 | Balance at 31st March 2015 £'000 | Advances £'000 | Income and Adjustments £'000 | Balance at 31st March 2016 £'000 |
|--------------------------------------|-------------------------|-------------------|---------------------------------|-------------------------------------|-------------------|---------------------------------|-------------------------------------|
| Mortgages on Right to Buy properties | 61 | 4 | (37) | 28 | 11 | (10) | 29 |
| Sundry Loans | 529 | 183 | (127) | 585 | 83 | (125) | 543 |
| | 590 | 187 | (164) | 613 | 94 | (135) | 572 |

14 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licences, not internally generated software. Since the provision of IT services transferred to the Council's partner organisation on 1st May 2012 there have been no intangible asset transactions.

15 FINANCIAL INSTRUMENT NOTES

Local authorities are required to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee. This requires the disclosure of financial instruments at amortised cost and fair value.

Amortised Cost

These accounting standards have meant that most financial instruments (whether borrowing or investment) have to be valued on an amortised cost basis using the effective interest rate (EIR) method.

Fair Value

In these disclosure notes, financial instruments are also required to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Compliance

The Council has:

- 1 Adopted the CIPFA's Treasury Management in the Public Services: Code of Practice.
- 2 Set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

Types of Financial Instruments

| Financial Instrument Categories | Long-Term | | Current | | Total | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March |
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | | | | | | |
| Borrowings at amortised cost | 88,528 | 85,936 | 746 | 2,267 | 89,274 | 88,203 |
| Deferred Liabilities (PFI and Finance Leases) | 37,509 | 42,040 | 964 | 1,377 | 38,473 | 43,417 |
| Creditors - Financial Liabilities carried at contract amount | 0 | 0 | 71,728 | 49,681 | 71,728 | 49,681 |
| Total Liabilities | 126,037 | 127,976 | 73,438 | 53,325 | 199,475 | 181,301 |
| Financial Assets | | | | | | |
| Loans and receivables | 0 | 0 | 215,748 | 291,589 | 215,748 | 291,589 |
| Debtors - financial assets carried at contract amounts | 0 | 0 | 25,655 | 25,560 | 25,655 | 25,560 |
| Cash held at bank and cash equivalents | 0 | 0 | 202,357 | 160,712 | 202,357 | 160,712 |
| Total Financial Assets | 0 | 0 | 443,760 | 477,861 | 443,760 | 477,861 |

NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing.
2. Included in loans and receivables is £25m of deposits due to be settled within 1 and 3 years as at 31 March 2016.
3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, collar deposits, certificates of deposits, call accounts and money market funds.
4. The terms of the collar deposits, referenced to 3 month LIBOR are: £5m from 10.01.2014 - 09.01.2017, with a floor of 1.74% and a cap of 2.50%; £5m from 20.03.2014 - 20.03.16, with a floor of 1.25% and a cap of 1.80%.
5. Balances in the money market funds at 31 March 2016 are shown under 'cash and cash equivalent' in the balance sheet. Cash equivalents are highly liquid deposits which are readily convertible into cash at short notice. They include £89.8 million (£165.9 million as at 31st March 2015) of short-term deposits with banks and building societies excluded from loans and receivables.
6. The above long term figures are based on paragraph B9, Module 7 of the 2015/16 code of practice guidance notes which states an
7. In addition to the above financial liabilities, the Council has contingent liabilities for warranties provided to landlords. Details are outlined in note 30 to the accounts. The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.

FINANCIAL INSTRUMENTS (continued)

Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

| | 2014/15 | | 2015/16 | |
|---|--|---|---|--|
| | Financial Liabilities measured at amortised cost | Financial Assets Loans and receivables | Financial Liabilities measured at amortised cost | Financial Assets Loans and receivables |
| | £'000 | £'000 | £'000 | £'000 |
| Interest expense | 9,745 | 0 | 9,761 | 0 |
| Interest income | 0 | 2,254 | 0 | 3,131 |
| TOTAL INTEREST AND INVESTMENT INCOME | 9,745 | 2,254 | 9,761 | 3,131 |

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below:

Methods and Assumptions in valuation technique

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31st March, using bid prices where applicable.

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2016.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

| Fair Value of Liabilities Carried at Amortised Cost | 31 March 2015 | | 31 March 2016 | |
|--|-----------------|----------------|-----------------|----------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Public Works Loans Board | 11,455 | 14,598 | 10,375 | 13,019 |
| Lender's option, borrower's option loans | 77,818 | 100,297 | 77,828 | 132,814 |
| Deferred liabilities - (PFI/Finance Leases) | 38,473 | 38,473 | 43,417 | 43,417 |
| Creditors - Financial Liabilities carried at contract amount | 71,728 | 71,728 | 49,681 | 49,681 |
| Financial Liabilities | 199,474 | 225,096 | 181,301 | 238,931 |

The commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.

| Fair Value of Assets Carried at Amortised Cost | 31 March 2015 | | 31 March 2016 | |
|---|-----------------|----------------|-----------------|----------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Fixed term deposits with banks and building societies | 215,741 | 215,945 | 291,589 | 318,842 |
| Equity Shares (not quoted in an active market) | 7 | 7 | 7 | 7 |
| Debtors - financial assets carried at contract amounts | 21,615 | 21,615 | 19,651 | 19,651 |
| Cash held at Bank | 67,188 | 67,188 | 68,398 | 68,398 |
| Cash equivalents (deposits with banks and other financial institutions) | 135,169 | 135,129 | 92,314 | 89,824 |
| Financial Assets | 439,720 | 439,884 | 471,959 | 496,722 |

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

15 FINANCIAL INSTRUMENTS (continued)

Nature and extent of risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the Council in the annual treasury management strategy report. The Council has fully adopted and implemented CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk. The treasury management team have also fully implemented the Government's national investment guidance.

1. Credit Risk

Credit risk is the possibility that other parties may not pay amounts due to the Council. This risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. The Council invests primarily on the basis of prudence and then the level of returns. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution or those underwritten by the Government. The Council has a policy of limiting deposits with institutions to a maximum of £10 million for financial institutions and £70 million for government backed borrowing, in any one transaction. The authority's minimum credit rating criteria is as detailed in the Treasury Management Strategy.

The following maturity profile summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

| | Amounts at 31 March 2015 £'000 | Historical experience of default % | Historical experience adjusted for market conditions as at 31 March 2015 % | Estimated maximum exposure to default and non- collection £'000 |
|--|---|--|---|--|
| Cash & cash equivalents deposits | 102,207 | 0% | 0% | 0% |
| Money Market Funds | 100,150 | 0% | 0% | 0% |
| Fixed term deposits with banks and other financial institutions: | | | | |
| 1 - 3 months | 0 | 0% | 0% | 0% |
| 3 - 6 months | 60,091 | 0% | 0% | 0% |
| 6 - 12 months | 145,621 | 0% | 0% | 0% |
| Over 12 months | 10,029 | 0% | 0% | 0% |
| TOTAL | 418,098 | 0% | 0% | 0% |

| | Amounts at 31 March 2016 £'000 | Historical experience of default % | Historical experience adjusted for market conditions as at 31 March 2016 % | Estimated maximum exposure to default and non- collection £'000 |
|--|---|--|---|--|
| Cash & cash equivalents deposits | 97,888 | 0% | 0% | 0% |
| Money Market Funds | 62,824 | 0% | 0% | 0% |
| Fixed term deposits with banks and other financial institutions: | | | | |
| 1 - 3 months | 27,001 | 0% | 0% | 0% |
| 3 - 6 months | 50,142 | 0% | 0% | 0% |
| 6 - 12 months | 135,729 | 0% | 0% | 0% |
| Over 12 months | 105,718 | 0% | 0% | 0% |
| TOTAL | 479,302 | 0% | 0% | 0% |

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £3.7 million of the £64 million balance (2014/15 - £6.0 million of the £79.7 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

15 FINANCIAL INSTRUMENTS (continued)

Nature and extent of risks arising from Financial Instruments (Continued)

| Credit Risk | 31 March | 31 March |
|------------------------|--------------|--------------|
| | 2015 | 2016 |
| | £'000 | £'000 |
| Three to six months | 1,191 | 570 |
| Six months to one year | 1,496 | 626 |
| More than one year | 3,334 | 2,553 |
| TOTAL | 6,021 | 3,749 |

2. Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 20% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity structure of financial liabilities is as follows (at nominal value):

| Loans outstanding | 31 March | 31 March |
|--------------------------|----------------|----------------|
| | 2015 | 2016 |
| | £'000 | £'000 |
| Public Works Loans Board | 11,455 | 10,375 |
| Market debt | 77,818 | 77,828 |
| PFI / Finance Leases | 38,473 | 43,417 |
| TOTAL | 127,746 | 131,620 |
| Less than 1 year | 1,710 | 3,643 |
| Between 1 and 2 years | 3,094 | 3,157 |
| Between 2 and 5 years | 9,590 | 8,885 |
| Between 5 and 10 years | 19,580 | 27,354 |
| More than 10 years | 93,772 | 88,581 |
| TOTAL | 127,746 | 131,620 |

In the more than 10 years category, there are £77.5 million of Lender's Option, Borrower's Option (LOBO) market loans, of which £17.5 million have call dates in the less than one year category. The Council uses money market funds to provide liquidity.

3. Market Risk

Interest rate risk

The Council is exposed to interest rate risk in two different ways - the uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Comprehensive Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Account.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the Movement in Reserves Statement.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to keep variable rate borrowings to a minimum. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

15 FINANCIAL INSTRUMENTS (continued)

Nature and extent of risks arising from Financial Instruments (Continued)

The treasury management strategy assesses interest rate exposure - this feeds into the setting of the annual budget.

According to this assessment, at 31st March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

| Interest Rate Risk | 2014/15 £'000 | 2015/16 £'000 |
|--|------------------|------------------|
| Increase in interest payable on variable rate borrowings | 775 | 645 |
| Increase in interest receivable on variable rate investments | (3,909) | (3,000) |
| Impact on Income and Expenditure Account | (3,134) | (2,355) |

| Fair Value Movements | 2014/15 £'000 | 2015/16 £'000 |
|--|------------------|------------------|
| Decrease in fair value of fixed rate investments | 956 | 508 |
| Decrease in fair value of fixed rate borrowing liabilities | 3,993 | 1,458 |
| Impact on Income and Expenditure Account | 4,949 | 1,966 |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Equity Shares (not quoted on an active market)

| | 2014/15 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| The Tower Hamlets Local Education Partnership | 7 | 7 |
| Total | 7 | 7 |

16 CONSTRUCTION CONTRACTS

The Council does not have any construction contracts (work in progress) where the construction work is undertaken for the Council's customers.

17 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 12 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2016 and concluded that there was no significant impairment to report.

18 HERITAGE ASSETS

The Council holds a number of heritage assets. These include civic regalia, works of art across the borough and collections at Tower Hamlets Local History Library and Archive (Bancroft Library). These are held as part of increasing the knowledge and understanding of the area's history.

The Council has held these heritage assets for a number of years pre-dating 2010. These assets are held at an estimate of current value on the balance sheet, except for the local history collection which is not included on the balance sheet as valuations are not available due to the unique nature of the assets. The council has a materiality threshold of £50,000 per asset. There are only four heritage assets above this threshold - civic regalia, two sculptures and one painting. The council has held these assets for a number of years. It was not practicable or cost effective to obtain valuations prior to 2010.

The council is considering a number of options relating to the future of one of the statues including the possibility of sale.

It is assumed that these material heritage assets have an indefinite lifespan, therefore depreciation is not charged on these assets. If evidence was received that required the value of the heritage assets to be impaired, this reduction would be charged to the revaluation reserve. The Council does not have any heritage assets buildings.

| | Balance at 31st March 2014 | 2014/15 Acquisitions | 2014/15 Disposals | 2014/15 Revaluation | Balance at 31st March 2015 | 2014/15 Acquisitions | 2014/15 Disposals | 2014/15 Revaluation | Balance at 31st March 2016 |
|---|----------------------------|----------------------|-------------------|---------------------|----------------------------|----------------------|-------------------|---------------------|----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Value of Heritage Assets held by Council | | | | | | | | | |
| (a) - Works of art | 8,910 | 0 | 0 | 0 | 8,910 | 0 | 0 | 0 | 8,910 |
| (b) - Civic Regalia | 389 | 0 | 0 | 0 | 389 | 0 | 0 | 0 | 389 |
| (c) - Local History Library and Archive Collections | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (d) - Public Art (Middlesex Street) | 11 | 0 | 0 | 0 | 11 | 0 | 0 | 0 | 11 |
| TOTAL HERITAGE ASSETS | 9,310 | 0 | 0 | 0 | 9,310 | 0 | 0 | 0 | 9,310 |

(a) The council holds a number of works of art. The council has three works of art with a material value - the council has received indications of value on these assets from art experts at auction houses.

There are 109 works of art across the borough for which the council has a duty of care. These include sculptures, statues, murals, memorials and other works. The majority of these reflect the history of the borough. It was not cost effective to obtain formal valuations for these immaterial items, however public data is available of sale proceeds of similar works by the same artists - none of these values are considered material. The estimated value of these assets has not changed since 2010.

The council also has a collection of 75 other paintings which are held at the local history library. These paintings are of local scenes and past local dignitaries so intrinsic value is in local interest rather than realisable value.

(b) These comprise the Mayor's chain and other civic regalia. These were valued by the auctioneers Bonhams in January 2012.

(c) Tower Hamlets Local History Library & Archives holds an extensive and unique collection of books, pamphlets, maps, photographs, press cuttings and ephemera, deeds, archives, audio-visual material, oral histories and sound recordings, digital records, and a range of other sources, all of which reflect and provide evidence of the history of the borough.

It was not considered appropriate or practicable to place a value on these items due to their unique nature. It is highly unlikely that any of these assets would ever be sold as the council has a legal obligation to maintain its archives.

These collections are preserved and made publicly available at the library on Bancroft Road and increasingly through the web and a range of exhibitions and outreach projects. The library & archives continues to proactively collect resources which illustrate and provide evidence of the activities and experiences of residents, organisations and businesses active in the borough, including the local authority.

(d) A new capital scheme started in 2012/13 to create a piece of public art funded by section 106 contributions from developments in the area. The agreed budget for the scheme is £250k and is not yet completed. The asset is shown at historical cost, which is 2012/13 expenditure.

19 DEBTORS

| | 31 March 2015 £'000 | 31 March 2016 £'000 |
|--------------------------------|------------------------|------------------------|
| Central government bodies | 26,850 | 23,835 |
| Other local authorities | 5,851 | 7,107 |
| Other entities and individuals | 79,708 | 63,583 |
| Payments in advance | 2,839 | 2,743 |
| Total | 115,248 | 97,268 |

20 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

| | 31 March 2015 £'000 | 31 March 2016 £'000 |
|---|------------------------|------------------------|
| Cash held by the Council | 67,188 | 68,398 |
| Short-term deposits with banks and building societies | 135,169 | 92,314 |
| Total Cash and Cash Equivalents | 202,357 | 160,712 |

21 ASSETS HELD FOR SALE

As at the 31st March 2015, the Council has one property which is classified as Assets Held for Sale.

| | Current | | Non Current | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2014/15 £000 | 2015/16 £000 | 2014/15 £000 | 2015/16 £000 |
| Value at 1st April | 225 | 225 | 0 | 0 |
| Assets newly classified as held for sale: | | | | |
| Property, Plant and Equipment | 0 | 13,914 | 0 | 0 |
| Assets sold | 0 | (444) | 0 | 0 |
| Value at 31st March | 225 | 13,695 | 0 | 0 |

22 CREDITORS

| | 31 March 2015 £000 | 31 March 2016 £000 |
|--------------------------------|-----------------------|-----------------------|
| Central government bodies | 40,483 | 30,025 |
| Other local authorities | 10,407 | 21,946 |
| Other entities and individuals | 76,895 | 87,001 |
| Accruals | 71,728 | 49,681 |
| Receipts in advance | 16,127 | 15,505 |
| Total | 215,640 | 204,158 |

23 PROVISIONS

| SHORT-TERM PROVISIONS | Balance at 1 April 2015 £'000 | Amounts used in 2014/15 £'000 | Contributions in 2014/15 £'000 | Balance at 31 March 2015 £'000 | Amounts used in 2015/16 £'000 | Contributions in 2015/16 £'000 | Balance at 31 March 2016 £'000 |
|--|----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| (a) Single Status | 174 | 0 | 0 | 174 | (112) | 0 | 62 |
| (b) ICT provision and other corporate provisions | 772 | (195) | 878 | 1,455 | (200) | 53 | 1,308 |
| (c) Adoption Fees | 40 | (40) | 0 | 0 | 0 | 0 | 0 |
| (d) Contract disputes | 102 | 0 | 0 | 102 | 0 | 21 | 123 |
| (e) Business rates appeals provision | 8,250 | (7,040) | 1,800 | 3,010 | (2,427) | 0 | 583 |
| TOTAL | 9,338 | (7,275) | 2,678 | 4,741 | (2,739) | 74 | 2,076 |

Note - all short term provisions are due to be realised in the next financial year.

| LONG-TERM PROVISIONS | Balance at 1 April 2014 £'000 | Amounts used in 2014/15 £'000 | Contributions in 2014/15 £'000 | Balance at 31 March 2015 £'000 | Amounts used in 2015/16 £'000 | Contributions in 2015/16 £'000 | Balance at 31 March 2016 £'000 |
|-----------------------------------|----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| (f) Insurance Fund | 9,024 | (2,247) | 0 | 6,777 | (75) | 358 | 7,060 |
| (g) Repayment of deposits | 169 | 0 | 0 | 169 | 0 | 0 | 169 |
| (h) Repayment of European funding | 394 | 0 | 0 | 394 | 0 | 0 | 394 |
| TOTAL | 9,587 | (2,247) | 0 | 7,340 | (75) | 358 | 7,623 |
| | | | | | | | 9,699 |

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provision.
- (c) Provision required in 2014/15 for the final payment to other authorities should particular children placed with potential adopters resident in other boroughs ultimately be legally adopted.
- (d) Provision for contract disputes.
- (e) Council share of provision for NNDR business rates appeals.
- (f) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.
- (g) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.
- (h) There are a number of European funded schemes where there is a probability that grant will need to be repaid. The potential for repayment will expire in 2017, ten years after the grant was received.

24 USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and note 7.

25 UNUSABLE RESERVES

| 31 March 2014 £'000 | | 31 March 2015 £'000 |
|------------------------|--|------------------------|
| 342,264 | Revaluation Reserve | 401,655 |
| 1,428,571 | Capital Adjustment Account | 1,496,454 |
| 568 | Financial Instruments Adjustment Account | 284 |
| (649,564) | Pensions Reserve | (516,595) |
| 8,047 | Collection Fund Adjustment Account | 728 |
| (2,988) | Accumulating Compensated Absences Adjustment Account | (2,369) |
| 11 | Deferred Capital Receipts | 2 |
| 1,126,909 | Total Unusable Reserves | 1,380,159 |

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|---|------------------|
| 347,109 | Balance at 1 April | 342,265 |
| 14,170 | Upward revaluation of assets | 106,896 |
| | Downward revaluation of assets and impairment losses not charged to the | |
| (15,647) | Surplus/Deficit on the Provision of Services | (42,193) |
| | Surplus or deficit on revaluation of non-current assets not posted to the | |
| (1,477) | Surplus or Deficit on the Provision of Services | 64,703 |
| | Difference between current value depreciation and historical cost | |
| (3,228) | depreciation | (3,735) |
| (139) | Accumulated gains on assets sold or scrapped | (1,577) |
| (3,367) | Amount written off to the Capital Adjustment Account | (5,312) |
| 342,265 | Balance at 31 March | 401,656 |

25 UNUSABLE RESERVES

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|--|------------------|
| 1,226,254 | Balance at 1 April | 1,428,571 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| (39,350) | Charges for depreciation and impairment of non current assets | (39,480) |
| 162,161 | Revaluation losses and reversals on Property, Plant and Equipment | 36,175 |
| (20,995) | Revenue expenditure funded from capital under statute | (10,898) |
| (33,497) | Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (23,225) |
| <hr/> 68,319 | | <hr/> (37,428) |
| 3,367 | Adjusting amounts written out of the Revaluation Reserve | 5,312 |
| <hr/> 71,686 | Net written out amount of the cost of non current assets consumed in the year | <hr/> (32,116) |
| | Capital financing applied in the year: | |
| 8,549 | Use of the Capital Receipts Reserve to finance new capital expenditure | 841 |
| 9,940 | Use of the Major Repairs Reserve to finance new capital expenditure | 28,319 |
| 88,685 | Application of grants and contributions to capital financing from the Capital Grants Unapplied Account | 57,073 |
| 6,882 | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | 7,167 |
| <hr/> 16,575 | Capital expenditure charged against the General Fund and HRA balances | <hr/> 6,600 |
| 130,631 | | 100,000 |
| 1,428,571 | Balance at 31 March | 1,496,455 |

25 UNUSABLE RESERVES (continued)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account was charged to the General Fund over 10 years with the final charge in 2016/17.

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|--|------------------|
| 852 | Balance at 1 April | 568 |
| | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in | |
| (284) | accordance with statutory requirements | (284) |
| 568 | Balance at 31 March | 284 |

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|--|------------------|
| (495,946) | Balance at 1 April | (649,564) |
| (139,066) | Actuarial gains or losses on pensions assets and liabilities | 151,822 |
| (56,899) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (64,399) |
| 42,347 | Employer's pensions contributions and direct payments to pensioners payable in the year | 45,546 |
| (649,564) | Balance at 31 March | (516,595) |

25 UNUSABLE RESERVES

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|--|------------------|
| 767 | Balance at 1 April | 8,047 |
| | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | |
| 7,280 | | (7,319) |
| 8,047 | Balance at 31 March | 728 |

Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|---|------------------|
| 48 | Balance at 1 April | 11 |
| (37) | Transfer to the Capital Receipts Reserve upon receipt of cash | (9) |
| 11 | Balance at 31 March | 2 |

26a NOTE A TO THE CASH FLOW STATEMENT

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|---|------------------|
| 251,011 | Net Surplus or (Deficit) on the Provision of Services | 70,468 |
| | <u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u> | |
| 39,349 | Depreciation | 39,479 |
| (162,161) | Impairment and downward valuations | (36,175) |
| 57 | Adjustments for effective interest rates | (2,168) |
| (602) | Increase/Decrease in Interest Creditors | |
| (13,290) | Increase/Decrease in Creditors | (6,469) |
| 49,890 | Increase/Decrease in Debtors | 18,022 |
| 1,739 | Increase/Decrease in Inventories | |
| 14,550 | Pension Liability | 18,873 |
| (6,844) | Contributions to/(from) Provisions | (2,382) |
| 33,497 | Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets) | 23,225 |
| (43,815) | | 52,405 |
| | <u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u> | |
| (20,551) | Capital Grants credited to surplus or deficit on the provision of services | (16,001) |
| (808) | Premiums or Discounts on the repayment of financial liabilities | |
| (38,273) | Proceeds from the sale of property plant and equipment, investment property and intangible assets | (39,853) |
| (59,632) | | (55,854) |
| 147,564 | Net cash flows from operating activities | 67,019 |

26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|-------------------|------------------|
| 2,311 | Interest received | 1,621 |
| (10,347) | Interest paid | (10,419) |
| (8,036) | | (8,798) |

27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|--|------------------|
| (123,351) | Purchase of property, plant and equipment, investment property and intangible assets | (86,126) |
| (30,112) | Purchase of short-term and long-term investments | (75,841) |
| 36,676 | Other receipts from investing activities | 20,057 |
| (81,972) | Net cash flows from investing activities | (105,756) |

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|--|------------------|
| 808 | Billing Authorities - Council Tax and NNDR adjustments | (1,572) |
| (1,216) | Other receipts from financing activities | 0 |
| (938) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (964) |
| 0 | Repayments of short- and long-term borrowing | (371) |
| (1,346) | Net cash flows from financing activities | (2,907) |

29 TRADING OPERATIONS

The following services are reported as trading activities

| | 2014/15 | | | 2015/16 | | | Balance 31/03/2016 £'000 |
|-------------------------------|----------------------|-----------------|--------------------------------|----------------------|-----------------|--------------------------------|--------------------------------|
| | Expenditure £'000 | Income £'000 | Surplus/ (Deficit) £'000 | Expenditure £'000 | Income £'000 | Surplus/ (Deficit) £'000 | |
| Street Trading | 2,482 | 2,488 | 6 | 2,125 | 2,481 | 356 | 572 |
| TOTAL TRADING ACCOUNTS | 2,482 | 2,488 | 6 | 2,125 | 2,481 | 356 | 572 |

30 CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2015 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to East End Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

Death of Child In Mile End Park

In 2015, a child died in Mile End Park. A coroners hearing is to consider the cause of death pending further investigations. Provision has been made within the insurance provision to meet the maximum potential insurance liability. At this time, it is uncertain if further liabilities will be raised against the Council.

30a CONTINGENT ASSETS

Regeneration Schemes

Over recent years the Council has entered into development agreements to develop sites as part of its regeneration of the Ocean Estate and Blackwall Reach areas. In the event of any of the individual sites achieving overall profit for the development partners, an overage payment may become due to the Council. Any subsequent use of overage receipts arising from the Ocean Estate scheme will be subject to approval by the Greater London Authority.

31 POOLED BUDGETS

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council entered into two Pooled Budget and Lead Commissioning agreements with the Primary Care Trust. The Council will manage and deliver statutory functions, alongside the Primary Care Trust, in respect of the following:

- (a) Integrated Community Equipment Service (ICES)
- (b) Better Care Fund (BCF)

In 2014/15 the council operated another pooled budget for Services for Adults with Learning Difficulties (LDSA). From 2015/16, the pooled budget is not operating under a Section 75 agreement. The service is operating based on a Memorandum of Understanding (MOU) which covers only recharges by partners.

The purpose of the arrangements for ICES and BCF is to work collaboratively with health providers in the Borough, to deliver efficient, joined up health and social care services to residents.

A summary memorandum Income and Expenditure Account for each pooled budget is shown below. The Council's contribution to each pool is included in the Adult Social Care gross expenditure figure disclosed in the Comprehensive Income and Expenditure Account.

| 2015/16 | ICES £'000 | BCF £'000 | LDSA £'000 |
|--|---------------|---------------|---------------|
| Income | | | |
| The Council | 812 | 9,092 | 0 |
| Barts and the London Trust health services | 836 | 0 | 0 |
| Clinical Commissioning Group (CCG) | 0 | 12,357 | 0 |
| | 1,648 | 21,449 | 0 |
| Expenditure | 1,680 | 20,329 | 0 |
| Surplus/(Deficit) for the year | (32) | 1,120 | 0 |
| 2014/15 | ICES £'000 | BCF £'000 | LDSA £'000 |
| Income | | | |
| The Council | 984 | 0 | 1,706 |
| Barts and the London Trust health services | 813 | 0 | 1,420 |
| | 1,797 | 0 | 3,126 |
| Expenditure | 1,961 | 0 | 3,126 |
| Surplus/Deficit for the year | (164) | 0 | 0 |

32 MEMBERS' ALLOWANCES

The Council paid the following amounts to Members of the council during the year.

| | 2014/15 £'000 | 2015/16 £'000 |
|--------------|------------------|------------------|
| Allowances | 836 | 788 |
| Total | 836 | 788 |

Note - The number of Members in Tower Hamlets was reduced to 45 from the May 2014 election.

33 OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

| 2014/15 | Salary, Fees and Allowances £ | Expenses £ | Compensation for Loss of Office £ | Pension Contribution £ | Other £ | Total £ |
|---|----------------------------------|---------------|--------------------------------------|---------------------------|------------|----------------|
| Mr S Halsey - Head of Paid Service & Corporate Director CLC | 161,329 | 0 | 0 | 25,004 | 0 | 186,333 |
| Total Head of Paid Service | 161,329 | 0 | 0 | 25,004 | 0 | 186,333 |
| Corporate Directors | | | | | | |
| Resources (Acting) | 123,417 | 0 | 0 | 19,094 | 0 | 142,511 |
| Development and Renewal | 142,086 | 0 | 0 | 21,963 | 0 | 164,049 |
| Education, Health and Wellbeing | 148,000 | 0 | 0 | 22,898 | 0 | 170,898 |
| Other | | | | | | |
| Monitoring Officer | 119,840 | 0 | 0 | 0 | 0 | 119,840 |
| Public Health | 101,265 | 0 | 0 | 14,177 | 0 | 115,442 |
| | 795,937 | 0 | 0 | 103,136 | 0 | 899,073 |

| 2015/16 | Salary, Fees and Allowances £ | Expenses £ | Compensation for Loss of Office £ | Pension Contribution £ | Other £ | Total £ |
|--|----------------------------------|---------------|--------------------------------------|---------------------------|------------|------------------|
| Mr W Tuckley - Chief Executive ¹ | 86,503 | 0 | 0 | 13,448 | 0 | 99,951 |
| Mr S Halsey - Head of Paid Service & Corporate Director CLC ² | 94,540 | 0 | 0 | 13,712 | 0 | 108,252 |
| Total Head of Paid Service | 181,043 | 0 | 0 | 27,160 | 0 | 208,203 |
| Corporate Directors | | | | | | |
| Adults Services (Interim) ³ | 62,792 | 0 | 0 | 9,921 | 0 | 72,713 |
| Childrens Services ⁴ | 6,682 | 0 | 0 | 0 | 0 | 6,682 |
| Childrens Services (Interim) ⁵ | 115,600 | 0 | 0 | 0 | 0 | 115,600 |
| Communities, Localities and Culture ⁶ | 62,361 | 0 | 0 | 9,634 | 0 | 71,995 |
| Development and Renewal | 138,086 | 0 | 0 | 21,331 | 0 | 159,417 |
| Education, Health and Wellbeing ⁷ | 79,172 | 0 | 147,940 | 6,525 | 0 | 233,637 |
| Law, Probity & Governance ⁸ | 64,612 | 0 | 0 | 9,947 | 0 | 74,559 |
| Public Health | 100,472 | 0 | 0 | 14,755 | 0 | 115,227 |
| Resources ⁹ | 80,996 | 0 | 0 | 12,476 | 0 | 93,472 |
| Resources (Acting) ¹⁰ | 41,486 | 0 | 0 | 6,390 | 0 | 47,876 |
| Other | | | | | | |
| Monitoring Officers ¹¹ | 41,715 | 0 | 0 | 0 | 0 | 41,715 |
| | 975,017 | 0 | 147,940 | 118,139 | 0 | 1,241,096 |

¹ Commenced 19/10/2015

² Head of paid service role ended 18/10/2015

³ Commenced 01/07/2015

⁴ Commenced 14/03/2016

⁵ From 14/07/2015 to 11/03/2016

⁶ From 19/10/2015

⁷ Left 13/07/2015

⁸ Commenced 17/09/2015

⁹ Commenced 03/08/2015

¹⁰ Acting up ended 02/08/2015

¹¹ Monitoring Officer role within Director for Law Probity & Governance post from 17/09/2015. Cost of monitoring officers until 16/09/2015 shown

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contribution) were paid the following amounts:*

| Remuneration band (£) | 2014/15 | | | | | 2015/16 | | | | |
|-----------------------|----------------|--------------------------------|-------------|-----------------------------------|-------------|----------------|--------------------------------|-------------|-----------------------------------|-------------|
| | Teaching Staff | Includes Teaching Redundancies | Other Staff | Includes Other Staff Redundancies | Total Staff | Teaching Staff | Includes Teaching Redundancies | Other Staff | Includes Other Staff Redundancies | Total Staff |
| 50,000 - 54,999 | 212 | (2) | 103 | (2) | 315 | 246 | (1) | 117 | (17) | 363 |
| 55,000 - 59,999 | 130 | (1) | 44 | (1) | 174 | 159 | 0 | 48 | (6) | 207 |
| 60,000 - 64,999 | 60 | 0 | 52 | (3) | 112 | 53 | 0 | 53 | (9) | 106 |
| 65,000 - 69,999 | 28 | 0 | 20 | (1) | 48 | 36 | 0 | 24 | (2) | 60 |
| 70,000 - 74,999 | 25 | 0 | 30 | (1) | 55 | 35 | 0 | 27 | (6) | 62 |
| 75,000 - 79,999 | 14 | 0 | 5 | (1) | 19 | 20 | (1) | 13 | (1) | 33 |
| 80,000 - 84,999 | 9 | (1) | 3 | 0 | 12 | 17 | (2) | 4 | 0 | 21 |
| 85,000 - 89,999 | 6 | 0 | 4 | (1) | 10 | 4 | 0 | 6 | (3) | 10 |
| 90,000 - 94,999 | 4 | 0 | 1 | 0 | 5 | 6 | 0 | 2 | (1) | 8 |
| 95,000 - 99,999 | 4 | 0 | 7 | (2) | 11 | 7 | 0 | 4 | (3) | 11 |
| 100,000 - 104,999 | 4 | 0 | 7 | (1) | 11 | 2 | 0 | 7 | (1) | 9 |
| 105,000 - 109,999 | 1 | 0 | 4 | (1) | 5 | 3 | 0 | 4 | (2) | 7 |
| 110,000 - 114,999 | 1 | 0 | 0 | 0 | 1 | 2 | 0 | 1 | 0 | 3 |
| 115,000 - 119,999 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| 120,000 - 124,999 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | (1) | 1 |
| 125,000 - 129,999 | 1 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 1 |
| 130,000 - 134,999 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| 140,000 - 144,999 | 3 | 0 | 0 | 0 | 3 | 2 | 0 | 0 | 0 | 2 |
| 145,000 - 149,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 150,000 - 154,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | (1) | 1 |
| 155,000 - 159,999 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| 160,000 - 164,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | (2) | 2 |
| 185,000 - 189,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | (1) | 1 |
| | 504 | (4) | 280 | (14) | 784 | 595 | (4) | 315 | (56) | 910 |

Exit Payments

The number of exit payments with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

| Exit Package cost band (£) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band (£000) | |
|----------------------------|-----------------------------------|----------|-----------------------------------|------------|--|------------|---|--------------|
| | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 |
| 0 - 20,000 | 4 | 3 | 14 | 109 | 18 | 112 | 153 | 981 |
| 20,001 - 40,000 | 1 | 1 | 11 | 55 | 12 | 56 | 326 | 1,649 |
| 40,001 - 60,000 | 0 | 0 | 6 | 30 | 6 | 30 | 306 | 1,434 |
| 60,001 - 80,000 | 0 | 0 | 3 | 18 | 3 | 18 | 203 | 1,205 |
| 80,001 - 100,000 | 0 | 0 | 2 | 9 | 2 | 9 | 174 | 813 |
| 100,001 - 150,000 | 0 | 0 | 4 | 11 | 4 | 11 | 477 | 1,352 |
| 150,001 - 200,000 | 0 | 0 | 0 | 3 | 0 | 3 | 0 | 494 |
| 200,001 - 250,000 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 226 |
| Total | 5 | 4 | 40 | 236 | 45 | 240 | 1,639 | 8,154 |

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on previous page.

34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

The following table shows how capital expenditure was financed in the year.

| | 2014/15 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| Expenditure | | |
| Property, Plant and Equipment | 115,692 | 82,081 |
| Intangible Assets | - | - |
| Heritage Assets | - | - |
| Revenue Expenditure Funded from Capital Under Statute | 20,995 | 10,898 |
| TOTAL | 136,687 | 92,979 |
| Sources of Finance | | |
| Borrowing | 12,939 | 145 |
| Capital Grants and Contributions | 88,685 | 57,073 |
| Capital Receipts | 8,548 | 841 |
| Major Repairs Reserve | 9,940 | 28,319 |
| Direct Revenue Funding | 16,575 | 6,600 |
| TOTAL | 136,687 | 92,978 |

| | 2014/15 Restated ¹ £'000 | 2015/16 £'000 |
|--|---|------------------|
| Opening Capital Financing Requirement¹ | 257,561 | 263,618 |
| Capital investment | | |
| Property, Plant and Equipment | 115,692 | 88,072 |
| Intangible Assets | - | 0 |
| Heritage Assets | 0 | 0 |
| Revenue Expenditure Funded from Capital under Statute | 20,995 | 10,898 |
| Sources of finance | | |
| Capital grants and contributions | (88,685) | (57,073) |
| Capital receipts | (8,548) | (841) |
| Major repairs reserve | (9,940) | (28,319) |
| Sums set aside from revenue: | | |
| • Direct revenue contributions | (16,575) | (6,600) |
| • Minimum Revenue Provision ¹ | (6,882) | (7,084) |
| • HRA Revenue Provision for Debt Repayment on Finance Lease Principal | 0 | (83) |
| Closing Capital Financing Requirement | 263,618 | 262,588 |
| Explanation of movements in year | | |
| Decrease in underlying need to borrow (supported by government financial assistance) | (3,582) | (7,166) |
| Increase in underlying need to borrow (unsupported by government financial assistance) | 9,639 | 145 |
| Assets acquired under finance leases | 0 | 5,991 |
| Increase/(decrease) in Capital Financing Requirement | 6,057 | (1,030) |

¹ 2014/15 figures adjusted to include PFI liability and PFI MRP

35 EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors - KPMG.

| | 2014/15 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year | 277 | 210 |
| Addition fees payable to external Audit for inquiries relating to 2014/15 invoiced in 2015/16 | 6 | 20 |
| Fees payable to appointed external auditor for the certification of grant claims and returns for the year | 30 | 20 |
| Fees payable in respect of other services provided by external auditors during the year | 55 | 46 |
| Total | 369 | 296 |

Additional fees payable to the external auditor for inquiries relating to 2014/15 include £20k for consideration of an objection against the best value inspection fee and the completion of best value review work.

The fees payable to the external auditors for other services comprise £39.3k of audit work relating to 2013/14 of reviewing the sale of council assets, the review of East End Life and best value inspection work following on from PwC's review. £6.5k was charged for the audit of the housing capital receipts pooling return and the teacher's pension return.

36 DEDICATED SCHOOLS GRANT

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

| Notes | DSG Receivable for 2014/15 | Central Expenditure £'000 | Individual Schools Budget £'000 | Total £'000 |
|-------|---|------------------------------|------------------------------------|----------------|
| A | DSG for 2014/15 before Academy Recoupment | 48,999 | 267,375 | 316,374 |
| B | Academy figure Recouped 2014/15 | 0 | (16,249) | (16,249) |
| C | Total DSG after Academy Recoupment 2014/15 | 48,999 | 251,126 | 300,125 |
| D | Brought forward from 2013/14 | 7,579 | (187) | 7,392 |
| E | Carry forward to 2015/16 agreed in advance | 0 | 0 | 0 |
| F | Agreed initial budgeted distribution in 2014/15 | 56,578 | 250,939 | 307,517 |
| G | In-year adjustments | 0 | 0 | 0 |
| H | Final budget distribution for 2014/15 | 56,578 | 250,939 | 307,517 |
| I | Less actual central expenditure | (51,330) | 0 | (51,330) |
| J | Less actual ISB deployed to schools | 0 | (252,092) | (252,092) |
| K | Council contribution for 2014/15 | 3,818 | 0 | 3,818 |
| L | Carry forward to 2015/16 | 9,066 | (1,153) | 7,913 |

| | |
|---|--|
| A | DSG figure as issued by DfE in July 2014 |
| B | Academy figure Recouped 2014-15 |
| C | Total DSG after Academy Recoupment 2014/15 |
| D | Figure brought forward from 2013/14 |
| E | The amount which the Council decided after consultation with the schools forum to carry forward to 2015/16 rather than distribute in 2014/15 |
| F | Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum. |
| G | Changes to Initial distribution in 2014/15 |
| H | Budgeted distribution of DSG at year end |
| I | Actual amount of central expenditure items in 2014/15 |
| J | Amount of ISB distributed to schools |
| K | Contribution from the Council in 2014/15 which substituted for DSG in funding the Schools Budget |
| L | Difference between budgeted distributions and actuals plus carry forward agreed in advance |

| Notes | DSG Receivable for 2015/16 | Central Expenditure £'000 | Individual Schools Budget £'000 | Total £'000 |
|-------|---|------------------------------|------------------------------------|----------------|
| A | DSG for 2015/16 before Academy Recoupment | 44,933 | 276,075 | 321,008 |
| B | Academy figure Recouped 2015/16 | 0 | (22,350) | (22,350) |
| C | Total DSG after Academy Recoupment 2015/16 | 44,933 | 253,725 | 298,658 |
| D | Brought forward from 2014/15 | | | 7,913 |
| E | Carry forward to 2016/17 agreed in advance | 0 | 0 | 0 |
| F | Agreed initial budgeted distribution in 2015/16 | 52,845 | 253,725 | 306,570 |
| G | In-year adjustments | 0 | 0 | 0 |
| H | Final budget distribution for 2015/16 | 52,845 | 253,725 | 306,570 |
| I | Less actual central expenditure | (49,980) | 0 | (49,980) |
| J | Less actual ISB deployed to schools | 0 | (254,334) | (254,334) |
| K | Council contribution for 2015/16 | 3,818 | 0 | 3,818 |
| L | Carry forward to 2016/17 | 6,683 | (609) | 6,074 |

| | |
|---|--|
| A | DSG figure as issued by DfE in March 2016 |
| B | Academy figure Recouped 2015/16 |
| C | Total DSG after Academy Recoupment 2015/16 |
| D | Figure brought forward from 2014/15 |
| E | The amount which the Council decided after consultation with the schools forum to carry forward to 2016/17 rather than distribute in 2015/16 |
| F | Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum |
| G | Changes to Initial distribution in 2015/16 |
| H | Budgeted distribution of DSG at year end |
| I | Actual amount of central expenditure items in 2015/16 |
| J | Amount of ISB distributed to schools |
| K | Contribution from the Council in 2015/16 which substituted for DSG in funding the Schools Budget |
| L | Difference between budgeted distributions and actuals plus carry forward agreed in advance |

37 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

| | 2014/15 | 2015/16 |
|---|------------------|------------------|
| | £'000 | £'000 |
| Credited to Taxation and Non Specific Grant Income | | |
| Non-Ringfenced Government Grants | | |
| Business Rate Related Grants | (7,025) | (7,972) |
| Council Tax Freeze Grant | (871) | (901) |
| Council Tax Related Grants | (209) | (96) |
| Local Service Support Grant | (135) | (88) |
| New Homes Bonus | (19,811) | (18,143) |
| Revenue Support Grant (Formula Grant) | (118,270) | (84,300) |
| Total Non-Ringfenced Government Grants | (146,321) | (111,500) |
| Capital Grants and Contributions | | |
| Non-conditional grants: | | |
| Schools-funded Capital Programme | (3,480) | (1,815) |
| Transport for London Funding | (2,992) | (2,315) |
| Major Works Contributions (cash received) | (3,384) | (3,328) |
| Capital Maintenance Grant | (3,095) | (3,126) |
| Basic Needs/New Pupil Places | (6,805) | (6,459) |
| Decent Homes Backlog Funding | (46,000) | (13,270) |
| Community Infrastructure Levy (CIL) | 0 | (6,832) |
| Other Non-Conditional Grants Received | (1,138) | (99) |
| Conditional grants: | | |
| Building Schools for the Future | (4,513) | 703 |
| Targeted Basic Need Grant | (4,383) | 0 |
| Energy Efficiency Grant (Fuel Poverty Fund) | 0 | (2,254) |
| Building the Pipeline Housing Grant | 0 | (5,828) |
| Other Conditional Grants Applied | (1,136) | (458) |
| Developers' Contributions | (5,892) | (3,895) |
| Total Capital Grants and Contributions | (82,818) | (48,976) |
| Credited to Services | | |
| Capital Grants funding REFCUS | (4,868) | (6,615) |
| Developers' Contributions (capital) funding REFCUS | (1,947) | (2,192) |
| Developers' Contributions (revenue) | (2,350) | (4,491) |
| PFI Credits | (8,037) | (8,148) |
| School Sixth Form Grant | (17,589) | (17,660) |
| Pupil Premium Grant | (24,753) | (24,606) |
| Public Health Grant | (32,261) | (34,017) |
| Other Revenue Grants | (24,016) | (23,652) |
| Total Credited to Services | (115,821) | (121,380) |
| Total Grant Income in Comprehensive Income & Expenditure Account | (344,960) | (281,856) |

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

| | 31st March 2015 £'000 | 31st March 2016 £'000 |
|---|-----------------------------|-----------------------------|
| Capital Grants Receipts in Advance | | |
| Developers' Contributions | 53,124 | 61,788 |
| Building Schools for the Future | 0 | 58 |
| Major Works Invoices | 8,485 | 6,028 |
| National Affordable Housing Programme | 6,265 | 6,163 |
| Energy Efficiency Programme (Fuel Poverty Fund) | 2,254 | 0 |
| New Homes Bonus London Enterprise Panel (LEP) | 0 | 1,000 |
| Building the Pipeline Housing Grant | 5,100 | 0 |
| Other capital grants and contributions | 962 | 1,089 |
| Total | 76,190 | 76,126 |

38 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council– it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 44 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2015 are within the creditors note.

Partnerships

The Council has partnership arrangements with the following organisations:
NDC (New Deal for the Community)
PCT (Primary Care Trust)

Pension Fund

The Council oversees the administration of the pension fund. The Pension Fund can borrow from the Council. The Pension Fund accounts are presented on later pages to this Statement.

Subsidiary

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets. Details of Tower Hamlets Homes are within note 47.

Membership of and relationship with other organisations

Where a Member has involvement with an external organisation, the Council discloses details of the relationship. In addition, if the Council makes material payments to the organisation, then details of amounts over £10,000 are disclosed.

| Organisations | Councillor | Relationship With Organisation | Payments by the Council over £10k 2014/15 £'000 | Payments by the Council over £10k 2015/16 £'000 | Amounts due to Orgs. > £10k at 31/03/16 £'000 |
|---|---------------|--|---|---|---|
| 15billion | D Chesterton* | Member (2014/15 only) | | | |
| Aldgate and Allhallows Barking Foundation | S Islam | Council Representative | | | |
| | D Jones | Council Representative | | | |
| Balagonji Educational Trust | S Ali | Council Representative (2014/15 only) | | | |
| Bangladesh Football Association | A Begum | Husband - Trustee | | 28 | |
| Bangladesh Youth Movement | A Khan | Employee (2014/15 only) | 59 | 41 | |
| Bengali Educational Society | S Islam | Treasurer | | | |
| Betar Bangla | S Islam | Member | | | |
| Bromley By Bow Centre | H Uddin | Employee | 577 | 994 | 28 |
| Central Foundation Girls School | M M Miah* | Governor | 19 | | |
| Culloden Bangladeshi Parents Association | A M O Ahmed | Member | | 13 | |
| Community Martial Arts Trust | A Miah* | Employee | 16 | | |
| Developmental Council of Bangladeshis in the UK | K U Ahmed | Joint Treasurer | | | |
| Docklands Sailing & Watersports Centre | D Chesterton* | Member | 21 | | |
| East London Foundation Trust | A W Gibbs | Council Representative | | 3,557 | 594 |
| Eastside Books Ltd | D Jones | Director of bookshop that supplies books to LBTH schools | | | |
| East End Homes | H Uddin | Board Member (2015/15 only) | 586 | 758 | 271 |
| | A Cregan | | | | |
| | G Robanni | Member | | | |
| Friends of Tower Hamlets Cemetery Park | R Blake* | Member (2014/15 only) | 33 | | |
| Golapgonj Education Trust | A M O Ahmed | Trustee (2014/15 only) | | | |
| | S Khatun* | Member (2014/15 only) | | | |
| | A Miah* | Member | | | |
| Green Candle Dance Company | P Golds | Council Representative | 26 | 40 | |
| Heritage of London Trust | D Jones | Council Representative (2014/15 only) | | | |
| Hermitage Primary School | M Alam* | Governor | | | |
| Ian Mikardo High School | D Hassell* | Governor | | | |
| Island Homes Housing Association | M Miah | Resident Board Member - receives a monthly allowance | | | |
| Island Neighbourhood Project | M Miah | Employee | 14 | 11 | |
| Island Sports Trust | P Golds | | | | |
| Isle of Dogs Community Foundation | D J Edgar | Council Representative | | | |
| John Scurr Primary School | S Islam | Governor | | | |
| Leaside Regeneration Ltd | D J Edgar | Council Representative | | | |
| Lee Valley Regional Park Authority | D Jones | Council Representative | 20 | 237* | |
| | S Ali | Deputy Member (2014/15 only) | | | |
| London Education Trust | M A Mustaqim* | | | | |
| Mile End Park Partnership Board | D Jones | Council Representative | | | |
| | J Peck | Member | | | |
| Mulberry Girls School | D Jones | | 13 | 12 | |
| National Housing Federation | J Pierce* | Employee | | | |
| National Union of Teachers | D Hassell* | Member | | | |
| Old Ford Housing Association | M Francis | Board Director | 105 | 90 | 21 |
| Olga Primary School | C Harrison* | Governor | 28 | 34 | |
| Gateway Housing Association | H Uddin | Employer has a Working Relationship with this Organisation | 1,541 | 69 | |
| Poplar Bangladeshi Project | A M O Ahmed | Member | | 11 | |
| Poplar Harca | A M O Ahmed | (2014/15 only) | 2,854 | 5,819 | 567 |
| Regen Control | A M O Ahmed | Employee (Secretary) | | | |
| Rich Mix Cultural Foundation | D Jones | Director | | 711 | |
| | C Ronald | Council Representative | | | |
| Solander Gardens Community & Education | H Miah | Secretary | | | |
| Smithy Street Primary School | A Khan | School Governor (2014/15 only) | | | |
| Spitalfields Housing Association Ltd | A Mukit* | Board Member | | | |
| St Katherine & Shadwell Trust | S Haque | Deputy | | | |
| St Matthias Primary School | A Mukit* | School Governor | | | |
| St Peters Bengali Association | M A Mustaqim* | | 82 | 60 | |
| Sylhet Divisional Welfare Council | K U Ahmed | General Secretary | | | |
| The Childrens Society | A Whitelock | | | | |
| Tower Hamlets Cemetery | D J Edgar | Member | | | |
| Tower Hamlets Community Housing | G Robanni | Council Representative | 205 | 199 | |
| | A W Gibbs | Husband - Member | | | |
| Tower Hamlets Homes | G Robanni | Council Representative | 15,677 | 15,282 | |
| | A Choudhury | Council Representative | | | |
| | A Asad | Wife - Employee | | | |
| | H Uddin | Board Member | | | |
| Tower Hamlets Youth Sport Foundation | A Begum | Husband - Trustee | | 19 | |
| Toynbee Hall | S Khatun* | Employee | | 643 | 28 |
| Trinity Buoy Wharf | D Jones | Director | | | |
| Unison | C Harrison* | Employee | 467 | 424 | 75 |
| Victoria & Albert Museum of Childhood | D Jones | Council Representative | 11 | | |
| Wadajir Somali Centre | A M O Ahmed | Member | | 32 | |
| Wiltons Music Hall | D Jones | Trustee | | | |

*New Member from May 2014

39 LEASES

Authority as Lessee

Finance Leases

As a Lessee the Council has acquired a residential development under finance leases. The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

Depreciation policy on leased assets is consistent with the policy on owned assets and subject to revaluation in the same way as any other asset.

Leased In Assets

| | Buildings 31 March 2015 £'000 | Buildings 31 March 2016 £'000 |
|------------------------------------|--|--|
| Dame Colet Residential Development | 0 | 5,991 |
| Total | 0 | 5,991 |

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| | Buildings 31 March 2015 £'000 | Buildings 31 March 2016 £'000 |
|---|--|--|
| Finance lease liabilities (net present value of minimum lease payments) | 0 | 5,908 |
| Finance costs payable in future years | 0 | 14,280 |
| Minimum lease payments | 0 | 20,188 |

The minimum lease payments will be payable over the following periods:

| | Minimum Lease | | Finance Lease | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | 31 March 2015 £'000 | 31 March 2016 £'000 | 31 March 2015 £'000 | 31 March 2016 £'000 |
| Not later than one year | 0 | 585 | 0 | 171 |
| Later than one year and not later than five years | 0 | 2,340 | 0 | 685 |
| Later than five years | 0 | 17,264 | 0 | 5,052 |
| | 0 | 20,188 | 0 | 5,908 |

The minimum lease payments do not include rents that are contingent on event taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 no contingent rents were payable by the Authority.

39 LEASES

Authority as Lessee

Operating Leases

The Council leases in some properties (including office accommodation, car parks and business units), and as well as a number of vehicles (including minibuses and vans), plant and equipment (including office equipment, specialised health and safety and security equipment). These leases are for variable lengths and range between 1 and 25 years in duration.

The future minimum lease payments due under these leases in future years are:

Leased In Assets

| | Land & Buildings 31 March 2015 £'000 | Vehicles Plant & Equipment 31 March 2015 £'000 | Land & Buildings 31 March 2016 £'000 | Vehicles Plant & Equipment 31 March 2016 £'000 |
|--|---|---|---|---|
| Adults Health and Wellbeing | | | | |
| Not later than one year | 150 | 0 | 149 | 0 |
| Later than one year and not later than five years | 601 | 0 | 597 | 0 |
| Later than five years | 1,678 | 0 | 1,519 | 0 |
| Chief Executive's | | | | |
| Not later than one year | 0 | 164 | 0 | 82 |
| Later than one year and not later than five years | 0 | 80 | 0 | 2 |
| Later than five years | 80 | 0 | 0 | 0 |
| Children Schools and Families | | | | |
| Not later than one year | 142 | 332 | 113 | 255 |
| Later than one year and not later than five years | 318 | 371 | 244 | 244 |
| Later than five years | 577 | 9 | 537 | 1 |
| Communities Localities and Culture | | | | |
| Not later than one year | 0 | 649 | 0 | 517 |
| Later than one year and not later than five years | 0 | 1,452 | 0 | 1,193 |
| Later than five years | 0 | 410 | 0 | 170 |
| Development and Renewal | | | | |
| Not later than one year | 2,895 | 0 | 2,905 | 13 |
| Later than one year and not later than five years | 11,579 | 0 | 9,360 | 4 |
| Later than five years | 2,136 | 0 | 1,863 | 0 |
| Total | | | | |
| Not later than one year | 3,187 | 1,144 | 3,167 | 867 |
| Later than one year and not later than five years | 12,497 | 1,903 | 10,201 | 1,443 |
| Later than five years | 4,472 | 419 | 3,920 | 171 |
| | 20,156 | 3,467 | 17,288 | 2,481 |

39 LEASES (continued)

The expenditure charged to the Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| | Land & Buildings 31st March 2015 £'000 | Vehicles Plant & Equipment 31st March 2015 £'000 | Land & Buildings 31st March 2016 £'000 | Vehicles Plant & Equipment 31st March 2016 £'000 |
|---|---|---|---|---|
| Adults Health and Wellbeing | | | | |
| Minimum Lease Payments | 150 | 0 | 149 | 0 |
| Chief Executive's | | | | |
| Minimum Lease Payments | 0 | 164 | 0 | 166 |
| Communities Localities and Culture | | | | |
| Minimum Lease Payments | 0 | 673 | 0 | 751 |
| Children Schools and Families | | | | |
| Minimum Lease Payments | 240 | 494 | 240 | 369 |
| Development and Renewal | | | | |
| Minimum Lease Payments | 2,895 | 0 | 2,905 | 13 |
| Total | | | | |
| Minimum Lease Payments | 3,285 | 1,331 | 3,294 | 1,299 |

Authority as Lessor Finance Leases

As a Lessor the Council has no finance leases to report .

Operating Leases

The Council leases out property and equipment under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses.

As the primary purpose of holding these assets is to provide support to the community, rather than generating financial gain for the Council, these assets are not considered as investment properties.

The future minimum lease payments receivable under non-cancellable leases in future years are:

| | 31st March 2015 £'000 | 31st March 2016 £'000 |
|---|-----------------------------|-----------------------------|
| Not later than one year | (3,313) | (3,469) |
| Later than one year and not later than five years | (10,896) | (10,618) |
| Later than five years | (16,595) | (15,736) |
| | (30,804) | (29,823) |

40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Group Schools schemes - until the years 2029 and 2027 respectively. Prior to 2010/11 the assets involved were treated as "off balance sheet" in accordance with International Financial Reporting Standards the assets are included on the Council's Balance Sheet, matched by a finance lease liability.

A third PFI contract was entered into in relation to the Barkantine Estate Combined Heat and Power scheme. There are no unitary payments made under this scheme as it is classed as a user pay arrangement. An asset was brought onto the balance sheet in 2010/11, matched by a deferred income balance and contract ends in 2026.

| Movement on PFI Assets | Mulberry School £'000 | Grouped Schools £'000 | Barkantine Energy £'000 | Total £'000 |
|-------------------------------------|--------------------------|--------------------------|----------------------------|----------------|
| Asset value at 31 March 2015 | 30,564 | 230,637 | 2,396 | 263,597 |
| Depreciation | (760) | (5,031) | (181) | (5,972) |
| Revaluations | 0 | 0 | (71) | (71) |
| Enhancements | 0 | 6,302 | 0 | 6,302 |
| Derecognition | 0 | (30,582) | 100 | (30,482) |
| Asset value at 31 March 2016 | 29,804 | 201,326 | 2,244 | 233,374 |

| Movement on PFI Liabilities | Mulberry School £'000 | Group Schools £'000 | Barkantine Energy £'000 | Total £'000 |
|---|--------------------------|------------------------|----------------------------|----------------|
| Liabilities at 31 March 2015 | 6,478 | 29,623 | 2,372 | 38,473 |
| Repayments/Amortisation of deferred liability | (250) | (516) | (198) | (964) |
| Liabilities at 31 March 2016 | 6,228 | 29,107 | 2,174 | 37,509 |
| Consisting of: | | | | |
| Long term liability | 5,926 | 28,400 | 1,977 | 36,303 |
| Short-term liability | 302 | 706 | 198 | 1,206 |
| Liability value at 31 March 2016 | 6,228 | 29,107 | 2,174 | 37,509 |

| Payments due under PFI schemes | Mulberry School £'000 | Group Schools £'000 | Barkantine Energy £'000 | Total £'000 |
|--------------------------------|--------------------------|------------------------|----------------------------|----------------|
| Liability | | | | |
| Within 1 year | 302 | 706 | 197 | 1,205 |
| Within 2 - 5 years | 1,344 | 4,821 | 791 | 6,956 |
| Within 6 - 10 years | 2,538 | 15,950 | 988 | 19,476 |
| Within 11 - 15 years | 2,044 | 7,630 | 198 | 9,872 |
| | 6,228 | 29,107 | 2,174 | 37,509 |
| Interest | | | | |
| Within 1 year | 699 | 4,580 | 0 | 5,279 |
| Within 2 - 5 years | 2,433 | 16,954 | 0 | 19,387 |
| Within 6 - 10 years | 2,093 | 14,408 | 0 | 16,501 |
| Within 11 - 15 years | 473 | 1,613 | 0 | 2,086 |
| | 5,698 | 37,555 | 0 | 43,253 |
| Service Charges | | | | |
| Within 1 year | 673 | 1,493 | 0 | 2,166 |
| Within 2 - 5 years | 2,694 | 11,838 | 0 | 14,532 |
| Within 6 - 10 years | 3,367 | 12,655 | 0 | 16,022 |
| Within 11 - 15 years | 2,020 | 3,742 | 0 | 5,762 |
| | 8,754 | 29,728 | 0 | 38,482 |

41 PENSIONS SCHEMES - DEFINED BENEFIT

Participation in pensions schemes

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

The Council participates in three pensions schemes:

- The Local Government Pension Scheme (LGPS) administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme (TPS), administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).

The LGP schemes are funded defined benefit final salary schemes, 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 TPS is an unfunded defined benefit final salary scheme meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet pensions payments as they eventually fall due. It does, however, use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs) of which the Council is one. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees and it is therefore accounted for on the same basis as a defined contribution scheme. This means that contributions are included on the basis of the actual amount paid into the scheme.

Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Net Cost of Services when the benefits are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year. The real cost of retirement benefits is therefore reversed out in the Movement in Reserves Statement for the General Fund Balance. The following transactions have been made in the Comprehensive Income and Expenditure Account and Movement in Reserves Statement during the year:

| | The Council | | LPFA | | Total | |
|--|----------------|------------------|--------------|----------------|----------------|------------------|
| | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Comprehensive Income and Expenditure Account | | | | | | |
| Cost of Services | | | | | | |
| Current service costs | 35,148 | 42,358 | 329 | 385 | 35,477 | 42,743 |
| Impact of settlements and curtailments | 209 | 1,147 | 38 | 0 | 247 | 1,147 |
| Total Service Cost | 35,357 | 43,505 | 367 | 385 | 35,724 | 43,890 |
| Interest income on plan assets | (38,519) | (32,439) | (2,218) | (1,587) | (40,737) | (34,026) |
| Interest cost on defined benefit obligation | 59,382 | 52,532 | 2,530 | 2,003 | 61,912 | 54,535 |
| Total Net Interest | 20,863 | 20,093 | 312 | 416 | 21,175 | 20,509 |
| Net Charge to the Comprehensive Income and Expenditure Account | 56,220 | 63,598 | 679 | 801 | 56,899 | 64,399 |
| Remeasurement of the Scheme Liabilities | | | | | | |
| Changes in financial assumptions | 209,109 | (149,342) | 7,006 | (4,424) | 216,115 | (153,766) |
| Other experience | (13,659) | (22,390) | 72 | (10) | (13,587) | (22,400) |
| Return on plan assets excluding amounts included in net interest | (70,160) | 29,352 | (1,384) | 2,104 | (71,544) | 31,456 |
| Total remeasurements recognised in Comprehensive Income and Expenditure Statement | 125,290 | (142,380) | 5,694 | (2,330) | 130,984 | (144,710) |
| Movement in Reserves Statement - General Fund Balance | | | | | | |
| Reversal of net charges made for retirement benefits in accordance with IAS 19 | (56,220) | (63,598) | (679) | (801) | (56,899) | (64,399) |
| Actual amount charged against the General Fund Balance for pensions in the year | 41,554 | 44,753 | 793 | 793 | 42,347 | 45,546 |

In 2015/16 the Council paid £12.659 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay until 31st August 2015 (16.48% from 1st September 2015). The figures for 2014/15 were £11.133 million and 14.1% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2013/14 and 2014/15 there were no added year payments by the Council.

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial gains of £151.822 million (£139.066 million in 2014/15) were included in the Actuarial gains or losses on pension assets and liabilities within Other Comprehensive Income and Expenditure on the face of the Comprehensive Income and Expenditure Account. The cumulative amount of actuarial losses recognised is £367.548 million.

41 PENSION SCHEME (continued)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities (LGPS):

| | The Council | | LPFA | | Total | |
|---|--------------------|--------------------|------------------|------------------|--------------------|--------------------|
| | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 |
| 1st April | (1,503,100) | (1,777,605) | (61,951) | (68,409) | (1,565,051) | (1,846,014) |
| In-year adjustment to exclude/(incorporate) THH deficit | (19,172) | 4,466 | 0 | 0 | (19,172) | 4,466 |
| Current service cost | (35,148) | (42,358) | (329) | (385) | (35,477) | (42,743) |
| Interest cost | (59,382) | (52,532) | (2,530) | (2,003) | (61,912) | (54,535) |
| Contributions | (9,638) | (9,626) | (81) | (78) | (9,719) | (9,704) |
| Actuarial gains / (losses) | (195,450) | 171,732 | (7,078) | 4,434 | (202,528) | 176,166 |
| Benefits paid | 44,494 | 43,874 | 3,598 | 3,425 | 48,092 | 47,299 |
| Losses on curtailments | (209) | (1,147) | (38) | 0 | (247) | (1,147) |
| 31st March | (1,777,605) | (1,663,196) | (68,409) | (63,016) | (1,846,014) | (1,726,212) |

Reconciliation of fair value of the scheme assets (LGPS):

| | The Council | | LPFA | | Total | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 |
| 1st April | 1,012,951 | 1,139,418 | 56,154 | 57,032 | 1,069,105 | 1,196,450 |
| In-year adjustment to exclude/(incorporate) THH deficit | 11,090 | 2,646 | 0 | 0 | 11,090 | 2,646 |
| Expected rate of return | 38,519 | 32,439 | 2,218 | 1,587 | 40,737 | 34,026 |
| Actuarial (losses) / gains | 70,160 | (29,352) | 1,384 | (2,104) | 71,544 | (31,456) |
| Members | 9,638 | 9,626 | 81 | 78 | 9,719 | 9,704 |
| Employer | 41,554 | 44,753 | 793 | 793 | 42,347 | 45,546 |
| Benefits paid | (44,494) | (43,874) | (3,598) | (3,425) | (48,092) | (47,299) |
| 31st March | 1,139,418 | 1,155,656 | 57,032 | 53,961 | 1,196,450 | 1,209,617 |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme history

| | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Present value of liabilities: | | | | | |
| The Council | (1,214,784) | (1,453,831) | (1,503,100) | (1,777,605) | (1,663,196) |
| LPFA | (59,245) | (67,336) | (61,951) | (68,409) | (63,016) |
| Fair value of assets | | | | | |
| The Council | 803,077 | 947,684 | 1,012,951 | 1,139,418 | 1,155,656 |
| LPFA | 48,405 | 50,521 | 56,154 | 57,032 | 53,961 |
| Deficit in the scheme | | | | | |
| The Council | (411,707) | (506,147) | (490,149) | (638,187) | (507,540) |
| LPFA | (10,840) | (16,815) | (5,797) | (11,377) | (9,055) |
| Total deficit in the schemes | (422,547) | (522,962) | (495,946) | (649,564) | (516,595) |

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £516.6 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The contributions expected to be made by the Council in the year to 31st March 2017 are £44.088 million to the Council's scheme and £0.528 million to the LPFA scheme (per actuary's reports).

41 PENSION SCHEME (continued)

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both schemes have been assessed by independent actuaries, based on the following main assumptions. Hymans Robertson LLP provide the LBTH report, Barnett Waddingham the LPFA report.

| | The Council | | LPFA | |
|--|-------------|------------|------------|------------|
| | 2014/15 | 2015/16 | 2014/15 | 2015/16 |
| Long-term expected rate of return on assets in the scheme ¹ | 4.3% | 4.3% | 4.0% | 4.0% |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners | | | | |
| Men | 22.2 years | 22.2 years | 21.1 years | 21.2 years |
| Women | 24.2 years | 24.2 years | 24.4 years | 24.5 years |
| Longevity at 65 for future pensioners: | | | | |
| Men | 24.3 years | 24.3 years | 23.5 years | 23.6 years |
| Women | 26.4 years | 26.4 years | 26.7 years | 26.9 years |
| Rate of inflation | | | 3.0% | 2.9% |
| Rate of increase in salaries | 3.8% | 3.7% | 4.0% | 3.8% |
| Rate of increase in pensions | 2.4% | 2.2% | 2.2% | 2.0% |
| Rate for discounting scheme liabilities | 3.2% | 3.5% | 3.0% | 3.3% |
| Take-up of option to convert annual pension into retirement lump sum | 50%* | 50%* | | |

¹ The expected rates of return are set equal to the discount rate.

* Pre-April 2008 service - 75% for post-April 2008 service

Major categories of assets as a proportion of total assets

The categories of assets are as follows.

| | The Council | | LPFA | |
|-------------------------------|-------------|---------|---------|---------|
| | 2014/15 | 2015/16 | 2014/15 | 2015/16 |
| Equities | 66% | 64% | 43% | 46% |
| Bonds | 17% | 17% | 0% | 0% |
| Property | 10% | 11% | 3% | 4% |
| Infrastructure | 0% | 0% | 5% | 5% |
| Commodities | 0% | 0% | 1% | 0% |
| Cash | 4% | 5% | 11% | 13% |
| Cash flow matching | 0% | 0% | 8% | 10% |
| Target return portfolio/other | 3% | 3% | 29% | 22% |

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2015/16 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2016:

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|--|---------|---------|---------|---------|---------|
| | % | % | % | % | % |
| The Council | | | | | |
| Experience gains and (losses) on assets | -5.40 | 6.10 | 0.05 | 6.96 | -2.87 |
| Experience gains and (losses) on liabilities | 5.98 | 9.89 | -2.20 | 11.94 | -11.25 |
| London Pensions Fund Authority | | | | | |
| Experience gains and (losses) on assets | -0.01 | 4.52 | 13.47 | 0.00 | 0.00 |
| Experience gains and (losses) on liabilities | 8.19 | 12.05 | -5.45 | 10.35 | -7.04 |

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made to directorates for revaluation losses and revenue expenditure funded from capital under statute (REFCUS) whilst they are charged to services in the Comprehensive Income and Expenditure Statement;
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Council's directorates recorded in the report to Cabinet in July 2016 was as follows:

| DIRECTORATE CI&E 2015/16 | Adults Service £'000 | Directorate of Law, Probity & Governance £'000 | Children, Schools and Families £'000 | Communities, Localities and Culture £'000 | Development and Renewal £'000 | Resources £'000 | Corporate & Others £'000 | Housing Revenue Account £'000 | TOTAL £'000 |
|--|----------------------------|---|---|--|-------------------------------------|--------------------|--------------------------------|--|--------------------|
| Fees, charges and other service income | (27,590) | (9,457) | (115,129) | (60,632) | (73,121) | (83,905) | (31,518) | (92,736) | (494,088) |
| Government grants | (255) | (157) | (363,041) | (3,858) | (860) | (273,286) | (60,840) | 0 | (702,297) |
| TOTAL INCOME | (27,845) | (9,614) | (478,170) | (64,490) | (73,981) | (357,191) | (92,358) | (92,736) | (1,196,385) |
| Employee expenses | 26,230 | 9,860 | 325,427 | 39,235 | 25,014 | 28,662 | 24,290 | 3,149 | 481,867 |
| Other service expenses | 104,385 | 4,160 | 212,216 | 88,178 | 55,614 | 288,944 | 17,321 | 37,466 | 808,284 |
| Support service recharges | 22,324 | 5,174 | 32,948 | 17,825 | 9,708 | 47,240 | 1,853 | 38,062 | 175,134 |
| TOTAL EXPENDITURE | 152,939 | 19,194 | 570,591 | 145,238 | 90,336 | 364,846 | 43,464 | 78,677 | 1,465,285 |
| NET EXPENDITURE | 125,094 | 9,580 | 92,421 | 80,748 | 16,355 | 7,655 | (48,894) | (14,059) | 268,900 |

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure

| | £'000 |
|---|----------------|
| Net expenditure in the Directorate Analysis | 268,900 |
| Net expenditure of services and support services not included in the Analysis | 0 |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | (19,256) |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | 11,017 |
| COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT | 260,661 |

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the Income and Expenditure Statement

| SUBJECTIVE ANALYSIS 2015/16 | Directorate analysis £'000 | Services & support services not in analysis £'000 | Amounts not reported to Management for Decision Making £'000 | Amounts not included in I&E £'000 | Cost of services £'000 | Corporate amounts £'000 | TOTAL £'000 |
|---|-------------------------------|--|---|--------------------------------------|---------------------------|----------------------------|--------------------|
| | | | | | | | |
| Fees, charges and other service income | (494,088) | 168,327 | (198) | 19,651 | (306,308) | 0 | (306,308) |
| Interest and investment income | 0 | 0 | 0 | 3,131 | 3,131 | (3,131) | 0 |
| Unattached capital receipts | 0 | 0 | 0 | 0 | 0 | (3,708) | (3,708) |
| Government grants and contributions - service specific | (702,297) | 0 | (538) | 22,807 | (680,028) | 0 | (680,028) |
| Income from Council tax | 0 | 0 | 0 | 0 | 0 | (71,793) | (71,793) |
| Government grants and contributions - non-service specific | 0 | 0 | 0 | 0 | 0 | (111,500) | (111,500) |
| Distribution from non-domestic rates pool | 0 | 0 | 0 | 0 | 0 | (112,493) | (112,493) |
| Capital Grants and Contributions | 0 | 0 | (8,808) | 0 | (8,808) | (48,976) | (57,784) |
| HRA Settlement Determination (including Premia) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (Surplus)/Deficit on Trading Activities | 0 | 0 | 0 | 2,481 | 2,481 | 0 | 2,481 |
| TOTAL INCOME | (1,196,385) | 168,327 | (9,544) | 48,070 | (989,532) | (351,601) | (1,341,133) |
| Employee expenses | 481,867 | 0 | (2,274) | 0 | 479,593 | 0 | 479,593 |
| Other service expenses | 808,284 | 0 | (7,438) | (28,852) | 771,994 | 0 | 771,994 |
| Support service recharges | 175,134 | (168,327) | 0 | 0 | 6,807 | 0 | 6,807 |
| Depreciation, amortisation and impairment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest payments | 0 | 0 | 0 | (4,373) | (4,373) | 9,760 | 5,387 |
| Precepts and levies | 0 | 0 | 0 | (1,703) | (1,703) | 1,703 | 0 |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 1,773 | 1,773 |
| Gain or Loss on Disposal of Fixed Assets | 0 | 0 | 0 | 0 | 0 | (12,919) | (12,919) |
| Pensions interest costs and expected return on pensions asset | 0 | 0 | 0 | 0 | 0 | 20,509 | 20,509 |
| HRA Settlement Determination (including Premia) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (surplus)/Deficit on Trading Activities | 0 | 0 | 0 | (2,125) | (2,125) | (356) | (2,481) |
| TOTAL EXPENDITURE | 1,465,285 | (168,327) | (9,712) | (37,053) | 1,250,193 | 20,470 | 1,270,663 |
| SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES | 268,900 | 0 | (19,256) | 11,017 | 260,661 | (331,131) | (70,470) |

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made to directorates for revaluation losses and revenue expenditure funded from capital under statute (REFCUS) whilst they are charged to services in the Comprehensive Income and Expenditure Statement;
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Council's directorates to be recorded in the report to Cabinet in July 2015 is as follows:

| DIRECTORATE CI&E 2014/15 COMPARATIVE FIGURES | Directorate of Law, Probity & Governance £'000 | Children, Schools and Families £'000 | Communities, Localities and Culture £'000 | Development and Renewal £'000 | Resources £'000 | Corp & Others £'000 | Housing Revenue Account £'000 | TOTAL £'000 |
|---|---|---|--|-------------------------------------|--------------------|------------------------|--|--------------------|
| Fees, charges and other service income | (9,293) | (116,808) | (62,790) | (69,988) | (88,220) | (14,177) | (89,427) | (450,703) |
| Government grants | (143) | (359,943) | (3,951) | (295) | (266,260) | (61,203) | 0 | (691,795) |
| TOTAL INCOME | (9,436) | (476,751) | (66,741) | (70,283) | (354,480) | (75,380) | (89,427) | (1,142,498) |
| Employee expenses | 5,603 | 345,959 | 41,429 | 23,955 | 29,294 | 17,548 | 368 | 464,156 |
| Other service expenses | 8,302 | 307,852 | 89,845 | 18,746 | 282,635 | 5,888 | 47,712 | 760,980 |
| Support service recharges | 5,165 | 47,915 | 16,124 | 43,936 | 50,468 | 0 | 38,528 | 202,136 |
| TOTAL EXPENDITURE | 19,070 | 701,726 | 147,398 | 86,637 | 362,397 | 23,436 | 86,608 | 1,427,272 |
| NET EXPENDITURE | 9,634 | 224,975 | 80,657 | 16,354 | 7,917 | (51,944) | (2,819) | 284,774 |

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure

| | £'000 |
|---|----------------|
| Net expenditure in the Directorate Analysis | 284,774 |
| Net expenditure of services and support services not included in the Analysis | 0 |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | (137,643) |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | (20,026) |
| COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT | 127,105 |

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the Income and Expenditure Statement

| SUBJECTIVE ANALYSIS 2014/15 COMPARATIVE FIGURES | Services & support | | | Amounts not reported to Management | | Corporate amounts | TOTAL |
|--|----------------------|--------------------------|---------------------|------------------------------------|------------------|-------------------|--------------------|
| | Directorate analysis | services not in analysis | for Decision Making | Amounts not included in I&E | Cost of services | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fees, charges and other service income | (450,703) | 147,520 | (188) | (605) | (303,976) | 0 | (303,976) |
| Interest and investment income | 0 | 0 | 0 | 2,254 | 2,254 | (2,254) | 0 |
| Unattached capital receipts | 0 | 0 | 0 | 0 | 0 | (3,459) | (3,459) |
| Government grants and contributions - service specific | (691,795) | 0 | (1,061) | 23,741 | (669,115) | 0 | (669,115) |
| Income from Council tax | 0 | 0 | 0 | 0 | 0 | (67,576) | (67,576) |
| Government grants and contributions - non-service specific | 0 | 0 | 0 | 0 | 0 | (146,321) | (146,321) |
| Distribution from non-domestic rates pool | 0 | 0 | 0 | 0 | 0 | (108,528) | (108,528) |
| Capital Grants and Contributions | 0 | 0 | (6,815) | 0 | (6,815) | (82,818) | (89,633) |
| HRA Settlement Determination (including premia) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (Surplus)/Deficit on Trading Activities | 0 | 0 | 0 | 2,488 | 2,488 | 0 | 2,488 |
| TOTAL INCOME | (1,142,498) | 147,520 | (8,064) | 27,878 | (975,164) | (410,956) | (1,386,120) |
| Employee expenses | 464,156 | 0 | (5,928) | 0 | 458,228 | 0 | 458,228 |
| Other service expenses | 760,980 | 0 | (123,651) | (39,500) | 597,829 | 0 | 597,829 |
| Support service recharges | 202,136 | (147,520) | 0 | 0 | 54,616 | 0 | 54,616 |
| Depreciation, amortisation and impairment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest payments | 0 | 0 | 0 | (4,252) | (4,252) | 9,745 | 5,493 |
| Precepts and levies | 0 | 0 | 0 | (1,670) | (1,670) | 1,670 | 0 |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 1,572 | 1,572 |
| Gain or Loss on Disposal of Fixed Assets | 0 | 0 | 0 | 0 | 0 | (1,316) | (1,316) |
| Pensions interest costs and expected return on pensions assets | 0 | 0 | 0 | 0 | 0 | 21,175 | 21,175 |
| HRA Settlement Determination (including premia) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (Surplus)/Deficit on Trading Activities | 0 | 0 | 0 | (2,482) | (2,482) | -6 | (2,488) |
| TOTAL EXPENDITURE | 1,427,272 | (147,520) | (129,579) | (47,904) | 1,102,269 | 32,840 | 1,135,109 |
| SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES | 284,774 | 0 | (137,643) | (20,026) | 127,105 | (378,116) | (251,011) |

43 TRUST FUNDS

The Council acts as trustee for a number of Trust Funds, the principal ones being shown below. It should be noted that the Council's Balance Sheet does not include all Trust Fund assets and liabilities and so does not comply fully with relevant accounting standards, although the amounts involved are not material.

| | Balance at 1/4/2014 | 2014/15 Expenditure | 2014/15 Income | Balance at 31/3/2014 | 2015/16 Expenditure | 2015/16 Income | Balance at 31/3/2015 |
|--|------------------------|------------------------|-------------------|-------------------------|------------------------|-------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| (a) Welfare Savings / Client Financial Affairs | 954 | 5,882 | 8,571 | 3,643 | 2,875 | 2,697 | 3,465 |
| (b) Social Services Trust Funds - sundry other | 1,544 | 1,792 | 315 | 67 | 9 | 68 | 126 |
| (c) Tower Hamlets Further Education Trust | 163 | 1,472 | 1,410 | 101 | 3 | 0 | 98 |
| (d) Globe Town Picture Fund | 160 | 0 | 0 | 160 | 0 | 0 | 160 |
| (e) Sundry Other | 54 | 40 | 0 | 14 | 0 | 142 | 156 |
| TOTAL TRUST FUNDS | 2,875 | 9,186 | 10,296 | 3,985 | 2,887 | 2,907 | 4,005 |

- (a) The fund represents monies held by Social Services on behalf of deputyship and appointeeship service users. It is held to protect the service users monies and to finance the purchase of goods and services on behalf of residents.
- (b) These Funds represent monies held by the Council on behalf of any residents of the borough (including those in private accommodation) who are unable to manage their own personal affairs.

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2015 may be summarised as follows:

- (c) This was established by the Council in conjunction with Canary Wharf Limited with the objective of "the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Council is the sole Trustee and the Trust is registered with the Charities Commission (No. 1002772). Accounts relating to the Trust have been deposited with the Charities Commissioners.
- (d) This Fund was established with the proceeds of the sale of a painting by the Council.
- (e) Sundry Other includes funds representing a number of miscellaneous deposits.

44 TOWER HAMLETS HOMES

The Council's Arms Length Management Organisation (ALMO), Tower Hamlets Homes Limited ("THH"), was incorporated on 16 May 2007 and commenced trading on 7 July 2008. It is a wholly owned subsidiary of the Council responsible for the management, maintenance and modernisation of the Council's housing stock. The stock remains in the ownership of the Council and rents are collected by THH on behalf of the Council.

In previous years, the Council produced Group Accounts to incorporate THH, however as the assets and liabilities of THH are not material compared to the Council, a summary of the ALMO's accounts are provided for information. A copy of THH's accounts is available from the company's registered office at Tower Hamlets Homes Limited, Jack Dash House, 2 Lawn Close, London E14 9YQ or from Companies House, Cardiff.

THH is a private company limited by guarantee with no share capital. The composition of the board of the company and the associated voting rights are as follows.

| | Number | Voting Rights |
|----------------------------------|--------|---------------|
| Council nominees | 4 | 4 |
| Housing tenants and leaseholders | 3 | 3 |
| Independent | 3 | 3 |
| Total | 10 | 10 |

It should be noted that, although Board members have voting rights at Board meetings, the Council is the sole member of the company and therefore has 100% of the voting rights at the company's Annual General Meeting.

The Council undertakes, in the event of the company's being wound up, to contribute such amounts as may be required for the payment of the debts and liabilities of the company, provided this does not exceed £1. After the satisfaction of all the debts and liabilities, the remaining assets would revert to the Council. THH is an admitted body to the Council's local government pension fund. The full pension obligation and related deficit together with current and past services costs for THH employees passed to the company when it began trading. Should THH cease trading then the full pension obligation and related deficit or surplus would pass back to the Council as an integral part of the general business transfer.

Below is a summary of Tower Hamlet's Homes Balance Sheet alongside the Council's.

The Group Balance Sheet reflects the following consolidated balances after eliminating intra-group transactions (transactions between Tower Hamlets Homes and the Council).

| | The Council | | THH | | TOTAL | |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 |
| Non-current assets - equipment | 3,999 | 3,307 | 101 | 83 | 4,100 | 3,390 |
| Inventories | 0 | 0 | 0 | 0 | 0 | 0 |
| Short-term debtors | 115,248 | 97,268 | (756) | (617) | 114,492 | 96,651 |
| Cash and cash equivalents | 202,357 | 160,712 | 5,915 | 7,744 | 208,272 | 168,456 |
| Short-term creditors | 178,629 | 204,158 | 1,159 | 2,508 | 179,788 | 206,666 |
| Pensions liability | 649,564 | 516,595 | 0 | 0 | 649,564 | 516,595 |
| Pensions reserve | (649,564) | (516,595) | 0 | 0 | (649,564) | (516,595) |
| Income and Expenditure Reserve | 0 | 0 | 4,101 | 4,702 | 4,101 | 4,702 |

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) deals with the provision and maintenance of council housing by the Council acting as Landlord. It also shows income from rents and Government grant. There is a statutory requirement to keep this account separate from other Council activities (including other housing activities).

| | Note | 2014/15 £'000 | 2015/16 £'000 |
|---|------|------------------|------------------|
| EXPENDITURE | | | |
| Repairs and maintenance | | 21,061 | 19,807 |
| Supervision and management | | 32,098 | 37,990 |
| Rents, rates, taxes and other charges | | 2,534 | 2,821 |
| Depreciation of non-current assets | 6 | | |
| On dwellings | | 14,141 | 13,754 |
| On other assets | | 1,577 | 1,570 |
| Revaluation losses (and reversals) | | (194,063) | (42,267) |
| Debt management costs | | 73 | 73 |
| Movement in the allowance for bad debts | | 239 | (1,128) |
| Sums directed by the Secretary of State that are expenditure in accordance with the Code | | 4,044 | 1,365 |
| TOTAL EXPENDITURE | | (118,296) | 33,985 |
| INCOME | | | |
| Gross rental income | | | |
| Dwelling rents | | 67,966 | 68,116 |
| Non dwelling rents | | 3,876 | 4,253 |
| Charges for services and facilities | | 17,169 | 19,693 |
| Contributions towards expenditure | | 115 | 115 |
| TOTAL INCOME | | 89,126 | 92,177 |
| NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT | | (207,422) | (58,192) |
| HRA services share of Corporate and Democratic Core | | 157 | 157 |
| NET COST OF HRA SERVICES | | (207,265) | (58,035) |
| HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account | | | |
| (Gain)/loss on sale of HRA non-current assets | | (1,317) | (12,841) |
| Unattached capital receipts | | (2,778) | (1,811) |
| Interest payable and similar charges | 12 | 3,338 | 3,516 |
| Interest and investment income | | (300) | (560) |
| Pensions interest cost and expected return on pension assets | 7 | 1,296 | 1,293 |
| Capital grants and contributions receivable | | (51,187) | (26,501) |
| DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES | | (258,213) | (94,939) |

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

The Housing Revenue Account (HRA) Income and Expenditure Account discloses the income received and expenditure incurred in providing council dwellings to tenants for the year. However, the Council is required to raise council rents based on the balance on the Statutory Housing Revenue Account.

This reconciliation statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the balance on the Statutory HRA.

| | Note | 2014/15 | | 2015/16 | |
|--|------|-----------|-----------------|----------|-----------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Balance on the Statutory HRA Brought Forward | | | (17,153) | | (20,146) |
| Deficit / (Surplus) for the year on the HRA Income and Expenditure Account | | (258,213) | | (94,939) | |
| Net additional amount required by statute to be credited to the HRA balance for the year | | 255,220 | | 83,991 | |
| Decrease (Increase) in the HRA Balance | | | (2,993) | | (10,948) |
| Transfers to or (from) reserves | | | 0 | | 0 |
| Balance on the Statutory HRA Carried Forward | | | (20,146) | | (31,094) |

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

1. NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

| | 2014/15 | | 2015/16 | |
|---|----------|----------------|----------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year | | | | |
| Revenue expenditure funded from capital under statute | (4,044) | | (1,365) | |
| Capital grants and contributions | 51,187 | | 26,501 | |
| Gain or loss on sale of HRA non-current assets | 1,317 | | 12,841 | |
| Unattached capital receipts | 2,778 | | 1,811 | |
| Reversal of revaluation losses on non-current assets | 194,072 | | 40,892 | |
| Transfer to / from Capital Adjustment Account | 0 | | 82 | |
| Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute | (182) | | (182) | |
| Net charges made for retirement benefits in accordance with IAS19 | 1,237 | | (1,260) | |
| Transfers from General Fund (as directed by Secretary of State) | <u>0</u> | 246,365 | <u>0</u> | 79,320 |
| Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year | | | | |
| Capital expenditure financed from revenue | 8,855 | | 4,671 | |
| Other adjustments (transfer to capital receipts reserve) | <u>0</u> | 8,855 | <u>0</u> | 4,671 |
| Net additional amount required by statute to be debited to the HRA Balance for the year | | 255,220 | | 83,991 |

2 HOUSING STOCK

The type and number of dwellings in the Council's housing stock at 31st March were as follows:

| | 2014/15 | 2015/16 |
|---------------------------------------|---------------|---------------|
| Low-rise flats (1-2 storeys) | 262 | 259 |
| Medium-rise flats (3-5 storeys) | 7,115 | 6,994 |
| High-rise flats (6 or more storeys) | 3,927 | 3,849 |
| Houses and bungalows | 781 | 782 |
| TOTAL AT 31st MARCH | 12,085 | 11,884 |

3 NON-CURRENT ASSETS

The balance sheet values of assets within the Council's HRA were as follows:

| | 2014/15 £'000 | 2015/16 £'000 |
|----------------------------------|------------------|------------------|
| Dwellings | 973,479 | 1,092,431 |
| Other Land and Buildings | 57,087 | 65,248 |
| Surplus Assets Not Held for Sale | 1,690 | 0 |
| Assets Under Construction | 2,840 | 10,705 |
| Assets Held for Sale | 225 | 6,178 |
| TOTAL | 1,035,321 | 1,174,562 |

The balance sheet values of the land, houses and other property within the Housing Revenue Account are as follows:

| | Dwellings £'000 | Other land and buildings £'000 | Surplus Assets not held for sale £'000 | Assets Under Construction £'000 | Assets Held For Sale £'000 | TOTAL £'000 |
|--|--------------------|--------------------------------------|--|---------------------------------------|----------------------------------|------------------|
| Total value at 1 st April 2014 | 753,180 | 57,641 | 1,753 | 0 | 225 | 812,799 |
| Additions, disposals, transfers and revaluations | 220,299 | (554) | (63) | 0 | (300) | 219,382 |
| Total value at 31 st March 2015 | 973,479 | 57,087 | 1,690 | 2,840 | 225 | 1,035,321 |
| Additions, disposals, transfers and revaluations | 118,952 | 8,161 | (1,690) | 7,865 | 5,953 | 139,241 |
| TOTAL VALUE AT 31st MARCH 2016 | 1,092,431 | 65,248 | 0 | 10,705 | 6,178 | 1,174,562 |

The vacant possession value of dwellings within the Council's HRA was £4,154 million in 2015/16 (£3,700 million in 2014/15). The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

4 MAJOR REPAIRS RESERVE

| | 2014/15 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| Balance at 1st April | 16,396 | 22,174 |
| Transfer from Capital Adjustment Account - depreciation | 15,718 | 15,321 |
| Financing of capital expenditure | (9,940) | (28,319) |
| Balance at 31st March | 22,174 | 9,176 |

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

| | 2014/15 | | | 2015/16 | | |
|----------------------------------|--------------------|----------------|----------------|--------------------|----------------|----------------|
| | Dwellings £'000 | Other £'000 | Total £'000 | Dwellings £'000 | Other £'000 | Total £'000 |
| Expenditure | 72,810 | 4,044 | 76,854 | 64,994 | 1,365 | 66,359 |
| Sources of finance | | | | | | |
| Borrowing | 0 | 144 | 144 | 0 | 0 | 0 |
| Capital Receipts | 7,620 | 0 | 7,620 | 720 | 0 | 720 |
| Capital Grants and Contributions | 48,409 | 0 | 48,409 | 32,649 | 0 | 32,649 |
| Major Repairs Reserve | 6,040 | 3,900 | 9,940 | 26,954 | 1,365 | 28,319 |
| Direct Revenue Financing | 10,741 | 0 | 10,741 | 4,671 | 0 | 4,671 |
| TOTAL CAPITAL FINANCING | 72,810 | 4,044 | 76,854 | 64,994 | 1,365 | 66,359 |

(ii) Capital Receipts

Capital receipts (gross) in 2015/16 from the disposal of non-current assets within the HRA amounted to £36.235 million (£34.813 million in 2014/15) as follows:

| | 2014/15 £'000 | 2015/16 £'000 |
|-------------------------------|------------------|------------------|
| Dwellings | 34,813 | 32,444 |
| Other land and buildings | 0 | 3,791 |
| TOTAL CAPITAL RECEIPTS | 34,813 | 36,235 |

6 DEPRECIATION

The total depreciation charge for the year was £15.321 million (£15.718 million in 2014/15), made up of £13.754 million (£14.141 million in 2014/15) in respect of council houses and £1.567 million (£1.577 million in 2014/15) in respect of other HRA assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance, as this is the amount (based on a 30-year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

| | 2014/15 £'000 | 2015/16 £'000 |
|---------------------------|------------------|------------------|
| Dwellings | 14,141 | 13,754 |
| Other Land and Buildings | 1,577 | 1,567 |
| TOTAL DEPRECIATION | 15,718 | 15,321 |

7 PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 41 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

| Income and Expenditure Account | The Council | | LPFA | | Total | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 |
| Net Cost of Services | | | | | | |
| Current service costs | 2,170 | 2,726 | 10 | 0 | 2,180 | 2,726 |
| Net Operating Expenditure | | | | | | |
| Interest cost | 3,665 | 3,381 | 76 | 0 | 3,741 | 3,381 |
| Settlements / Curtailments | 13 | 74 | 1 | 0 | 14 | 74 |
| Expected return on assets in the scheme | (2,378) | (2,088) | (67) | 0 | (2,445) | (2,088) |
| Net Charge to the Income and Expenditure Account | 3,470 | 4,093 | 20 | 0 | 3,490 | 4,093 |
| Statement of Movement in the HRA Balance | | | | | | |
| Reversal of net charges made for retirement benefits in accordance with IAS19 | (3,470) | (4,093) | (20) | 0 | (3,490) | (4,093) |
| Employer's contribution to scheme | 2,557 | 2,833 | 7 | 0 | 2,564 | 2,833 |

8 RENT ARREARS

| | 2014/15 £'000 | 2015/16 £'000 |
|--|------------------|------------------|
| Gross rent arrears at 31 st March | 3,877 | 4,121 |
| Arrears as % of rent receivable | 5.7 | 6.0 |
| Provision made for bad debts | 2,869 | 3,079 |

9 TRANSFERS FROM GENERAL FUND (AS DIRECTED BY SECRETARY OF STATE)

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. No sums were transferred during 2015/16.

10 ITEM 8 INTEREST ADJUSTMENT

Capital works on non-current assets within the council's HRA are partly funded by borrowing. The total interest cost of borrowing is allocated between HRA and General Fund in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year, as specified in Schedule 4 of the Local Government and Housing Act 1989. These are included within the interest figures shown on the HRA Income and Expenditure Account.

COLLECTION FUND

| | Note | 2014/15 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2015/16 £'000 |
|---|------|------------------|------------------|------------------|------------------|
| INCOME | | | | | |
| Council Tax (net of benefits) | 2 | 92,504 | | 97,503 | |
| Transfers from General Fund - Council Tax Benefits | | | 92,504 | | 97,503 |
| Distribution of prior year deficit on Collection Fund | | | 0 | | |
| National Non-Domestic Rates - Transitional Protection | 3 | 369,804 1,364 | 371,168 | 377,998 41 | 378,039 |
| Business Rate Supplement | | | 12,156 | | 11,513 |
| TOTAL INCOME | | | 475,828 | | 487,055 |
| EXPENDITURE | | | | | |
| Council Tax | | | | | |
| Precepts and demands | | | | | |
| London Borough of Tower Hamlets | | 66,395 | | 69,814 | |
| Greater London Authority | | 22,419 | 88,814 | 23,258 | 93,072 |
| Increase in provision for Council Tax bad debts | 5 | | 2,111 | | 1,793 |
| Distribution of prior year Council Tax surplus on Collection Fund | | | 0 | | 2,556 |
| NNDR Estimated surplus for 2013/14 applied in 2015/16 | | | 0 | | (95) |
| National Non-Domestic Rates | | | | | |
| Interest | | 10 | | 34 | |
| Transitional Protection | | 0 | | 0 | |
| Cost of collection allowance | | 946 | 956 | 965 | 999 |
| National Non-Domestic Rates Precepts & Demands | | | | | |
| London Borough of Tower Hamlets | | 102,429 | | 114,738 | |
| DCLG | | 170,714 | | 191,230 | |
| Greater London Authority | | 68,286 | 341,429 | 76,492 | 382,460 |
| Distribution of Prior Year Surplus on NNDR Collection Fund | | | | | |
| London Borough of Tower Hamlets | | 2,085 | | 4,922 | |
| DCLG | | 3,474 | | 8,045 | |
| Greater London Authority | | 1,390 | 6,949 | 3,218 | 16,185 |
| Business Rate Supplement | | | | | |
| Payment to Greater London Authority * | 4 | 12,065 | | 12,263 | |
| Cost of collection allowance | | 22 | 12,087 | 19 | 12,282 |
| National Non-Domestic Rates Provision For Bad Debt | | | | | |
| London Borough of Tower Hamlets | | 736 | | 619 | |
| DCLG | | 1,226 | | 1,032 | |
| Greater London Authority | | 491 | 2,453 | 413 | 2,064 |
| National Non-Domestic Rates Provision For Appeals | | | | | |
| London Borough of Tower Hamlets | | 1,800 | | 0 | |
| DCLG | | 3,000 | | 0 | |
| Greater London Authority | | 1,200 | 6,000 | 0 | 0 |
| TOTAL EXPENDITURE | | | 460,799 | | 511,316 |
| INCREASE/(DECREASE) IN FUND BALANCE | | | 15,029 | | (24,261) |
| BRS Debtor/(Creditor) | | | | | 700 |
| COLLECTION FUND BALANCE | | | | | (23,561) |
| Balance at the beginning of the year | | | 833 | | 15,862 |
| LBTH estimated surplus for 2013/14 B/Fwd to apply in future years less amount applied | | | | | 1,848 |
| (Deficit)/Surplus for the year | | | 15,029 | | (23,561) |
| BALANCE AT END OF YEAR | 1 | | 15,862 | | (5,851) |

* BRS payment includes 69k on account of 2014/15 arrears

NOTES TO THE COLLECTION FUND

1. GENERAL

The Collection Fund accounts for all transactions in respect of Council Tax and National Non-Domestic Rates (also known as NNDR or Business Rates) and Community Charge (prior to 1st April 1993). Although the account is kept separate from the Income and Expenditure Account, the Collection Fund balance is included in the Council's Balance Sheet.

The Council Tax surplus on the Fund (£2.694m) is attributable to the Council (£1.902m) and the Greater London Authority (£0.792m). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a deficit of £23.574m in 2015/16 (a surplus of £13.039m during 2014/15). The deficit was due to delays in obtaining valuations of new businesses before year-end. Back-dated NNDR charges have been raised in 2016/17 to recover the deficit. Of this deficit, £3.16m (30%) is attributable to the Council, £2.11m (20%) to the GLA and £5.27m (50%) to the CLG.

2. COUNCIL TAX

Council Tax is a tax payable depending on the nature and degree of occupation of the residential property concerned. It is subject to a system of personal discounts. For the purpose of calculating the individual tax, all domestic properties were valued by the Inland Revenue as at 1st April 1991 and placed in one of eight bands. By law the tax for each Band is set as a fraction of Band D.

| Band | Market Value in April 1991 | Fraction of Band D |
|------|----------------------------------|--------------------|
| A | Up to £40,000 | 6/9 |
| B | Over £40,001 and up to £52,000 | 7/9 |
| C | Over £52,001 and up to £68,000 | 8/9 |
| D | Over £68,001 and up to £88,000 | 9/9 |
| E | Over £88,001 and up to £120,000 | 11/9 |
| F | Over £120,001 and up to £160,000 | 13/9 |
| G | Over £160,001 and up to £320,000 | 15/9 |
| H | Over £320,001 | 18/9 |

When the 2015/16 Council Tax was set the position was as follows:

| Band | 2014/15 No. of Properties | 2014/15 Council Tax Base | 2015/16 No. of Properties | 2015/16 Council Tax Base |
|--------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| A | 3,005 | 628 | 3,527 | 515 |
| B | 25,897 | 16,634 | 25,903 | 16,741 |
| C | 36,342 | 28,666 | 36,875 | 29,260 |
| D | 23,643 | 21,032 | 24,461 | 21,939 |
| E | 17,631 | 19,228 | 18,293 | 20,077 |
| F | 8,108 | 10,627 | 8,470 | 10,987 |
| G | 3,179 | 4,817 | 3,280 | 4,966 |
| H | 469 | 858 | 507 | 938 |
| Total | 118,274 | 102,490 | 121,316 | 105,423 |

The Council Tax is made up of amounts for the Greater London Authority as well as the Council. The Band D tax and total amount to be raised in the last 2 years was as follows:

| | 2014/15 | | 2015/16 | | Increase / (Decrease) | |
|--------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------------|---------------|
| | Band D Tax £ | Amount to be raised £'000 | Band D Tax £ | Amount to be raised £'000 | £ | % |
| Tower Hamlets | 885.52 | 66,395 | 885.52 | 69,814 | 0 | 0 |
| Greater London Authority | 299.00 | 22,419 | 295.00 | 23,258 | -4.00 | -1.34% |
| TOTAL | 1,184.52 | 88,814 | 1,180.52 | 93,072 | -4.00 | -0.34% |

3. NATIONAL NON-DOMESTIC RATES (NNDR)

NNDR, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1st April 2013, authorities keep a proportion of the business rates paid locally. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2015/16 was 49.3p in the £ (48.2p in the £ in 2014/15). The total rateable value in the borough as at 31 March 2016 was £865.2 million (£827.6 million at 31 March 2015). A periodic revaluation of business properties took place in April 2010. At March 2016 there were around 6,200 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. Of these 3,467 will not result in a reduction in rateable value and 1,936 are considered speculative. Provision has been made for the remaining appeals.

4. CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) in April 2010 to finance £4.1 billion of the costs of the £15.9 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2015/16 financial year are set out below.

The Crossrail BRS will be used to finance £3.5 billion worth of GLA borrowing and the repayment of this sum after Crossrail is completed. A further £0.6 billion of BRS revenues will be used to finance the construction works directly.

The Crossrail BRS multiplier for 2015/16 is 2p per pound of rateable value. Reliefs for the Crossrail BRS will apply on the same basis and at the same percentage rate as for your National Non Domestic Rates (NNDR) bill, although no transitional relief is provided for the BRS.

www.london.gov.uk/crossrail-brs

| 2014/15 £'000 | | 2015/16 £'000 |
|------------------|---|------------------|
| 12,467 | Non Domestic Rates Due | 12,345 |
| | Less Allowances and Other Adjustments | |
| 376 | Mandatory & Discretionary Relief | 832 |
| 0 | Provision for Bad Debts | 0 |
| 26 | Cost of Collection | 19 |
| 12,065 | Collectable from Business Rate Supplement Payers | 11,494 |

5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS

Contributions are made to or from the Collection Fund Income and Expenditure Account to a provision for bad debts. For 2015/16 the Council Tax bad debt provision was increased by £1.793 million (£2.111 million in 2014/15) and £1.621 million of irrecoverable debts were written off (£2.066 million in 2014/15).

PENSION FUND ACCOUNTS

| PENSION FUND ACCOUNT | Note | 2014/15 £'000 | 2015/16 £'000 |
|--|------|------------------|------------------|
| DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME | | | |
| Contributions | | | |
| From employers | | | |
| Normal | 3 | 26,855 | 26,812 |
| Augmentation | 3 | 780 | 1,697 |
| Deficit funding | 3 | 18,500 | 20,500 |
| From members | 3 | 11,031 | 10,951 |
| Transfers in | | | |
| Transfers in from other pension funds | 4 | 1,719 | 2,166 |
| Benefits | | | |
| Pensions | 4 | (37,265) | (39,103) |
| Lump sum benefits | 4 | (8,055) | (13,158) |
| Payments to and on account of leavers | | | |
| Refunds of contributions | | (125) | (169) |
| State scheme premiums | | (132) | (196) |
| Transfers out to other pension funds | | (7,263) | (4,092) |
| Administrative expenses | 13 | (803) | (1,038) |
| NET ADDITIONS FROM DEALINGS WITH MEMBERS | | 5,242 | 4,370 |
| RETURN ON INVESTMENTS | | | |
| | | 2014/15 £'000 | 2015/16 £'000 |
| Investment income | 11 | 16,581 | 14,349 |
| Taxes on Income | | (329) | (409) |
| Change in market value of investments | | | |
| Realised | | 23,292 | 1,321 |
| Unrealised | 10 | 82,933 | (28,625) |
| Investment management expenses | 13 | (2,450) | (3,076) |
| NET RETURN ON INVESTMENTS | | 120,027 | (16,440) |
| Net increase in the Fund during the year | | 125,269 | (12,070) |
| Add: Opening net assets of the scheme | | 1,012,930 | 1,138,199 |
| CLOSING NET ASSETS OF THE SCHEME | | 1,138,199 | 1,126,129 |
| NET ASSETS STATEMENT AS AT 31ST MARCH | | | |
| | | 2015 £'000 | 2016 £'000 |
| Investments Assets | | | |
| Equities | | 244,335 | 214,617 |
| Pooled Investment Vehicles | | | |
| Unit Trusts | | 628,744 | 572,275 |
| Property | | 116,945 | 129,933 |
| Other | | 101,303 | 54,607 |
| | | 1,091,327 | 971,432 |
| Cash deposits | 6 | 5,414 | 5,647 |
| Other investment balances | 5 | 978 | 1,973 |
| Investments Liabilities | | | |
| Other investment balances | 5 | (223) | (35) |
| Current Assets | 5 | 42,154 | 149,054 |
| Current Liabilities | 5 | (1,451) | (1,942) |
| TOTAL NET ASSETS | | 1,138,199 | 1,126,129 |

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

2. ACCOUNTING POLICIES

(a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

(b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

- (c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2016. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

Fund Account - Revenue Recognition

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which it relates. Any amount due in the year but unpaid will be classified as a current asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

(d) Investments

Investments are shown in the Net Assets Statement at market value on the following bases.

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2016.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2016.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2016.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2016. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) Investment Income

- (i) Interest income is recognised in the Fund account as it accrues.
- (ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- (iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.
- (iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

NOTES TO THE PENSION FUND ACCOUNTS

2 ACCOUNTING POLICIES Cont...

Fund account - expense items

(f) Management Expenses

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance on accounting for LGPS management costs.

Administrative Expenses

Staff costs of the pensions of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight & Governance Costs

Staff costs relating to oversight and governance are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment Management Expenses

Fund managers' fees are paid in accordance with the terms of each individual management agreement. The fees are based mainly on a percentage of the value of funds under their management and increase or reduce as the value of the investments change.

(g) Benefits Payable

Pensions and lump sums payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

Financial Assets

- (h) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price ruling on the final day of the accounting period.

(ii) Fixed interest securities

Fixed Interest Securities – are recorded at net market value based on their bid price.

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

There is just one item in the authority's net asset statement as at 31st March 2016 for which there which there is a significant risk of material adjustment in the forthcoming financial year.

Pensions Liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2015/16, the Council's actuaries advised that the net pensions liability had decreased by £123.5 million to £505.0 million as a result of falling real bond yields.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2016 range from 15.9% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £20.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

| | 2014/15 £'000 | 2015/16 £'000 |
|-------------------------------|------------------|------------------|
| Members normal contributions | | |
| Council | 9,731 | 9,673 |
| Admitted bodies | 221 | 184 |
| Scheduled body | 1,079 | 1,094 |
| Total members | 11,031 | 10,951 |
| Employers | | |
| Normal contributions | | |
| Council | 22,356 | 22,105 |
| Admitted bodies | 1,015 | 887 |
| Scheduled bodies | 3,484 | 3,820 |
| Deficit funding contributions | | |
| Council | 18,500 | 20,500 |
| Other contributions | | |
| Council | 780 | 1,697 |
| Total employers | 46,135 | 49,009 |
| Total contributions | 57,166 | 59,960 |

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2015/16 employees made contributions of £10,870.28 (£60,530.28 in 2014/15) into the AVC Scheme operated by Aviva (Norwich Union) and £6,434.33 to Equitable Life (£9,455.96 in 2014/15). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation based on the consumer price index.

Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment.

Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

| | 2014/15 | | | | 2015/16 | | | |
|---------------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|
| | Council | Admitted Bodies | Scheduled Bodies | Total | Council | Admitted Bodies | Scheduled Bodies | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Pensions | (35,259) | (1,126) | (880) | (37,265) | (37,467) | (585) | (1,051) | (39,103) |
| Lump sum retirement benefits | (6,027) | (307) | (379) | (6,713) | (10,828) | (441) | (425) | (11,694) |
| Lump sum death benefits | (1,232) | (42) | (68) | (1,342) | (1,080) | (175) | (208) | (1,463) |
| Total Pensions and Benefits | (42,518) | (1,475) | (1,327) | (45,320) | (49,375) | (1,201) | (1,684) | (52,260) |
| Transfer Values Received (Individual) | 1,719 | 0 | 0 | 1,719 | 2,166 | 0 | 0 | 2,166 |
| Transfer Values Paid (Individual) | (7,263) | 0 | 0 | (7,263) | (4,092) | 0 | 0 | (4,092) |
| Total | (48,062) | (1,475) | (1,327) | (50,864) | (51,301) | (1,201) | (1,684) | (54,186) |

5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March.

| | 2014/15 £'000 | 2015/16 £'000 |
|--|------------------|------------------|
| Debtors | | |
| Other Investment Balances | | |
| Investment sales | 8 | 805 |
| Dividends receivable | 583 | 649 |
| Tax recoverable | 387 | 519 |
| | <u>978</u> | <u>1,973</u> |
| Current Assets | | |
| Contributions due from admitted bodies | 101 | 237 |
| London Borough of Tower Hamlets Pension Fund | 230 | 457 |
| | <u>331</u> | <u>694</u> |
| Total Debtors | 1,309 | 2,667 |
| Creditors | | |
| Other Investment Balances | | |
| Investment purchases | 223 | 35 |
| Current Liabilities | | |
| Unpaid benefits | 1,138 | 1,271 |
| Administrative expenses | 313 | 671 |
| London Borough of Tower Hamlets Pension Fund | 0 | 0 |
| | <u>1,451</u> | <u>1,942</u> |
| Total Creditors | 1,674 | 1,977 |
| Net Debtors | (365) | 690 |

6. CASH

The deposits held by fund managers can be further analysed as follows:

| | 2014/15 £'000 | 2015/16 £'000 |
|--|------------------|------------------|
| Aberdeen: Private Equity Portfolio | 10 | 10 |
| GMO | 2,930 | 3,702 |
| Schroders: Multi Asset Portfolio | 15 | 0 |
| Schroders: Property Portfolio | 2,458 | 1,934 |
| London Borough of Tower Hamlets Pension Fund | 41,823 | 148,359 |
| TOTAL CASH | 47,236 | 154,005 |

7. TAXATION

UK Income Tax

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

Value Added Tax

As Tower Hamlets Council is the Administering Authority for the Fund, VAT input tax is recoverable on all Fund activities.

Overseas Tax

Taxation agreements exist between the UK and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 25th November 2015.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March:

| | 2015 | 2016 |
|--|---------------|---------------|
| London Borough of Tower Hamlets | | |
| Active Members | 6,249 | 6,365 |
| Pensioners | 4,131 | 4,352 |
| Deferred Pensioners | 6,434 | 6,770 |
| Dependants | 993 | 1,018 |
| | 17,807 | 18,505 |
| Admitted & Scheduled Bodies | | |
| Active Members | 611 | 657 |
| Pensioners | 221 | 247 |
| Deferred Pensioners | 352 | 375 |
| Dependants | 18 | 26 |
| | 1,202 | 1,305 |

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilysis
 Capita
 Circle Anglia Ltd.
 East End Homes
 Ecovert FM Ltd.
 Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
 Greenwich Leisure Limited
 Look Ahead Housing and Care
 One Housing Group (formerly Island Homes)
 Redbridge Community Housing Ltd.
 Swan Housing Association
 Tower Hamlets Community Housing

Scheduled Bodies

Bethnal Green Academy
 Canary Wharf College
 Culloden Primary School
 London Enterprise Academy
 Old Ford Primary School
 Sir William Burrough School
 Solebay Academy
 St. Pauls Way Community School
 Tower Hamlets Homes Limited

10. INVESTMENTS

The Fund employs nine specialist investment managers with mandates corresponding to the principal asset classes.

Manager

Baillie Gifford Life Ltd.
 GMO UK Ltd.
 Investec Asset Management
 Legal & General Investment Management
 Ruffer LLP
 Schroders Asset Management Property Fund

Mandate

Global Equity, Diversified Growth
 Global Equity
 Absolute Return Bonds
 UK Equity, Index Linked Gilts
 Diversified Growth
 Property

The value of the Fund, by manager, as at 31st March was as follows:

| | 2015 | | 2016 | |
|--|-----------|------|-----------|------|
| | £ million | % | £ million | % |
| Baillie Gifford Life Ltd - Diversified Growth | 50.7 | 4.6 | 0.0 | - |
| Baillie Gifford Life Ltd - Equities | 217.7 | 19.8 | 209.9 | 21.4 |
| GMO UK Ltd. | 274.3 | 25.0 | 248.4 | 25.4 |
| Investec Asset Management | 99.6 | 9.1 | 0.0 | - |
| Legal & General Investment Management - Equities | 225.7 | 20.1 | 217.3 | 22.2 |
| Legal & General Investment Management | 59.4 | 5.9 | 60.6 | 6.2 |
| Ruffer LLP | 50.6 | 4.6 | 54.6 | 5.6 |
| Schroders Asset Management Property Fund | 119.5 | 10.9 | 131.9 | 13.5 |
| London CIV | 0.0 | 0.0 | 56.3 | 5.8 |

10. INVESTMENTS (continued)

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows:

| | Market Value as at 1 Apr 2015 £'000 | Purchases £'000 | Sales £'000 | Change in Market Value £'000 | Market Value as at 31 Mar 2016 £'000 |
|---|--|--------------------|------------------|------------------------------------|---|
| Baillee Gifford Life Ltd - Diversified Growth | 50,685 | 6,490 | (46,746) | (10,429) | 0 |
| Baillee Gifford Life Ltd - Equities | 217,670 | 481 | (3,274) | (4,989) | 209,888 |
| GMO UK Ltd. | 270,637 | 244,815 | (256,368) | (16,288) | 242,796 |
| Investec Asset Management | 99,631 | 0 | (98,701) | (930) | 0 |
| Legal & General Investment Management | 285,141 | 0 | 0 | (7,277) | 277,864 |
| Ruffer LLP | 50,618 | 6,474 | 0 | (2,486) | 54,606 |
| Schroders Asset Management Property London CIV | 116,945 0 | 10,360 54,177 | (8,978) 0 | 11,607 2,167 | 129,934 56,344 |
| | 1,091,327 | 322,797 | (414,067) | (28,625) | 971,432 |

Other Investment Balances

| | | | | | |
|--|--------------|---|---|---|--------------|
| Cash Deposits | 5,414 | 0 | 0 | 0 | 5,647 |
| Investment income due | 978 | 0 | 0 | 0 | 1,973 |
| Amounts payable for purchases of investments | (223) | 0 | 0 | 0 | (35) |
| Net Investment Assets | 6,169 | | | | 7,585 |

| | Market Value as at 1 Apr 2014 £'000 | Purchases £'000 | Sales £'000 | Change in Market Value £'000 | Market Value as at 31 Mar 2015 £'000 |
|---|--|--------------------|------------------|------------------------------------|---|
| Baillee Gifford Life Ltd - Diversified Growth | 46,889 | 72 | 0 | 3,724 | 50,685 |
| Baillee Gifford Life Ltd - Equities | 183,066 | 2,004 | 0 | 32,600 | 217,670 |
| GMO UK Ltd. | 256,678 | 196,511 | (184,536) | 1,984 | 270,637 |
| Investec Asset Management | 97,502 | 0 | 0 | 2,129 | 99,631 |
| Legal & General Investment Management | 260,556 | 0 | 0 | 24,585 | 285,141 |
| Ruffer LLP | 45,030 | 0 | 0 | 5,588 | 50,618 |
| Schroders Asset Management Property | 101,628 | 12,757 | (9,762) | 12,322 | 116,945 |
| | 991,349 | 211,344 | (194,298) | 82,932 | 1,091,327 |

Derivative Contracts

| | | | | | |
|----------------------------|--------------|---|---|---|---|
| Forward Currency Contracts | (647) | 0 | 0 | 0 | 0 |
| | (647) | | | | |

Other Investment Balances

| | | | | | |
|------------------------------|--------------|---|---|---|--------------|
| Cash Deposits | 5,292 | 0 | 0 | 0 | 5,414 |
| Investment income due | 817 | 0 | 0 | 0 | 978 |
| Net Investment Assets | 6,109 | | | | 6,357 |

10. INVESTMENTS (continued)

A further analysis of investments assets is as follows.

| | Market Value as at 1 Apr 2015 £'000 | Market Value as at 31 Mar 2016 £'000 |
|---|--|---|
| Equities | | |
| UK | | |
| Quoted | 27,874 | 16,023 |
| Overseas | | |
| Quoted | 216,487 | 198,593 |
| | <u>244,361</u> | <u>214,616</u> |
| Pooled Funds - Additional Analysis | | |
| UK | | |
| Fixed Income Unit Trust | 159,079 | 60,630 |
| Unit Trusts | 544,666 | 538,072 |
| Overseas | | |
| Unit Trusts | 26,276 | 28,181 |
| | <u>730,021</u> | <u>626,883</u> |
| Pooled Property Investments | 116,945 | 129,934 |
| | <u>116,945</u> | <u>129,934</u> |
| Cash Deposits | 5,414 | 5,647 |
| Investment Income Due | 978 | 1,973 |
| | <u>6,392</u> | <u>7,620</u> |
| Total Investment Assets | <u>1,097,719</u> | <u>979,053</u> |
| Investment Liabilities | | |
| Amounts Payable for Purchases | (223) | (35) |
| Total Investment Liabilities | <u>(223)</u> | <u>(35)</u> |
| Net Investment Assets | 1,097,496 | 979,018 |

11. INVESTMENT INCOME

Investment income is broken down as follows.

| | 2014/15 £'000 | 2015/16 £'000 |
|----------------------------------|------------------|------------------|
| Dividends from overseas equities | 10,617 | 8,660 |
| Net rents from properties | 5,234 | 4,733 |
| Interest on cash deposits | 170 | 387 |
| Foreign tax | 231 | 160 |
| TOTAL | 16,252 | 13,940 |

TAXES ON INVESTMENT INCOME

| | 2014/15 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| Withholding tax - fixed interest securities | 0 | 0 |
| Withholding tax - equities | 281 | 360 |
| Withholding tax - pooled | 47 | 49 |
| TOTAL | 328 | 409 |

12 ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

The 2013 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £365 million and the funding level to be 72%. This compares to a deficit at the previous revaluation in 2010 of £305 million and a corresponding funding level of 71%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contributions to recover the deficit for the term of the revaluation is as set out below :-

| | £m |
|---------|-------|
| 2014/15 | 18.50 |
| 2015/16 | 20.50 |
| 2016/17 | 22.00 |

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2013 determined that this would require a contribution (additional to the future contribution rate) of 15.2% of members' pensionable pay equivalent to £18.5 million per annum.

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- to ensure the long-term solvency of the Fund
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2015/16 was 18.5%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2016 and the recommendations implemented from 1st April 2017.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2013. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

| Financial Assumptions | Nominal | Real |
|-----------------------------|---------|-----------------------------------|
| Price inflation (CPI) | 2.5% | |
| Pay increases | 3.8% | 1.3% Real rates are nominal rates |
| Funding basis discount rate | 4.6% | 2.1% adjusted for inflation |

| Longevity (In years) | Male | Female |
|--|------|--------|
| Average future life expectancy for a pensioner aged 65 at the valuation date | 22.2 | 24.2 |
| Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date | 24.3 | 26.4 |

Actuarial Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.659 million (£1,783 million in 2014/15). This includes both vested and non-vested benefits.

Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at 31 March 2013 using financial assumptions that comply with IAS 19

Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2013

| Average future life expectancies at age 65 years | Males | Females |
|--|-------|---------|
| Current pensioners | 22 | 24 |
| Future pensioners | 24 | 26 |

Financial assumptions

| Year ended | 31st March | 31st March |
|-----------------------|------------|------------|
| | 2015 | 2016 |
| Pension increase rate | 2.4% | 2.2% |
| Salary increase rate | 3.8% | 3.7% |
| Discount rate | 3.2% | 3.5% |

13. MANAGEMENT EXPENSES

| | 2014/15 £'000 | 2015/16 £'000 |
|--------------------------------|------------------|------------------|
| Administration costs | 714 | 677 |
| Investment management expenses | 2,450 | 3,076 |
| Oversight & governance | 90 | 86 |
| | 3,254 | 3,839 |

14. INVESTMENT EXPENSES

| | 2014/15 £'000 | 2015/16 £'000 |
|-----------------|------------------|------------------|
| Management fees | 2,357 | 2,901 |
| Custody fees | 93 | 175 |
| | 2,450 | 3,076 |

15. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

The Council only invests money with institutions with a minimum Fitch credit rating of A+ or higher.

Liquidity risk

This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

Market risk

This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

Interest rate risk

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

The Fund's direct exposure to interest rate movements as at 31st March 2015 and 31st March 2016 is set out below.

| Interest Rate Risk | As At 31st March 2015 | As At 31st March 2016 |
|---------------------------|-----------------------|-----------------------|
| Asset Type | £'000 | £'000 |
| Cash and cash equivalents | 5,414 | 5,647 |
| Cash balances | 42,154 | 149,053 |
| Fixed interest securities | 159,079 | 60,630 |
| Total | 206,647 | 215,330 |

| Interest Rate Risk - Sensitivity Analysis | Carrying Amount As At 31st March 2016 | Change in year in net assets available to pay benefits | |
|---|---------------------------------------|--|-------------------|
| | | +100 BPS £'000 | -100 BPS £'000 |
| Asset Type | | | |
| Cash and cash equivalents | 5,647 | 56 | (56) |
| Cash balances | 149,053 | 1,491 | (1,491) |
| Fixed interest securities | 60,630 | (606) | 606 |
| Total change in net assets available | 215,330 | 941 | (941) |

Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

| Interest Rate Risk - Sensitivity Analysis | Carrying Amount As At 31st March 2015 | Change in year in net assets available to pay benefits | |
|---|---------------------------------------|--|-------------------|
| | | +100 BPS £'000 | -100 BPS £'000 |
| Asset Type | | | |
| Cash and cash equivalents | 5,414 | 54 | (54) |
| Cash balances | 42,154 | 422 | (422) |
| Fixed interest securities | 159,079 | (1,591) | 1,591 |
| Total change in net assets available | 206,647 | (1,115) | 1,115 |

15. RISK MANAGEMENT (continued)

Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.8%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2016 and as at the previous year end.

| Currency Exposure - Asset Type | As At 31st March 2015 £'000 | As At 31st March 2016 £'000 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Overseas quoted securities | 245,548 | 230,423 |
| Overseas unit trusts | 3,808 | 3,574 |
| Cash | 14 | 0 |
| Total overseas assets | 249,370 | 233,997 |

| Currency Exposure - Sensitivity Analysis | Carrying Amount As At 31st March 2016 £'000 | Change in year in net assets available to pay benefits | |
|---|--|---|----------------|
| | | +6.8% £'000 | -6.8% £'000 |
| Overseas quoted securities | 230,423 | 246,092 | 214,754 |
| Overseas unit trusts | 3,574 | 3,817 | 3,331 |
| Cash | 0 | 0 | 0 |
| Total change in net assets available | 233,997 | 249,909 | 218,085 |

| Currency Exposure - Sensitivity Analysis | Carrying Amount As At 31st March 2015 £'000 | Change in year in net assets available to pay benefits | |
|---|--|---|----------------|
| | | +6.3% £'000 | -6.3% £'000 |
| Overseas quoted securities | 245,548 | 261,018 | 230,078 |
| Overseas unit trusts | 3,808 | 4,048 | 3,568 |
| Cash | 14 | 15 | 13 |
| Total change in net assets available | 249,370 | 265,081 | 233,659 |

The percentage change in the year of 6.8% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

Other Price risk

To mitigate the risk of a loss owing to a fall in market prices the Fund maintains a diverse portfolio of investments. Diversification ensures that the Fund has a balance of investments that offer different levels of risk and return.

The Fund employs a number of investment managers, with differing but complementary styles, to mitigate the risk of underperformance of any single manager and to ensure that any fall in market prices should not affect the Fund as a whole.

Manager performance and asset allocation policy is regularly reviewed by the Pensions Investment Panel. The Fund also uses certain derivative instruments as part of efficient portfolio management.

Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

| Price Risk - sensitivity analysis | Potential Market Movements (+/-) |
|-----------------------------------|----------------------------------|
| Asset Type | |
| UK equities | 10.6% |
| Global equity | 11.3% |
| Total fixed interest | 3.8% |
| Alternatives | 4.6% |
| Cash | 0.0% |
| Pooled Property Investments | 2.2% |

15. RISK MANAGEMENT (continued)

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

| Asset Type | Value as at 31 March 2016 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|------------------------------------|------------------------|----------------------------|----------------------------|
| Cash and cash equivalents | 154,005 | 0.0% | 154,005 | 154,005 |
| Investment portfolio assets | | | | |
| UK equities | 217,234 | 10.6% | 240,261 | 194,207 |
| Global equity | 452,685 | 11.3% | 503,838 | 401,532 |
| Total fixed interest | 60,630 | 3.8% | 62,934 | 58,326 |
| Alternatives | 110,950 | 4.6% | 116,054 | 105,846 |
| Pooled Property Investments | 129,934 | 2.2% | 132,793 | 127,075 |
| Net derivative assets | 0 | 0.0% | 0 | 0 |
| Investment income due | 1,973 | 0.0% | 1,973 | 1,973 |
| Amounts receivable for sales | 0 | 0.0% | 0 | 0 |
| Amounts payable for purchases | (35) | 0.0% | (35) | (35) |
| Total assets available to pay benefits | 1,127,376 | 0% | 1,211,822 | 1,042,929 |

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

| Asset Type | Value as at 31 March 2015 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|------------------------------------|------------------------|----------------------------|----------------------------|
| Cash and cash equivalents | 47,236 | 0.0% | 47,236 | 47,236 |
| Investment portfolio assets | | | | |
| UK equities | 225,693 | 10.1% | 248,488 | 202,898 |
| Global equity | 488,307 | 10.0% | 537,138 | 439,476 |
| Total fixed interest | 159,079 | 3.4% | 164,488 | 153,670 |
| Alternatives | 101,303 | 4.1% | 105,456 | 97,150 |
| Pooled Property Investments | 116,945 | 2.4% | 119,752 | 114,138 |
| Net derivative assets | 0 | 0.0% | 0 | 0 |
| Investment income due | 978 | 0.0% | 978 | 978 |
| Amounts receivable for sales | 0 | 0.0% | 0 | 0 |
| Amounts payable for purchases | (223) | 0.0% | (223) | (223) |
| Total assets available to pay benefits | 1,139,318 | | 1,223,313 | 1,055,323 |

Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

16. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Fair Value Hierarchy

IFRS7 requires the Fund to classify fair value instruments using a three-level hierarchy. The three levels are summarised as follows:

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts

Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets

Level 3 - inputs that are not based on observable data. Such instruments would include unquoted equity investments and hedge fund of funds.

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2016.

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|------------------------------------|------------------|------------------|------------------|------------------|
| Equities | 214,617 | 0 | 0 | 214,617 |
| Pooled Funds | | | | |
| Unit Trusts | 572,275 | 0 | 0 | 572,275 |
| Property Unit Trust | 128,083 | 0 | 1,850 | 129,933 |
| Other | 54,607 | 0 | 0 | 54,607 |
| Derivative Contracts | | | | |
| Forward Foreign Exchange Contracts | 0 | 0 | 0 | 0 |
| Cash and bank Deposits | 154,464 | 0 | 0 | 154,464 |
| Current Assets | 2,210 | 0 | 0 | 2,210 |
| Current Liabilities | (1,977) | 0 | 0 | (1,977) |
| | 1,124,279 | 0 | 1,850 | 1,126,129 |

During the year ended 31st March 2016 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2015 were as follows:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|------------------------------------|------------------|------------------|------------------|------------------|
| Equities | 244,335 | 0 | 0 | 244,335 |
| Pooled Funds | | | | |
| Unit Trusts | 628,744 | 0 | 0 | 628,744 |
| Property Unit Trust | 116,945 | 0 | 0 | 116,945 |
| Other | 101,303 | 0 | 0 | 101,303 |
| Derivative Contracts | | | | |
| Forward Foreign Exchange Contracts | 0 | 0 | 0 | 0 |
| Cash and bank Deposits | 47,467 | 0 | 0 | 47,467 |
| Current Assets | 1,079 | 0 | 0 | 1,079 |
| Current Liabilities | (1,674) | 0 | 0 | (1,674) |
| | 1,138,199 | 0 | 0 | 1,138,199 |

16. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial instruments

| | Long-term | |
|--|------------------|------------------|
| | 2014/15 £'000 | 2015/16 £'000 |
| Financial Assets | | |
| Loans and receivables | 180 | 398 |
| Financial assets at fair value through profit or loss | 106,225 | (27,304) |
| Total Financial Assets | 106,405 | (26,906) |
| Financial Liabilities | | |
| Payables | | |
| Financial liabilities at fair value through profit or loss | 409 | 0 |
| Total Financial Liabilities | 409 | 0 |

17. CURRENT ASSETS

| | 2014/15 £'000 | 2015/16 £'000 |
|-------------------------------|------------------|------------------|
| Contributions due - employees | | |
| Contributions due - employers | 101 | 236 |
| Sundry debtors | 230 | 458 |
| Cash balances | 41,823 | 148,359 |
| | 42,154 | 149,053 |

Analysis of debtors

| | 2014/15 £'000 | 2015/16 £'000 |
|--------------------------------|------------------|------------------|
| Other entities and individuals | 42,154 | 149,053 |
| | 42,154 | 149,053 |

18. CURRENT LIABILITIES

| | 2014/15 £'000 | 2015/16 £'000 |
|------------------|------------------|------------------|
| Sundry creditors | 313 | 671 |
| Benefits payable | 1,138 | 1,271 |
| | 1,451 | 1,942 |

Analysis of creditors

| | 2014/15 £'000 | 2015/16 £'000 |
|--------------------------------|------------------|------------------|
| Other entities and individuals | 1,451 | 1,942 |
| | 1,451 | 1,942 |

19. RELATED PARTY TRANSACTIONS

The London Borough of Tower Hamlets Pension Fund is administered by The London Borough of Tower Hamlets.

In accordance with IAS24 'Related Party Disclosure', material transactions with related parties not disclosed elsewhere in the financial statements are detailed below.

The Council incurred costs of £669k (£669k 2014/15) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £20.5m (£18.5m 2014/15) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

During the year no Committee Members or Council Chief Officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2016, the Fund held an average investment of £48.1m (£24.8m 31st March 2015), earning interest of £398k (£180k in 2014/15).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.4m (£3.5m 2014/15) from this company.

Fund administration expenses payable to the administrating authority are as set out in the table below.

| | 2014/15 | 2015/16 |
|------------------------------|---------|---------|
| Fund Administration Expenses | £'000 | £'000 |
| Payroll / HR Support | 370 | 494 |
| Corporate Finance | 299 | 175 |
| | 669 | 669 |

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2015 include:

Chief Accountant

The financial value of their relationship with the fund is as set out below

| | 2014/15 | 2015/16 |
|------------------------------------|---------|---------|
| | £'000 | £'000 |
| Short term benefits | 20 | 19 |
| Long term/post retirement benefits | 4 | 4 |

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2014/15 there were no Members of the Pension Fund Committee who had involvement with other organisations.

Compensation of key management - It was not practical to include costs relating to key management personnel within the Pension Fund Accounts, principally as they are charged to the Council's Accounts and have not been charged to the Pension Fund. All costs are disclosed within note 33 of the Council's main accounts.

20. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. The liability as at 31st March 2016 was £2.542m (£9.654m 2014/15).

21. CONTINGENT ASSETS

Admitted body employers in the Fund hold insurance bonds to guard against the possibility of not being able to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

22. IMPAIRMENT LOSSES

During 2015/16 impairment losses were nil (impairment losses in 2014/15 were also nil).

Independent auditor's report to the members of the London Borough of Tower Hamlets

To Follow – 3 pages

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 Corporate Director of Resources.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To consider and approve the Statement of Accounts.

The Statement of Accounts for 2015/16 will be considered for approval by the Council's Audit Committee on 20th September 2016.

Chair of Committee

The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2015/16 presents fairly the financial position of the Council at 31st March 2016 and its income and expenditure for the year.

Zena Cooke

Corporate Director of Resources

28th June 2016

Annual Governance Statement

This will be included in the draft financial statements after it has received approval by Audit Committee.

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

The following terms and abbreviations, while not being exhaustive, may provide assistance in understanding the Statement of Accounts.

FINANCIAL TERMS

Accounting period – The period of time covered by the Council's accounts. The Council's financial year is from the period 1st April to the following 31st March.

Accounting policies – The specific principles, bases, conventions, rules, and practices, applied by the Council, in preparing and presenting the financial statements.

Accounting standards – A set of rules explaining how accounts are to be kept. (See 'International Financial Reporting Standards')

Accrual – The recognition of income and expenditure in the year that they occur and not when any cash is received or paid.

Accumulated Absences Account – This account represents the value of leave rolled over from one financial year to another. This reserve account is used to avoid reducing general fund reserves.

Actuary – An independent adviser to the Council on the financial position of the Pension Fund.

Actuarial Valuation – Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates. The most recent valuation was in 2013.

Agency services – Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

Arm's Length Management Organisation (ALMO) – Arm's length management organisation. An organisation set up to manage all or part of a local authority's housing stock. Ownership of the stock remains with the local authority.

Amortisation – The writing off of an intangible asset or loan balance to the Comprehensive Income and Expenditure Statement over an appropriate period of time.

Amortised Cost – The carrying value of an intangible asset or liability in the balance sheet, which has been written up or down via the Comprehensive Income and Expenditure Statement.

Asset – Something valuable that the Council owns, benefits from, or has use of, in generating income.

Balance Sheet – A statement of all the assets, liabilities and other balances of the Council at the end of an accounting period.

Benchmarking - the analysis of selected activities and processes, and their comparison with similar analyses for other organisations.

Billing Authority – Refers to a local authority that is responsible for the collection of tax, both on behalf of itself and local authorities in its area.

Budget – A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised throughout the year for changes as necessary.

Business Rate Supplement – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary district councils and, in London, the Greater London Authority - to levy a supplement on the Business Rate to support additional projects aimed at economic development of the area.

Capital Adjustment Account – Represents amounts set aside from revenue resources or capital receipts to finance expenditure on property, plant, and equipment (PPE) or for the repayment of external loans, or certain other capital financing transactions.

Capital Expenditure – Expenditure on the acquisition of property, plant, and equipment (PPE) or expenditure which adds to the value of an existing item of PPE.

Capital Financing Requirement – Represents the Council's underlying need to borrow for a capital purpose.

Capital Grants Receipts in Advance – Balances of capital grants and contributions that have conditions which may require future repayment if not spent.

Capital Grants Unapplied – Grant balances that will be used for future capital expenditure.

Capital Receipt – Income received from the sale of PPE such as land or buildings.

Capital Receipts Reserve – Represents proceeds from the sale of PPE available to meet future capital investment.

Carrying Value – In relation to the value of assets, the value is based on the original cost of the asset less any depreciation, amortisation or impairment costs made against the asset. It is the amount to be recognised on the Balance Sheet.

Cash Equivalents – Highly liquid and safe investments that can easily be converted into cash.

Chartered Institute of Public Finance and Accountancy (CIPFA) – A professional accountancy body, that specialises in the Public Sector. It promotes best practice by issuing guidelines and Codes of Practice.

Collection Fund – A statutory account which receives Council Tax and Non-Domestic Rates to cover the costs of services provided by the Council and its precepting authorities.

Collection Fund Adjustment Account – The Collection Fund Adjustment Account represents the Council's share of the Collection Fund Surplus/Deficit.

Community Assets - Assets that a local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement - A statement showing the expenditure and income of the Council's services during the year, and demonstrating how costs have been financed from general Government grants and income from local taxpayers.

Contingent Liability - Where possible "one-off" future liabilities or losses are identified, but the level of uncertainty is such that the establishment of a provision is not appropriate.

Corporate and Democratic Core (CDC) - This includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities. Under the terms of SeRCOP, all support costs are allocated to services except for CDC and Non Distributed Costs.

Consumer Price Index (CPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

Creditors - Amount of money owed by the Council for goods and services received. Also referred to as, Payables.

Current Assets - Any asset expected to last or be in use for less than one year is considered a current asset. Examples are stock, cash and debtors.

Current Liability - An amount which will become payable or could be called in within the next accounting period. Examples are creditors and Short Term Borrowing.

Debtors - Amount of money owed to the Council by individuals, and organisations. Also referred to as, Receivables.

Dedicated Schools Grant – Grant monies provided by the Department of Education ring-fenced to schools budgets. This is a ring-fenced grant.

Deferred Capital Receipts - Income that is received in instalments over agreed periods of time. They arise from mortgages on sales of Council houses and repayments from loans.

Deferred Income – Receipt in Advance – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

Deferred Liabilities – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

Defined Benefit Scheme - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation - The measure of the wearing out, consumption or other reduction in the useful economic life of PPE, whether arising from use, passage of time or obsolescence through technological or other changes.

Direct Revenue Funding (DRF) – The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay (RCCO).

Earmarked Reserves - Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

Fair Value - It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fees and Charges – Income receivable as payment for goods or services provided. These charges are reviewed annually as part of the annual budget process.

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWL) debt.

General Fund (GF) - The Council's main revenue account from which the cost of providing most of the Council's services is met.

Greater London Authority (GLA) – A strategic Local Authority with a capital-wide role.

Gross Spending – the total cost of providing services before any income such as government grants, fees and charges are deducted.

Group Accounts – Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts. If the council controls an entity, it is a subsidiary (as in the case of Tower Hamlets Homes for the Council).

Heritage asset – An asset with historical, artistic, scientific, technological, geo-physical and/or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Historic Cost – The actual cost of an asset in terms of past consideration as opposed to current value.

Housing Revenue Account (HRA) - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment – A reduction in the valuation of PPE caused either by a change in the market price of the asset or damage/deterioration of the asset in excess of depreciation.

Infrastructure Assets – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

Intangible Assets – Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council i.e. purchased software licences.

Interest Rate Risk – The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

International Financial Reporting Standards (IFRS) – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

Inventories – The values of, stocks held and work in progress that have not been completed.

Investment Properties – Those properties that are held solely to earn rentals and/or for capital appreciation, rather than for the delivery of services.

Liability – A liability is where the Council owes payment to an individual or another organisation.

Levy – Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Long-Term Assets – Assets that yield benefit to the Council and the services it provides for a period of more than one year.

Long-Term Liability – An amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

Major Repairs Reserve – Represents the funds available to meet capital investment in council housing

Materiality - the level (usually expressed in financial terms but not usually expressly stated) below which accountants, auditors, or their clients or employers, consider risks or problems not to be significant.

Medium Term Financial Plan (MTFP) – The Council's strategic plan surrounding its finances for the next 3 years.

Minimum Revenue Provision (MRP) – The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

Movement in Reserves Statement – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves.

National Non-Domestic Rates (NNDR) Pool - Non-Domestic Rates are collected by the Council. From 1st April 2013 the Council keeps 30%, gives the GLA 20% and the other 50% is passed over to the DCLG.

Net Book Value – The amount at which PPE is included in the balance sheet after depreciation has been provided for.

Net Realisable Value – The open market value of the asset less the expenses to be incurred in realising the asset.

Non Current Assets Held for Sale – Items of PPE whose carrying amount is to be recovered principally through a sale rather than continued use by the Council.

Operating Lease – A lease other than a finance lease - a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Outturn – The actual level of expenditure and income for the year.

Precept – The charge made by the Greater London Authority (the precepting authority) on the Council to finance its net expenditure.

Private Finance Initiative (PFI) – Instead of providing and owning the assets needed for their services, public authorities arrange for private sector bodies (usually formed from consortia) to provide and own them. These other bodies' then make the assets available under operating leases to enable public authorities to deliver the services required.

Projected Unit Method – Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date.

Property, Plant, and Equipment (PPE) – The land and building assets under the council's control or ownership.

Assets under the control or owned by the Council that have a physical existence and are expected to be used for a period exceeding one year form PPE. Important components of PPE include land and land improvements, buildings, plant and machinery, vehicles and equipment where material.

Provisions – Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

Public Works Loans Board (PWLB) – Central Government agency which funds much of local government borrowing.

Registered Social Landlord – A not-for-profit organisation which owns and manages social housing.

Reserves – Amounts set aside, which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

Retail Price Index (RPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and council tax in the basket of goods not included in the CPI.

Revaluation Reserve – Represents the increase in value of the Council's land and building assets from 1st April 2007.

Revenue Expenditure – The day-to-day expenditure of the Council - salaries, goods and services and capital financing charges.

Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets, that has been charged as expenditure to the relevant service revenue account in the year

Revenue Support Grant – General grant paid by the Government to local authorities.

Right To Buy (RTB) - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

Ring-Fenced Grant – A grant that can only be spent on a specific purpose, such as the Dedicated Schools Grant.

Service Level Agreements - agreements between operational units, which state the price and specifications of the support service by one to another.

Service Reporting Code of Practice (SeRCOP) – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level.

Soft Loan – Loans given at less than market/commercial rates to community or not-for-profit organisations.

Supplementary Business Rates (SBR/BRS) – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

Support Services – Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

Surplus Assets – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

Unusable Reserves – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

Usable Reserves – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves.


Value for money (VFM) – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

Abbreviations used in Accounts

AGS - Annual Governance Statement
ALMO - Arm's Length Management Organisation (Tower Hamlets Homes)
BSF - Building Schools for the Future
CAA - Capital Adjustment Account
CDC - Corporate and Democratic Core
CFR - Capital Financing Requirement
CIES - Comprehensive Income and Expenditure Statement
CIL - Community Infrastructure Levy
CIPFA - Chartered Institute of Public Finance and Accountancy
CPI - Consumer Price Index
CRR - Capital Receipts Reserve
DCLG - Department of Communities and Local Government
DEFRA - Department for Environment, Food and Rural Affairs
DfE - Department for Education
DRF - Direct Revenue Funding
DSG - Dedicated Schools Grant
DWP - Department for Work and Pensions
EIR - Effective Interest Rate
GAAP - Generally Accepted Accounting Principles
GF - General Fund
GLA - Greater London Authority
HRA - Housing Revenue Account
IAS - International Accounting Standard
IFRS - International Financial Reporting Standards
LABGI - Local Authority Business Growth Incentive
LAML - London Authorities Mutual Limited
LASAAC - Local Authority (Scotland) Accounts Advisory Committee
LATS - Landfill Allowance Trading Scheme
LBTH - London Borough of Tower Hamlets
LGPS - Local Government Pension Scheme
LOBO - Lender's Option – Borrower's option
LPFA - London Pensions Fund Authority
MRA - Major Repairs Allowance
MRP - Minimum Revenue Provision
MTFP - Medium Term Financial Plan
NBV - Net Book Value
NCS - Net Cost of Services
NDC - Non Distributed Costs
(N)NDR - (National) Non-Domestic Rates
NPV - Net Present Value

NRV - Net Realisable Value
PBC - Prepared By Client
PCT - Primary Care Trust
PFI - Private Finance Initiative
PPA - Prior Period Adjustment
PPE - Property, Plant and Equipment
PWLB - Public Works Loans Board
RCCO - Revenue Contributions to Capital Outlay
REFCUS - Revenue Expenditure Funded by Capital Under Statute
RICS - Royal Institute of Chartered Surveyors
RPI - Retail Price Index
RR - Revaluation reserve
RSG - Revenue Support Grant
RTB - Right To Buy
SBR - Supplementary Business Rates
SDPS - Surplus or Deficit on the Provision of Services
SeRCOP - Service Reporting Code of Practice
SLAs - Service Level Agreements
SORP - Statement of Recommended Practice (now Code of Practice on Local Authority Accounting)
TH - Tower Hamlets
THH - Tower Hamlets Homes
VFM - Value For Money
WDA - Waste Disposal Authority
WGA - Whole of Government Accounts

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| <p><i>Non-Executive Report of the:</i> Audit Committee 28th June 2016</p> |  TOWER HAMLETS |
| <p>Report of: Zena Cooke - Corporate Director - Resources</p> | <p>Classification: Unrestricted</p> |
| <p>Anti Fraud and Corruption Strategy 2016/17</p> | |

| | |
|-------------------------------|------------|
| Originating Officer(s) | Tony Qayum |
| Wards affected | All wards |

Special Circumstances and Reasons for Urgency

- The report was unavailable for public inspection within the standard timescales set out in the Authority’s Constitution, because of continuing work to finalise and review the Anti Fraud and Corruption Strategy.
- To comply with best practice, the Corporate Director of Resources recommends that the Audit Committee note the Anti Fraud and Corruption Strategy.

1. SUMMARY

- 1.1 This report provides the Audit Committee with the Council’s Anti-Fraud and Corruption Strategy for 2016-17.
- 1.2 Local Authorities in the United Kingdom are required to maintain high standards of probity and have sound arrangements for protecting the public purse. Sound systems of public accountability are also vital for effective management and in maintaining public confidence. Thus minimisation of losses from fraud and corruption is essential for ensuring that resources are used for their intended purpose.
- 1.3 The need for effective anti fraud work within local authorities has been reflected consistently over many years by regulatory bodies including the former Audit Commission, by CIPFA and by the National Fraud Authority in their ‘Fighting Fraud Locally’ publications. We have a dedicated Corporate Anti-Fraud Team that seeks to reduce the risk of Fraud and Corruption to the Council by undertaking pro -active and re-active work across all areas of the Councils activities.

1.4 Central to our approach is the theme of:

Acknowledge

Prevent

Pursue

1.5 These themes exist within the overall context of an Anti-Fraud Culture and support the roles of Mayor, Statutory Officers, Elected Members and the public by ensuring where abuse is found it is tackled and resolved with improvements to processes made to minimise future exposure and wherever possible recovery of assets and funds are made.

1.6 To achieve this it is imperative that the Council's Fraud investigation function has adequate processes, skills and resources to support anti fraud and corruption activities.

2. RECOMMENDATIONS

2.1 The Audit Committee is asked to note the contents of the report.

3. REASONS FOR DECISIONS

3.1 The Audit Committee can gain assurance around the work of the Council's anti fraud activity and in particular, and this report sets out the Council's strategy for dealing with fraud and corruption and the broader Whistleblowing policy.

4. ALTERNATIVE OPTIONS

4.1 The Committee may wish to suggest additions to the current policy and the associated arrangements, including Whistleblowing.

5. ANTI FRAUD AND CORRUPTION STRATEGY

5.1 As part of our ongoing efforts to ensure the strategy and systems in place within the Council remain relevant and meet best practice the Anti Fraud and Corruption Strategy has been reviewed and attached at Appendix 1 is the revised strategy that picks up key changes resultant from new legislation specifically the transfer of Housing Benefit Fraud Investigation to the DWP – Single Fraud Investigation Service and best practice as identified by CIPFA. The Council's Monitoring Officer has reviewed the Council's arrangements for raising concerns via 'Blowing The Whistle' for all types of concerns whether they be around Fraud or other matters for which the Council has a duty to respond, Appendix 2.

- 5.2 The resultant processes have been introduced across the Council and are accessible both via the Intranet and the Internet.
- 5.3 Contained within Appendix 1 is the resultant Strategy with the appropriate assurances and timescales around dealing with allegations of Fraud and Corruption.
- 5.4 In addition there is guidance to both Managers and Investigators in respect of Whistleblowing. These are shown as Appendix 3 and 4.
- 5.5 In principal the strategy harnesses that previous in place, enhanced to broaden the scope to pick up a range of referrals.
- 5.6 Attached at Appendix 5 and 6 are the 'Blowing the Whistle' template and form that requires completion should someone wish to raise a concern as well as the Whistleblowing Process chart .
- 5.7 The Anti-Fraud strategy is based upon the following key areas of coverage as outlined by the following key tests that were set by the CIPFA guidance and recent legislation including the Prevention of Social Housing Fraud Act designed to criminalise the Subletting of Social Housing property which became law in October 2013.
- 5.8 The recent publication Fighting Fraud and Corruption Locally (produced in March 2016) sets out a 3 year strategy (2016-19) to assist council leaders, chief executives, finance directors and all those with governance responsibilities undertake their responsibilities.
- 5.9 The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.
- 5.10 There will be an Independent board working with Local Authorities and the CIPFA Counter Fraud Centre to review progress against these new standards.
- 5.11 The vision of the strategy is that by 2019:
- There is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them
 - By better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services
 - Local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery
 - Local authorities will be sharing information more effectively and by using advances data technology will prevent and detect losses
 - Fraudsters will be brought to account quickly and efficiently and losses will be recovered.

- 5.12 It is intended to develop the Anti-Fraud and Corruption Strategy and proactive plan in conjunction with these principles. *The key tests that we have applied in our Anti-Fraud and Corruption Strategy are:-*

Adopting the right strategy

Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the Effective policies and procedures in relation to identifying, reporting and investigating suspected fraudulent/corrupt activity are in place.

Measuring Fraud and Corruption Losses

Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements

Creating and Maintaining a strong structure

Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation's counter fraud and corruption strategy.

Taking action to tackle the problem

Is the organisation undertaking the full range of necessary action.

Defining Success

Relevant officers and Committees are made aware of investigations which may affect their Services.

- 5.13 Further the National Fraud Authority has suggested that the cornerstone of good practice should embrace three themes on which each local authority should reflect. These are:

Acknowledge – Acknowledging and understanding the fraud risks

Prevent- Preventing and detecting more fraud

Pursue- Being stronger in punishing fraud and recovering losses

- 5.14 The Anti-Fraud and Corruption Strategy summarises the Council's position, building on the content of a number of corporate policy statements, including;

- The Council's Constitution
- Officer and Member Codes of Conduct
- Whistle-blowing Policy

- Anti-Money Laundering Policy
- Anti-Bribery Policy
- Financial Regulations
- Procurement procedures and competition regulations

5.15 It is considered that by updating the Anti -Fraud and Corruption Strategy in this way it will remain in compliance with best practice.

5.15 It should therefore be noted that the Corporate Anti-Fraud Team will have an ongoing duty to review and report upon the following areas of the Council's activities. These are the investigation of Social Housing Sub Lettings and property abandonment, Blue Badge and Parking Fraud and Corporate Investigations that will examine Council systems and procedures where allegations of fraud or corruption are made, or where Pro-active enquiries are undertaken across the breath of the Councils functions.

5.17 Attached as Appendix 7 is the Enforcement Policy by which all allegations of Fraud that can be proven will be evaluated.

6 Comments of the Chief Financial Officer

- 6.1 This report provides the Audit Committee with an updated Anti-Fraud and Corruption Strategy and outlines a summary of the proposed Proactive Anti - Fraud activity.
- 6.2 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972, to maintain an adequate and effective internal audit service and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

7 Legal Comments

- 7.1 The legislative framework in respect of the Council's anti-fraud policy is detailed in the body of the Anti-Fraud and Corruption Strategy and appendices.
- 7.2 Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems. This requirement is further reinforced by the Local Audit and Accountability Act 2014 which established new arrangements for the auditing of local public bodies.

- 7.3 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.
- 7.4 Recommendation 1 of the Overview and Scrutiny Committee's Transparency provided: "The Mayor considers additions to his Transparency Protocol to include actions to create an organisational culture, led by senior management, which values and presumes openness. This should include explicit support for whistleblowing where it is appropriate."
- 7.5 In response to this, a new stand-alone Whistleblowing Policy was prepared including a new Blow the Whistle process and a "Blow the Whistle Form" to register concerns with the Monitoring Officer (MO). The process and investigations are to be overseen by the MO.
- 7.6 The documents in appendices 2 through to 6 are the Whistleblowing Policy and the suite of documents accompanying that policy. These will be kept under review by Legal Services and the MO.
- 7.7 The Enforcement Policy at Appendix 7 is also a document that is kept under review by Legal Services to ensure that it remains fit for purpose.
- 7.8 The Council is required when exercising its functions to comply with the duty set out in section 149 of the Equality Act 2010, namely to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity between those who share a protected characteristic and those who do not, and foster good relations between those who share a protected characteristic and those who do not.

8 One Tower Hamlets

- 8.1 There are no specific one Tower Hamlets considerations.
- 8.2 There are no specific Anti-Poverty issues arising from this report.

9 Best Value Implications

- 9.1 This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

10 Risk Management Implications

10.1 This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

11 Sustainable Action for a Greener Environment (SAGE)

11.1 There are no specific SAGE implications.

12 Crime and Disorder Reduction Implications

12.1 By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

ANTI FRAUD AND CORRUPTION STRATEGY

This document should be read in conjunction with the Council's Anti-money laundering, Anti-Bribery and Enforcement Policy

INTRODUCTION

The London Borough of Tower Hamlets has a revenue and capital budget of in excess of £1.4 billion and employs around 10,000 staff, inclusive of those employed within our schools. It works with an extensive number of partners including the third sector and private sector partners. The scale, complexity and profile of the Council put it at potential risk from fraud and corruption, both from internal and external sources.

We are committed to making sure that the opportunity for fraud and corruption is reduced to the lowest possible risk. Where there is the possibility of fraud, corruption and other problems, we will deal with it in a firm and controlled manner.

It is essential that the Council is able to prevent and detect fraud, thus ensuring that services are provided honestly and efficiently and Public funds are administered properly to achieve its best Value duty. The Anti-Fraud and Corruption Strategy outlines the principles that the Council is committed to in preventing and reporting fraud and corruption. It should be noted that the scope of this document is concerned only with matters associated with potential cases of fraud and corruption and does not consider other matters of malpractice which are properly covered by other policies within the Council's procedures.

Definitions of Fraud and Corruption*

Fraud The intentional distortion of financial statements or other records by persons internal or external

to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain."

Corruption "The offering, giving, soliciting or acceptance of an inducement or reward which may influence the actions of any person."

Source- Chartered Institute of Public Finance and Accountancy

BACKGROUND

The Committee on Standards in Public Life, Chaired by Lord Nolan strengthened the need to have clear procedures for staff to raise concerns if they feel that malpractice has occurred.

The Council expects all of its staff, partners and Members to comply with the seven principals of public life in all of its activities. These are

Selflessness

Holders of public office take decisions in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in their performance of the official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contract, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

The Council is committed to delivering an Anti-Fraud culture within the authority and among people and organisations that deal with it. It will attempt to raise the awareness of fraud, both within the authority, and in the community. It will encourage the reporting of suspected fraud and will take appropriate action when fraud, corruption or irregularity comes to light.

The strategy set out in this document covers the following areas:

- Legislative framework
- The anti-fraud environment
- Preventing fraud and corruption
- Detecting, investigating and recovery
- Training and awareness

This document should be read in conjunction with the Council's Anti-Money Laundering Policy and response to the Bribery Act 2010.

THE LEGISLATIVE FRAMEWORK

Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems. This requirement is further reinforced by the Accounts and Audit (England) Regulations 2011 and the Local Audit and Accountability Act 2014 which established new arrangements for the auditing of local public bodies.

There is a requirement under the 2011 Regulations for the annual accounts to include an annual governance statement to be certified by the Chief Executive and the Mayor and endorsed by the Audit Committee.

From time to time there will be a need to examine allegations and incidents that may have regard to fraud, corruption or financial malpractice.

In these circumstances the Council will ensure that any inquiry is legal, meets professional standards and that whistleblowers raising a genuine concern are afforded protection in accordance with the law.

Relevant Legislation

The following is an outline of some of the primary legislation that covers investigation of fraud and corruption:-

- The Fraud Act 2006
- The Theft Acts 1968 and 1978 (as amended)
- The Public Interest Disclosure Act 1998
- The Bribery Act 2010
- Data Protection Act 1998
- Human Rights Act 1998

- Regulation of Investigatory Powers Act 2000
- Proceeds of Crime Act 2002
- Money Laundering Regulations 2007
- The Identity Documents Act 2010
- The Prevention of Social Housing Fraud Act 2013
- Local Audit and Accountability Act 2014

Further information on a number of these can be found at Appendix 2.

THE ANTI- FRAUD ENVIRONMENT

We expect all people and organisations that are in any way associated with the Council to be honest and fair in their dealings with us, our clients and customers. We expect our members and employees to lead by example in these matters.

To support this we have a number of procedures and rules to make sure that our financial, working and organisational procedures are properly controlled. These are an important part of our internal control process, and it is important that all members and staff know about them.

The most important of these are as follows:

- Standing Orders
- Financial Regulations
- Code of Conduct for Employees
- Code of Conduct for Members
- Scheme of Delegation
- Risk Management Strategy and Local Code of Corporate Governance
- Anti Money Laundering Policy
- Anti-Bribery Policy

Where regulations are breached the Council reserves the right to take formal action which may include ending their employment with the Council and civil and /or criminal proceedings being commenced.

In the case of elected members the Council's Monitoring Officer will be responsible for reporting matters to the appropriate authority.

We believe our members and employees have an important part to play in dealing with fraud and corruption and we will encourage our staff and members to report suspected fraud or corruption.

Where money laundering is suspected, staff and members must follow the Suspicious Activity Reporting procedures set out in the Council's anti-money laundering policy.

We will deal with all information fairly and confidentially. We will endeavor not to reveal the names of the people who gave us the information. Our Fraud Response Plan (Appendix 3) gives more advice on this issue.

We expect our Directors and Heads of Service to deal firmly and quickly with anyone who is responsible for fraud or corruption. The Chief Executive Director of Resources in consultation with the Corporate Anti-Fraud Manager may refer matters to the police if there is suspicion of any criminal activity having taken place.

The conduct of an investigation is a serious, expensive and disruptive business. Therefore where it is found that allegations are unfounded, vexatious or malicious, this will be taken very seriously and dealt with under the Council's disciplinary code.

PREVENTING FRAUD AND CORRUPTION

The diversity and scope of the Council's business functions and services exposes the authority to the risk of fraud. We are committed to fighting fraud and corruption, whether attempted from inside or outside the authority. We will take appropriate action against the perpetrators. The Council's strategy for fighting fraud and corruption is based on four cornerstone principles as follows:

Anti -Fraud Culture

The Council believes that the on-going development of a culture of honesty and openness is a key element in tackling fraud. The Council expects all elected members and employees to carry out their duties in accordance with appropriate legal requirements, internal codes of conduct including Human Resource Strategy guidance, procedures and regulations and to act at all times with honesty and probity in the discharge of their duties. The Council expects that all outside individuals and organisations, including partners, suppliers, contractors and claimants will act towards the authority with honesty and integrity.

Where IT systems are being utilised all parties are required to comply with the requirements of the Data Protection Act 1998, Acceptable Use Policy and the Computer Misuse Act 1990.

Internal Controls

The Council has in place a framework of controls and procedures to deter fraud from taking place and detect it when it does. It is the responsibility of all members and employees to work within this framework. These controls include codes of practice, schemes of delegation, standing orders and financial regulations and a risk management strategy.

Effective Action

Corporate Directors and Service Heads will report all suspicions of fraud or corruption to the Corporate Anti-Fraud Manager via the Head of Paid Service and the Director of Resources (in his role of Section 151 officer or Chief Finance Officer). If elected members are suspected then the Head of Paid Service and Monitoring Officer will co-ordinate the investigation. Following investigation, the appropriate action will be taken which may include disciplinary action, civil recovery and referral to the police.

As set out in paragraph 4.6 above, where money laundering is suspected, the procedures set out in the Council's Anti-Money Laundering Policy will apply. This may entail making a report in appropriate cases to **the Council's Anti-Money Laundering Reporting Officer and Corporate Anti-Fraud Manager (Tony Qayum)**.

Publicity

Where evidence of irregularity has been found and prosecuted all cases will be publicised through press articles etc. to maximise awareness and to act as a deterrent to others.

DETECTING, INVESTIGATING AND RECOVERY

This section should be read with our Fraud Response Plan (see Appendix 2) and also our Enforcement Policy (Appendix 4).

The Council has robust processes designed to reduce the risk of fraud and corruption these include regular management review of systems and procedures to ensure compliance with financial control, a risk based internal audit review cycle, risk management review process and governance guides including hospitality procedures and declarations of interests.

Where appropriate and in accordance with the fraud response plan the Corporate Anti-Fraud Team will undertake formal investigations into fraud and corruption. The process utilised in undertaking an investigation is covered by established professional practice as prescribe by CIPFA and in compliance with the Council's Fraud Response Plan and legislative guidance.

All cases referred either by the Whistle blowing telephone line or via an internal referral are risk assessed by the Corporate Anti-Fraud Intelligence Team. Dependent upon the results of these checks the matter will be approved by the Corporate Anti-Fraud Manager following agreement by the Head of Risk Management. Each case is then recorded for tracking on a bespoke data management system maintained by Risk Management.

It is important that transparency is maintained in all decision making and consequently there is a process verification and review of the basic elements of the enquiry throughout the investigation process.

(Whistleblowing process – see Appendix 3)

It is important to note that the investigator receiving the complaint will not be the sole investigator of the enquiry, therefore ensuring the utmost independence is maintained during the currency of an investigation.

Data Matching

As a proactive commitment to the prevention and detection of fraud the Authority has actively participated in the National Fraud Initiative, which is a data matching exercise carried out by the Cabinet Office under powers received by the former Audit Commission. This data match looks at a wide variety of data sources and compares them to each other to identify potential fraud and irregularity. The potential fraud and irregularity areas include:-

- Benefits
- Payroll and Pensions
- Creditors
- Street Traders
- Insurance
- Private and Voluntary Adult Homes
- Child Minders
- Blue badge misuse

In addition data matching is also carried out with the HMRC under their own statutory powers.

Data matching is conducted within the requirements of the current Data Protection legislation and staff side consultation.

Council Tax Benefit Fraud

This Service is managed by the Corporate Anti-Fraud Team within the Resources Directorate.

Other possible fraudulent activity includes the following (see Appendix 5 for more details):-

- Tenancy fraud
- Grants
- Insurance claims
- Parking permits including Blue Badge Scheme
- Identity theft fraud
- Protect yourself
- Advance fee fraud

Training and Awareness

All staff in the authority will be trained in fraud awareness and anti-fraud and corruption procedures, and this training will be reinforced regularly. It is the responsibility of chief officers to ensure that staff are properly trained. The Director of Resources will provide advice and assistance in the provision of training in fraud awareness to staff.

Future training will include;-

- Organised workshops will continue to be delivered during for 2016/17
- Induction training to new Investigating Officers under the Council's Disciplinary Code.
- Departmental management team training
- Regular on-line alerts and training
- Multimedia anti-fraud/anti-money laundering training

Conclusion

Tower Hamlets Council is committed to tackling fraud, corruption and money laundering whenever it happens. Our ongoing response relies heavily on the principles included in this document and our Anti-Money Laundering policy.

We will continue to review our processes and procedures to ensure these strategy documents remains effective and up to date following endorsement of the current approach by the Audit Committee

APPENDIX 1

The Fraud Act 2006

The Fraud Act 2006 came into effect on 15th January 2007 and replaces all the deception offences in the Theft Acts of 1968 and 1978 with a single offence of Fraud, as outlined in Section 1 of the 2006 Act. The Act targets fraudulent behaviour, not the consequences of that behaviour. The Act also requires an assessment of what the person intended to happen as a result of their dishonest behaviour.

The offence can be committed in three different ways thus-

- False representation (Section 2)
- Failure to disclose information when there is a legal duty to do so
(Section 3)
- Abuse of position (Section 4)

The Act also creates new offences of possession (Section 6) and making or supplying articles for use in frauds (Section 7). The offence of fraudulent trading (Section 993 of the Companies Act 2006) will apply to sole traders (Section 9). Obtaining services by deception is replaced by a new offence of obtaining services dishonestly (Section 11).

Further information on this legislation can be found at <http://www.opsi.gov.uk/acts.htm>

The Bribery Act 2010

The Bribery Act 2010 creates offences of offering or giving a bribe; and requesting, receiving or agreeing to accept a bribe; and bribing foreign officials. A relevant function or activity includes any function of a public nature; any activity connected with a business or performed in the course of a person's employment; or any activity performed by or on behalf of a body of persons whether corporate or unincorporated.

The Act also creates a new offence which can be committed by commercial organisations which fail to prevent persons associated with them (including third party providers) from bribing another person on their behalf. The commercial organisation will have a defence if it can show that it had adequate procedures in place to prevent persons associated with it from committing bribery. To ensure that adequate procedures are in place six principles should be adhered to: proportionate procedures; top level commitment; risk assessment; due diligence; communication; monitoring and review.

The Identity Documents Act 2010

The Identity Documents Act 2010 defines what constitutes an identity document and includes

- an ID card
- a designated document
- an immigration document
- a UK passport
- a passport issued by or on behalf of the authorities of a country or territory outside the UK or by or on behalf of an international organisation
- a document that can be used instead of a passport- for example a visa
- a UK diving licence or a driving licence issued by or on behalf of the authorities of a country or territory outside the United Kingdom

Under this legislation it is an offence to hold a false identity document. A person found guilty of this offence could be sentenced to up to two years' imprisonment and a person convicted of having apparatus or material to create false identify documents may face up to ten years imprisonment or a fine, or both.

The Proceeds of Crime Act 2002

The Proceeds of Crime Act 2002 and Money Laundering Regulations 2007 place some important obligations upon professional advisers from a wide range of sectors, including tax advisers, accountants, auditors, insolvency practitioners and legal advisers. Such professionals who carry on relevant business are required to fulfil a range of obligations to prevent money laundering. In particular they are required to report their knowledge or suspicion of money laundering to the Serious Organised Crime Agency (SOCA). This covers the proceeds of all crime including all acts of tax evasion and fraud.

At Tower Hamlets we have followed the guidance of CIPFA and the Corporate Anti-Fraud Manager, Tony Qayum fulfils the role of Money Laundering reporting officer. There is a process and procedure for reporting concerns to the Police via prescribed documentation. The area's most likely to be exposed to Money Laundering are physical cash, asset transactions, revenue overpayments and planning gain receipts.

If you have a concern regarding this you have a duty to report your concern to the Corporate Fraud Manager who will investigate the matter.

Regulation of Investigatory Powers Act 2000

Section 6(1) of the Human Rights Act 1998 provides that it is unlawful for a public authority to act in a way that is incompatible with a Convention right. Article 8 of the European Convention of Human Rights provides that "*Everyone has the right to respect for his private and family life, his home and his correspondence.*"

There can be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.

The Regulation of Investigatory Powers Act 2000 ('RIPA') was therefore introduced, to ensure that surveillance and certain other intelligence gathering complies with the European Convention of Human Rights. Specifically, Part II of RIPA provides a statutory framework that is compliant with the European Convention of Human Rights when using intrusive surveillance techniques and by introducing national standards that apply to the Police and other Law Enforcement Agencies. The London Borough of Tower Hamlets is committed to maintaining these principles.

To demonstrate the Council's commitment to open and transparent government, it has adopted the Home Office guidelines and documentation for Directed Surveillance and Covert Human Intelligence Sources- Informants/whistleblowers. The Office of Surveillance Commissioners ('OSC') are tasked with carrying out regular inspections of Law Enforcement Agencies to ensure compliance with RIPA in so far as directed surveillance and the use or conduct of a covert human intelligence source is concerned. As part of that implementation, the OSC advise that Law Enforcement Agencies, including this Council, develop a Corporate Policy. To comply with this requirement, this Policy was introduced from July 27th 2004 and has been updated regularly since then in accordance with good practice.

The Public Interest Disclosure Act 1998

The Public Interest Disclosure Act 1998, which came into force in 1999, provides whistleblowers with statutory protection against dismissal and victimisation. The Act applies to people at work raising genuine concerns about crime, civil offences, miscarriage of justice, and danger to health and safety or the environment. It applies whether or not the information is confidential and extends to malpractice overseas.

The Act distinguishes between **internal disclosures** (a disclosure in good faith to a manager or the employer is protected if the whistleblower has reasonable suspicion that the malpractice has occurred or is likely to occur), **regulatory disclosures** and **wider disclosures**. Regulatory disclosures can be made in good faith to prescribed bodies

such as the Health and Safety Executive, the Inland Revenue and the Financial Services Authority.

Wider disclosures (e.g. to the police, the media, and MPs) are protected if, in addition to the tests for internal disclosures, they are reasonable in all the circumstances and they meet one of three conditions. Provided they are not made for personal gain these conditions are, that the whistleblower:

- reasonably believed he would be victimised if he raised the matter internally or with a prescribed regulator;
- reasonably believed a cover-up was likely and there was no prescribed regulator; or
- had already raised the matter internally or with a prescribed regulator.

For protection from victimisation to be afforded under the Public Interest Disclosure Act, it is necessary in the first instance to consider the nature of the information revealed, and decide whether the disclosure is a 'qualifying disclosure' within Section 43(B) of the Employment Rights Act 1996.

The question is whether the worker concerned honestly believes that the information revealed tends to show that there has been, or is, or is likely to be a relevant failure - past, present or future.

The relevant failure may be:-

- a criminal offence;
- a failure to comply with any legal obligation;
- a miscarriage of justice;
- a danger to the health and safety of any person;

[Extract from Internet Report prepared by 'Public Concern at Work']

APPENDIX 2

Fraud Response Plan

As part of the Borough's Anti-Fraud and Corruption Strategy, it is best practice to have a Fraud Response Plan in place. The plan offers staff direction and help in dealing with matters of suspected Fraud and Corruption indicating responsibilities, and sources for guidance.

RISK MANAGEMENT

The Risk Management Service is usually the most appropriate unit to investigate suspected fraud. It is essential, therefore, that every case of suspected fraud is reported to the Corporate Anti-Fraud Manager.

The Director of Resources will advise and decide on how an inquiry will be progressed and, in conjunction with the Head of Paid Services, whether external agents such as the Police need to be informed.

Experienced Investigation staff will be assigned to manage fraud and/or corruption investigations. Such investigations by Risk Management will give due regard to Audit Commission Guidelines, Codes of Practice and relevant legislation.

At the conclusion of the investigation, management of the service concerned will be informed as to the outcome together with recommendations as to proposed action. The Planned Audit Team will ensure that all recommendations agreed are fully implemented following an actual follow-up audit within six months of the conclusion of the investigation. This will therefore inform the risk based audit approach and the local/corporate risk registers.

REPORTING SUSPECTED FRAUD AND CORRUPTION

Staff are at the forefront in helping the authority to detect fraud. It is often members of staff who are the first to notice suspected cases of fraud and corruption.

The authority encourages staff to report issues concerning fraud or corruption. Financial Regulations and the Officers Code of Conduct require staff to raise their concerns where irregularity is suspected.

When the employee first uncovers a case of suspected fraud or corruption the action they initially take can often be vital to the success of any investigation that ensues. It is essential that their actions be in line with the guidance given in this document.

Guidance on 'What to do' when you suspect fraud and/or corruption are given in the Sections headed 'Action by Employees' and that on 'Action by Managers'

NB. Your suspected fraud and/or corruption matter should be reported to one of the following :-

- Your Line Manager - (where appropriate)
- Your Head of Service- (where appropriate)
- Your Corporate Director- (where appropriate)
- The Corporate Anti-Fraud Manager - Tony Qayum Ext. 4773
- Corporate Fraud Team – Corporate Fraud Team Leader – Sue Oakley Ext. 7423
- Head Risk Management and Audit - Minesh Jani Ext 0738
- Monitoring Officer – Melanie Clay Ext 4800
- Director of Resources – Zena Cooke Ext 4700
- Via the Confidential Staff Whistleblowing Hotline on Free phone 0800 528 0294 (See Whistleblowing process – Appendix 3)
- Public Concern at Work- 020 7404 6576

ACTION BY EMPLOYEES

Where fraud or corruption is suspected:

- Write down your concerns immediately
 - Make a note of all relevant details e.g. telephone conversations, dates times, names, actions
 - Any notes or evidence in their possession, which supports what is being reported, must be kept intact and placed in a secure location
 - Report the matter immediately to either your line manager or your Service Head. If this is not possible/or appropriate due to your concerns potentially about your own service or line manager, it can be reported to the Risk Management Service (Tony Qayum on Ext. 4773 email tony.qayum@towerhamlets.gov.uk or Sue Oakley Ext. on 7423 and email sue.oakley@towerhamlets.gov.uk). Alternatively, the Council's confidential Staff Whistleblowing telephone line can be used for this (0800 528 0294). Give that officer any notes you have made or any evidence that you have gathered.
 - Do not tell anybody else about your suspicions
 - Be prepared to assist Internal Audit or any authorised body in any investigation
 - Do not attempt to carry out an investigation yourself as this may jeopardise any future enquiry and compromise your evidence
-
- Where money laundering is suspected, follow the guidance set out in the Council's

Anti-money laundering policy

Please note that under no circumstances should a staff member speak to or write to representatives of the press, TV, radio or to another third party about a suspected fraud without the express authority of the Head of Paid Services.

Suspicious of money laundering must not be discussed with any person save for the Council's Money Laundering Reporting Officer as set out in the Council's Anti-Money Laundering policy.

It is paramount that officers do not act in a manner that may give rise to an action for slander or libel, or which may amount to an offence of "tipping-off" under the Proceeds of Crime Act 2002.

ACTION BY MANAGERS

Where fraud or corruption is suspected:

- Listen to the concerns raised by staff and treat every reported case seriously, sensitively and confidentially. Never give members of staff the impression that their well-meaning concerns are being treated with anything other than the utmost seriousness
- All staff concerns should be given a fair hearing, along with reassurance that their report of such issues will not affect them adversely
- Attempt to gain as much information as possible from the member of staff reporting the concern. This should include any notes or evidence in their possession, which supports what is being reported. Such evidence must be kept intact and placed in a secure location
- Assess whether the suspicions may have some foundation before taking

the matter further

- All suspected concerns involving suspected fraud and corruption must be reported in compliance with Financial Regulations to the Director of Resources or to the Corporate Fraud Manager and give that officer any notes or evidence that has been gathered
 - Be prepared to assist Internal Audit or any authorised body in any investigation
 - Do not attempt to carry out any investigation.
-
- Where money laundering is suspected, follow the guidance in the Council's anti-money laundering policy.

APPENDIX 3

Whistleblowing Process

The Public Interest Disclosure Act 1998 (see appendix A for further information) has enhanced the need for an Anti Fraud culture to be present in all Public Service environments. This entails meaningful and accessible means for Staff, Members and Partners to raise concerns in confidence.

The cornerstone of an Anti-Fraud and Corruption Strategy is a Whistleblowing facility which would **enable staff, contractors, third sector and voluntary providers and Members** to raise concerns of a serious nature in confidence and with assurance that if the matters reported are well-founded they will be investigated without fear of comeback to the whistle blower. Further information about the Council's whistle blow arrangements can be found at http://towernet/staff_services/business_planning/whistleblowing.

The Council launched a confidential Whistleblowing telephone line in September 2000 and has regularly publicised this via articles in internal news publications, the Council's Intranet and within the Authority's Corporate Governance arrangements, including the Authority's Financial Regulations

"Do you have a genuine concern about Unlawful or improper conduct by Council officers or Councillors"?

- If you do, we need to know about it
- You are not a snitch, if you raise a genuine concern you will be helping the Council
- You will not be asked to prove your concern is true, only that it is honestly raised

- You must have a concern about unlawful conduct for example possible abuse of authority or dishonest activity
- Your concern should not be a grievance or complaint about services. These have different routes for redress
- You should not raise malicious or false concerns
- If you raise a genuine, but, unfounded concern, you will not be involved in any follow up action
- You can remain anonymous and be treated with strict confidence if you request

A Supplement not a Substitute – The Usual Channels for Complaint

It is important to note that the Whistleblowing strategy is not intended to replace any of the complaint/concern mechanisms already in place at Tower Hamlets.

Anyone, including elected members, staff, service users, partners and members of the Public are encouraged to raise genuine complaints or matters of concern with the Council through existing procedures.

Where an appropriate avenue exists people should use it. The Whistleblowing procedure is designed to supplement, rather than replace the existing procedures wherever practicable. These channels are:

The Council's Complaints Procedure

The Grievance Procedure

Line Management

The Housing Benefit Fraud Hotline (0207 364 7443)

The Council General Inquiry number (020 7364 5000)

The External Auditor

Public Concern at Work 020 7404 6576

SAFEGUARDS

The Council recognises that a decision to “blow the Whistle” can be a difficult one to make. This may be influenced by the fear of reprisal from those who may have perpetrated the alleged malpractice or from the organisation as a whole.

The Council will not tolerate any victimisation and will take appropriate action to protect any person who raises a concern in good faith, including any necessary disciplinary action.

Wherever possible, the Council will protect the anonymity of any member of staff who raises a concern and who does not want his/her name to be disclosed.

However, this may not always be possible, as any investigation process may in itself reveal the source of information and a statement by the Whistleblower may be a necessary part of evidence, particularly if it is thought the matter may lead to a criminal prosecution.

The Council will protect individuals and the organisation from false, malicious and vexatious expressions of concern. If staff make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against them. If, however, individuals make malicious or vexatious allegations, disciplinary action may be considered and implemented. To protect staff who maybe the subject of a false, malicious and vexatious expression of concern or a mistaken belief, the Council will investigate the complaint in a timely manner and in accordance with the following timescale:

- A professional investigator will review and classify the matter within 15 days;
- If, following an investigation it is determined that there is a case to answer a decision will be made for an independent confidential investigation to be carried out, under the Council's Disciplinary Code. This will be communicated to the person who is the subject of the complaint in accordance with the Council's existing Disciplinary Investigation procedures as will all timescales outlined in the appropriate HR strategy.

The Council will do its best to protect an individual's identity when s/he raises a concern and does not want their name to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence. The Council will try to ensure that the negative impact of either a false or unfounded allegation on any "accused" person is minimised. This entails acting with the strictest independence and professional confidentiality.

In determining if action to investigate will take place, the Council will consider the following:-

- whether it is the Council's business
- the credibility of the concern
- the seriousness of the issues raised
- the likelihood of obtaining the necessary information
- the experience of previous related reports

Anonymous concerns will be investigated at the discretion of the Council

The following chart shows how to get your concerns investigated, and takes you through the agreed procedures on how each concern is dealt with to ensure transparency and that it is being treated seriously.

| | |
|---|---|
| <ul style="list-style-type: none"> • I think a fraud or unlawful act may have been committed • What should I do? • Who should I contact? | <ul style="list-style-type: none"> • Is it serious and well founded? • If Yes • You can raise your concerns in confidence on the Whistleblowing Hot Line (or write to Melanie Clay – Monitoring Officer – 6th Floor Mulberry Place) |
| <ul style="list-style-type: none"> • What will happen if I ring the Hotline | <ul style="list-style-type: none"> • You will be asked for details of your concern |
| <ul style="list-style-type: none"> • Will I have to give my name? | <ul style="list-style-type: none"> • NO |
| <ul style="list-style-type: none"> • So what will happen next? | <ul style="list-style-type: none"> • Your concern will be given a reference number. You can call in 10 days to check progress |
| <ul style="list-style-type: none"> • Who does anything about it? | <ul style="list-style-type: none"> • A Registration Officer will take details of your call, and a professional investigator will review and classify it. • A register of <u>all calls</u> will be kept, and the Registration Officer will report this to the Acting Director of resources <p>A final decision will be made and if appropriate</p> |

| | |
|--|--|
| | an independent confidential investigation will be carried out |
| <ul style="list-style-type: none"> • Won't it just be covered up? | <ul style="list-style-type: none"> • NO - there is independence between the Registration Officer and the Investigation Officer. The Investigation Officer is answerable to the Chief Executive, and the Chief Executive must ensure that justified action is reported back to the Registration Officer. |
| <p><i>PLEASE CALL 0800 528 0294 if you have any concerns or would like further details of the process. Strict Confidentiality and Anonymity will be preserved if requested.</i></p> | |

APPENDIX 4

LONDON BOROUGH OF TOWER HAMLETS **ENFORCEMENT POLICY**

1) Background

This policy is designed to provide a suitable framework to ensure a fair and consistent approach is applied for cases under consideration.

2) Legislative framework

The Council currently has the power to prosecute offences under legislation including the Fraud Act 2006 and Prevention of Social Housing Fraud Act 2011.

3) Suitability for Prosecution and Sanction Action

Cases are scrutinised by the Corporate Anti-Fraud Manager for the suitability for prosecution or sanction action taking into account a number of factors.

Primarily evidence and the public interest test are applied before further additional details of the case are taken into account. Details of the considered criteria are given below:

A) *Sufficiency of evidence*

- Is there enough evidence to provide a realistic prospect of conviction?
- Has the evidence been collected in an appropriate manner?

- Can the evidence be used in court?
- Is the evidence reliable?

-

B) *Public interest test*

Generally it must be seen to be in the public interest to prosecute. Poor publicity surrounding an attempted prosecution can lead to criticism of the Authority. To consider whether it is in the public interest to prosecute then seven (7) questions need to be considered:

- (a) How serious is the offence committed? The more serious the offence, the more likely it is that a prosecution is required. When deciding the level of seriousness of the offence committed, prosecutors should include amongst the factors for consideration the suspect's culpability and the harm to the victim by asking themselves the questions at b) and c).
- (b) What is the level of culpability of the suspect? The greater the suspect's level of culpability, the more likely it is that a prosecution is required. Culpability is likely to be determined by the suspect's level of involvement; the extent to which the offending was premeditated and/or planned; whether they have previous criminal convictions and/or out-of-court disposals and any offending whilst on bail or whilst subject to a court order; whether the offending was or is likely to be continued, repeated or escalated; and the suspect's age or maturity (see paragraph d) below for suspects under 18).

Prosecutors should also have regard when considering culpability as to whether the suspect is, or was at the time of the offence, suffering from any significant mental or physical ill health as in some circumstances this may mean that it is less likely that a prosecution is required. However, prosecutors will also need to consider how serious the offence was, whether it is likely to be repeated and the need to safeguard the public or those providing care to such persons.

- (c) What are the circumstances of and the harm caused to the victim? The circumstances of the victim are highly relevant. The greater the vulnerability of the victim, the more likely it is that a prosecution is required. This includes where a position of trust or authority exists between the suspect and victim. A prosecution is also more likely if the offence has been committed against a victim who was at the time a person serving the public.

Prosecutors must also have regard to whether the offence was motivated by any form of discrimination against the victim's ethnic or national origin,

gender, disability, age, religion or belief, sexual orientation or gender identity; or the suspect demonstrated hostility towards the victim based on any of those characteristics. The presence of any such motivation or hostility will mean that it is more likely that prosecution is required.

In deciding whether a prosecution is required in the public interest, prosecutors should take into account the views expressed by the victim about the impact that the offence has had. In appropriate cases, this may also include the views of the victim's family.

Prosecutors also need to consider if a prosecution is likely to have an adverse effect on the victim's physical or mental health, always bearing in mind the seriousness of the offence. If there is evidence that prosecution is likely to have an adverse impact on the victim's health it may make a prosecution less likely, taking into account the victim's views. However, we do not act for victims or their families in the same way as solicitors act for their clients, and prosecutors must form an overall view of the public interest.

- (d) Was the suspect under the age of 18 at the time of the offence? The criminal justice system treats children and young people differently from adults and significant weight must be attached to the age of the suspect if they are a child or young person under 18. The best interests and welfare of the child or young person must be considered including whether a prosecution is likely to have an adverse impact on his or her future prospects that is disproportionate to the seriousness of the offending. Prosecutors must have regard to the principal aim of the youth justice system which is to prevent offending by children and young people. Prosecutors must also have regard to the obligations arising under the United Nations 1989 Convention on the Rights of the Child.

As a starting point, the younger the suspect, the less likely it is that a prosecution is required. However, there may be circumstances which mean that notwithstanding the fact that the suspect is under 18, a prosecution is in the public interest. These include where the offence committed is serious, where the suspect's past record suggests that there are no suitable alternatives to prosecution, or where the absence of an admission means that out-of-court disposals which might have addressed the offending behaviour are not available.

- (e) What is the impact on the community? The greater the impact of the offending on the community, the more likely it is that a prosecution is required. In considering this question, prosecutors should have regard to how community is an inclusive term and is not restricted to communities defined by location.

- (f) Is prosecution a proportionate response? Prosecutors should also consider whether prosecution is proportionate to the likely outcome, and in so doing the following may be relevant to the case under consideration.
- The cost to the CPS and the wider criminal justice system, especially where it could be regarded as excessive when weighed against any likely penalty. (Prosecutors should not decide the public interest on the basis of this factor alone. It is essential that regard is also given to the public interest factors identified when considering the other questions in paragraphs 4.12 a) to g), but cost is a relevant factor when making an overall assessment of the public interest.)
 - Cases should be capable of being prosecuted in a way that is consistent with principles of effective case management. For example, in a case involving multiple suspects, prosecution might be reserved for the main participants in order to avoid excessively long and complex proceedings.
- (g) Do sources of information require protecting? In cases where public interest immunity does not apply, special care should be taken when proceeding with a prosecution where details may need to be made public that could harm sources of information, international relations or national security. It is essential that such cases are kept under continuing review.

C) ***Additional factors of the case***

A key consideration in the decision whether to prosecute is the level of *dishonesty* involved in the fraud. An investigated case may result in a relatively large amount of overpaid benefit, but another with a lower amount of overpayment may present as more serious because of the level of knowledge and deception involved.

Other factors taken into consideration are:

- Whether there is evidence of a previous instance of benefit fraud.
- Where the offender was in a position of trust (e.g. employee or Councillor).

- Where there is evidence of collusion (e.g. with a contractor Landlord or employee)
- Where Authorised Officer powers have been obstructed.
- Where there are errors or flaws in the system of control applied by the Council

The facts of the case are provided by the investigating officer in summary form at the end of the investigation following a taped Interview under Caution and calculation of any resulting losses.

The Principal Investigation Officer handling the case will evaluate the case and pass her/ his recommendations on to the appropriate Team Leader.

The Team Manager will consider all the available evidence and determine whether any further action will be appropriate on the case in terms of criminal prosecution action, Civil action, Disciplinary action or all three. The above mentioned points are taken into consideration as are any serious social or personal factors that may have come to light during the investigation. materiality of the loss will also be considered in ensuring cases are pursued making the best use of resource application.

The Authority aims to facilitate prosecution action on all cases where there is suitable evidence and supporting criteria. The team has an officer dedicated to preparing the paperwork required and liaising with the Legal department to ensure optimum results are achieved when the case goes to court.

All sums at risk will be pursued and recovery made either by Proceeds of crime remedy or alternative method including asset recovery.

All cases where there is a successful outcome will be publicised as far as possible to both give confidence to the public that the Council will not tolerate abuse and to act as deterrence to others.

APPENDIX 5

Concerns on the following can be reported via the Whistleblowing hotline and will be referred to the appropriate Service Head for investigation and action as necessary.

Unlawful Subletting of Social Housing Property

The Council through Tower Hamlets Homes and its Registered Partners has a limited number of homes available to let and lettings are prioritised according to housing needs. Tenancy fraud involves obtaining properties by deception (for example, individuals claiming to be homeless when they already own a property or are already living at an address), or continuing to claim to be living at a property when they have moved out and sublet it.

We have a duty to house certain vulnerable members of society (e.g. children), and are often forced to use bed and breakfast facilities due to a shortage of Council housing. In addition, families or individuals on the housing waiting list are denied housing because people are using the Council properties for profit or simply queue jumping. Fraudulently obtaining Council housing or subletting for personal gain uses up precious resources that should be available to families in need. The Corporate Fraud Team has a dedicated resource to investigate allegations of Sub Letting and the team works with all Social Housing Landlords within the borough including Tower Hamlets Homes.

If you have any information that suggests a tenanted property is being sub let please ***CALL 0800 528 0294 if you have any concerns or would like further details of the process. Strict Confidentiality and Anonymity will be preserved if requested***

Grants

The Council awards several different grants to individuals and organisations in the borough. These range from house renovation grants to voluntary organisations

providing services to the community. Grant fraud usually involves either making false claims in order to obtain a grant or providing false accounts of how the money is spent.

Insurance claims

The Council receives bogus insurance claims, particularly related to trips and falls on the pavement. This is a serious problem, which drains resources away from repairing and improving the highways themselves.

Parking permits including Blue Badge Scheme

The Council has designated many neighbourhoods as controlled parking zones, many requiring a parking permit which is only available to residents. Parking in certain areas of the borough is at a premium, which causes some motorists to use fake permits, other residents' permits, or may fraudulently use a resident's address to obtain a permit from us. This kind of fraud reduces the availability of parking for residents and reduces the revenue to the Council.

Identity theft/fraud

Identity theft is the unlawful taking of another person's details without their permission. The information stolen can be used to obtain many financial services goods and other forms of identification i.e. passports and driving licenses. The information stolen can range from a copy of birth certificate to copies of discarded bank or credit card statements and utility bills.

Once the criminals have copies of someone's identity they can embark on criminal activity in your name with the knowledge that any follow up investigations will not lead to them. With your details they can obtain documents that are in essence real but contain false information thus making it difficult for organisations to know who they really are dealing with.

Protect yourself!

Be careful with your personal information. If you receive a telephone call from a credit card company, bank or other retail company asking to confirm certain details about yourself decline them and ask to call them back preferably through a central switchboard. Also, do not reveal your personal details when using your mobile phone in a public place. When destroying personal correspondence such as bank and credit card statements consider a shredder or even burning them on the garden refuse. If you cannot do either then tear the papers up into very small pieces and place in the refuse bin with other waste products.

If you move address remember to inform all of the companies that send personal information to you in the post. Always consider re-directing your post with Royal Mail. If you fail to do this people moving in might have free access to your personal details and misappropriate them.

How do you know if are victim to this type of fraud?

Are you missing your regular monthly statements?

- Have you noticed charges to your accounts that are not yours? Remember to check all statements especially bank and credit card.
- Being contacted by a debt collection agency about outstanding payments for items or services that you have not ordered.

Protect yourself act quickly

Firstly do not ignore the problem it might not be you that has ordered some goods or opened an account but the debt falls to your name and address.

Once blacklisted for credit it may take many years to fully recover from the problem and you might have difficulties in obtaining a mortgage or other bank

credit.

Contact your local Police, report the crime and ask for a crime reference number to quote to the companies that allege that you have opened an account with them.

Check out the Home Office identity theft website at www.identity-theft.org.uk for more information

Advance fee fraud

Advance fee fraud is a popular crime, which involves a myriad of schemes and scams - mail, faxed, and telephone promises designed to facilitate victims parting with money. They usually claim to be from a general or politician in a foreign country who has a large sum of money (millions of pounds), which they wish to get out of a country, and need help in getting it out with the promise of a substantial share of the cash in return. If you receive correspondence of this sort report it to the police. Remember, if it seems too good to be true, it probably is! For further crime prevention advice, visit the [BBC Crime Prevention website](#) or the [Home Office fraud prevention website](#)

LONDON BOROUGH OF TOWER HAMLETS

WHISTLEBLOWING POLICY



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1. Introduction

The London Borough of Tower Hamlets is committed to the highest standards of openness, probity and accountability.

Whistleblowing is the term used when someone who works in or for an organisation wishes to raise concerns about malpractice, wrongdoing, illegality or risk in the organisation (for example, crimes, civil offences, miscarriages of justice, dangers to health and safety), and/or the cover up of any of these. The malpractice etc. must have a public interest aspect to it, usually because it threatens others. It applies to raising a concern within the organisation as well as externally, such as to a regulator.

An important aspect of accountability and transparency is a mechanism to enable Members, employees, contractors, suppliers and partners to voice concerns in a responsible and effective manner. It is a fundamental term of every contract of employment that an employee will faithfully serve his or her employer and not disclose confidential information about the employer's affairs. Nevertheless, where an individual discovers information which they believe shows serious malpractice or wrongdoing within the Council then this information should be disclosed internally without fear of reprisal, and there should be arrangements to enable this to be done independently of line management (although in certain circumstances the line manager would be the appropriate person to be told).

The Public Interest Disclosure Act 1998 and the Enterprise and Regulatory Reform Act 2013 both amend the Employment Rights Act 1996 and gives legal protection to employees against being dismissed or penalised by their employers as a result of publicly disclosing certain serious concerns. This Policy has been introduced to ensure that an employee should not feel at a disadvantage in raising legitimate concerns.

It should be emphasised that this policy is intended to assist individuals who believe they have discovered malpractice or impropriety. It is not designed to question operational decisions taken by the Council nor should it be used to reconsider any matters which have already been addressed through the Council's existing procedures. Further this Policy is supplemental to and not a substitute for the usual mechanisms. In that regard, it is important to note that the Whistleblowing Policy is not intended to replace any of the complaint/ concern mechanisms already in place at Tower Hamlets.

Whilst the term “whistleblowing” applies to an individual who works in or for an organisation, the Council considers that this mechanism should also be used when members of the public wish to raise public interest concerns and which are not appropriate for consideration under another Council procedure. This Policy is therefore also applicable to members of the public who wish to raise concerns about malpractice, wrongdoing, illegality or risk in the Council.

Anyone, including elected Members, employees, service users, partners and members of the public are encouraged to raise genuine concerns with the Council through existing procedures. These are:

- The Complaints Procedure
- A Complaint against a Councillor pursuant to “The Arrangements for dealing with allegations of a Breach of the Code of Conduct for Members”
- CHAD Procedures
- The Grievance Procedure
- Line Management
- The Directorate Health and Safety co-ordinator
- The Corporate Health and Safety Manager
- The Housing Benefit Fraud Hotline (0207 364 7443)
- The Council General Inquiry number (020 7364 5000)
- The External Auditor
- Public Concern at Work (020 7404 6576)

This Policy should also be read in conjunction with the Council’s Anti-Money Laundering Policy, Anti-Bribery Policy, Enforcement Policy, and Directorate Health and Safety Policies.

Finally, if you are considering raising a concern you should read this policy first.

2. Aims and Scope of Policy

This policy is designed to enable you to raise concerns at a high level and to disclose information which you believe shows malpractice, impropriety, criminal activity, or dangers to health and safety. This policy is intended to cover concerns which are in the public interest and may at least initially be investigated separately but might then lead to the instigation of other procedures e.g. disciplinary.

This policy aims to:

- encourage you to feel confident in raising serious concerns and to question and act upon such concerns;
- provide avenues for you to raise those concerns and to receive feedback on any action taken;
- ensure that you receive a response to your concerns and that you are aware of how to pursue them if they are not satisfied;
- reassure you that, as a “whistleblower”, you will be protected from possible reprisals or victimisation if you have a reasonable belief that you have raised any concerns in good faith.

These concerns could include

- Financial malpractice or impropriety or fraud including unauthorised use of public funds
- Theft or abuse of Council property
- Failure to comply with a legal obligation or Statutes
- Dangers to Health & Safety or the environment
- Criminal activity
- Miscarriages of justice
- Improper conduct or unethical behaviour
- Attempts to conceal any of these
- Other unethical conduct

3. **Safeguards**

(i) Protection

This policy is designed to offer protection to you when you disclose such concerns provided that the disclosure is made:

- in good faith;
- that any evidence that the you have gathered has not been obtained inappropriately or unlawfully; and
- in the reasonable belief by you that it is in the public interest and tends to show malpractice, impropriety etc. and that the disclosure is made to an appropriate person (see below).

It is important to note that if you are an employee then no protection from internal disciplinary procedures is offered to those who make malicious or vexatious allegations or makes an allegation for personal gain. This could be construed as gross misconduct and disciplinary action may be taken.

(ii) Confidentiality

The Council will treat all such disclosures in a confidential and sensitive manner. Your identity will be kept confidential so long as it does not hinder or frustrate any investigation. However, the investigation process could reveal the source of the information and you may need to provide a statement as part of the evidence required. In such cases, we will always ask your consent to disclose your identity. Further, it is always possible that your identity could be guessed.

(iii) Anonymous Allegations

It is not unusual for individuals who are thinking about raising a concern to want to make it anonymously. However it is best that concerns are raised openly as it makes it easier for consideration and investigation of the concern. It is recognised, however, that there are circumstances when you would wish to keep your identity confidential (see above).

Anonymous concerns will not be considered unless in exceptional circumstances where it is decided that it raises a serious issue affecting the public interest and which is capable of investigation without the need to ascertain the your identity. Therefore, whilst we do not rule out the possibility of conducting investigations where you have not given your name, it should be noted that, in practice, we are unlikely to be able to proceed in the majority of such cases because off the practical difficulties that arise. Anonymity will often present a barrier to effective investigation because it is impossible to contact you to check information received, ask for more details, or give feedback.

Reasons why the Council will not accept or adjudicate anonymous concerns include:

- Accepting anonymous concerns make it difficult to assess your veracity as well as the credibility of the facts and evidence on which you have based your concern. Some cases will rise or fall on your credibility. Therefore, who you are can be critical and, in close cases, your credibility can make the difference whether a concern is founded.
- It reduces the likelihood of frivolous concerns or concerns filed with ill-will or malice.

(iv) Untrue Allegations

If you make an allegation in good faith, which is not confirmed by subsequent investigation, no action will be taken against you. In raising a concern, you should exercise due care to ensure the accuracy of the information. If you make a malicious or vexatious allegation, or make an allegation for personal gain then further action may be taken against you (and if you are an employee that could include disciplinary action).

4. Procedures for Raising a Concern

You can raise your concerns in confidence in the following ways:

- Complete the 'Blow the Whistle' report form and which is available:
 - on the Council's website;
 - on the Council's intranet (for employees);and then email it to: monitoring.officer@towerhamlets.gov.uk
- Speak to any Senior Manager in the Council who will help you to complete a 'Blow the Whistle' report form to be sent to the Monitoring Officer at the above email address;
- Via the Whistleblowing Hot Line 0800 528 0294 (a 'Blow the Whistle' report form will be completed and emailed to the Monitoring Officer);

You should provide as much information as possible; including names, dates and places where possible and explaining the reason for the concern as well. Details of any action that you have taken to date should also be included.

You can also raise the concern through a friend, a trade union representative (if an employee), or a professional association representative. This friend or representative can also be present during any meetings or interviews in connection with the concern. Any meetings that need to be arranged can be held off-site, if appropriate.

If there is evidence of criminal activity then the investigating officer will be obliged to inform the police. The Council will ensure that any internal investigation does not hinder a formal police investigation.

Subject to the nature of the concern or the individual(s) who is the subject of the concern then the investigation may be handled internally, referred to the District Auditor or Police, or looked at by another independent investigator.

5. Timescales

Provided that you are not anonymous then within five (5) working days commencing from the first working day following receipt of the 'Blow the Whistle' report form, a written acknowledgement will be sent to you. Within fifteen (15) working days commencing from the first working day following receipt of the 'Blow the Whistle' report form, you will then be informed in writing of how it is proposed to deal with the matter.

This written communication will also give an estimate of how long it is likely to take to deal with the matter. Due to the varied nature of these sorts of matters, which may involve internal investigators and / or the police, it is not possible to lay down precise timescales for such investigations in this Policy. Such matters are expected to be investigated quickly but without compromising a proper investigation. There is therefore a presumption that the investigation should normally be completed within forty (40) working days commencing from the decision to investigate and you will be advised in writing of an estimated completion date within that time. If it is clear that the investigation will take longer, for example if outside agencies' are involved, then this time may need to be extended. In this event a revised date will be set for completion and all parties informed in writing and setting out the reason for the extension.

Please note that these time estimates are indicative only. The Council will respond to your concerns as quickly as possible but the Council will have to test your concerns. Rest assured though that testing your concerns is not the same as either accepting or rejecting them. The overriding principle for the Council will be the public interest. In order to be fair, initial enquiries will have to be made to decide whether an investigation is appropriate and, if so, what form it should take.

6. Investigating Procedure

The Monitoring Officer or his/ her nominated officer will arrange for the appointment of an investigating officer who will:

- Ensure that full details and clarifications of the concern are obtained.
- Consider the involvement of any external agencies at this stage (e.g. the Police).
- Ensure that the allegations are fully investigated with the assistance, where appropriate, of other individuals / bodies.
- Hold interviews with all relevant people as soon as possible.
- Prepare a written report containing the findings of the investigation promptly at the conclusion of the investigation.
- Keep the complainant informed of the progress of the investigations and, if appropriate, of the final outcome.

If one or more member(s) of staff is implicated then:

- They should be informed as soon as is practicably possible;
- The investigator should liaise with the relevant manager(s), where appropriate;
- The investigator must keep an open mind;
- The investigator's report will be passed to the Monitoring Officer who will decide what further action to take; and
- The Monitoring Officer will inform any individuals under investigation and the relevant manager(s), where appropriate, as to whether or not the concern has been substantiated.

7. Taking The Matter Further

Any concern about the conduct of an investigation should be raised in confidence with the Monitoring Officer.

This Policy is intended to provide you with an avenue within the Council to raise concerns. The Council hopes you will be satisfied with any action taken. If you are not, and you feel it is right to take the matter outside the Council, then you can raise it with one of the following persons or bodies:

- The External Auditor
Andrew Sayers,
for and on behalf of KPMG LLP, Appointed Auditor
15 Canada Square, London, E14 5GL
- The Police
- Public Concern at Work
020 7404 6576
(The whistleblowing charity who can give advice and help on whistleblowing)
- The Local Government Ombudsman
0300 061 0614
http://www.lgo.org.uk/forms/ShowForm.asp?fm_fid=62
- A Prescribed person or body as set out in the “prescribed persons list” published by the Department for Business, Innovation and Skills
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/510962/BIS-16-79-blowing-the-whistle-to-a-prescribed-person.pdf

For example:

- Any Member of Parliament
www.parliament.uk/mps-lords-and-offices/
- Commissioners for Her Majesty’s Revenue & Customs
0800 788 887
www.hmrc.gov.uk
- The Charity Commission for England and Wales
0300 066 9197
whistleblowing@charitycommission.gsi.gov.uk
- Children’s Commissioner
020 7783 8330
info.request@childrenscommissioner.gsi.gov.uk

- The Information Commissioner
0303 123 1113
casework@ico.org.uk
- The Health and Safety Executive
<http://webcommunities.hse.gov.uk/connect.ti/concernsform/answerQuestionnaire?qid=594147>
- Care Quality Commission
0300 061 6161
www.cqc.org.uk

If you, as an employee, raise concerns outside the Council you should ensure that it is to either the additional contacts as set out above or one of the prescribed persons or bodies as set out in the “prescribed persons list” published by the Department for Business, Innovation and Skills. A public disclosure to anyone else could take you outside the protection of the Public Interest Disclosure Act and of this Policy.

You should not disclose information that is confidential to the Council or to anyone else, such as a client or contractor of the Council, except to either the additional contacts as set out above or one of the prescribed persons or bodies as set out in the “prescribed persons list”.

This Policy does not prevent you from taking your own legal advice

- If a concern is raised, assess whether it falls within the Whistleblowing Policy or is it should it be raised through other existing procedures (e.g. The Complaints Procedure OR CHAD Procedures)
- Ensure confidentiality and act sensitively so that an individual feels confident in raising serious concerns
- Do not ignore concerns but act upon them as appropriate
- Provide reassurance that an individual raising a concern will be protected from possible reprisals or victimisation as long as the concern is raised in good faith
- Reassure the individual raising concern that their identity will be kept confidential and not disclosed unless their consent has been obtained. Do advise them however, that there is a possibility that the investigation may reveal them as the source of the information
- Advise them that if an investigation is undertaken that it is likely that the investigating officer will need to interview them
- Advise them that if there is evidence of criminal activity that the matter will have to be referred to the Police
- Draw their attention to the Whistleblowing Policy, the flow chart, and the “Blow the Whistle” report form and explain the process to them
- Advise as to timescales:
 - Within five (5) working days commencing from the first working day following receipt of the ‘Blow the Whistle’ report form, a written acknowledgement will be sent
 - Within fifteen (15) working days commencing from the first working day following receipt of the ‘Blow the Whistle’ report form, the individual will then be informed in writing of how it is proposed to deal with the matter. **This time allows initial enquiries to be made and for a decision to be taken as to whether an investigation is appropriate and, if so, what form it should take**
 - The presumption is that the investigation should normally be completed within forty (40) working days of the date that it is decided to investigate
 - **Do advise that timescales are indicative only. The overriding principles are public interest and fairness**
- Do warn that action will be taken if the concern is raised falsely and with the intention of personal gain
- Do consider whether any outside agencies should be involved (e.g. the Health and Safety Executive or the Police)
- Advise that Investigating Officer will prepare a report of the investigation that the decision as to action to be taken is for the Monitoring Officer
- The Monitoring Officer will write to advise as to the outcome of the investigation

- **REMEMBER CONFIDENTIALITY AND YOU MUST NOT DISCLOSE THE IDENTITY OF THE PERSON RAISING THE CONCERN UNLESS THAT INDIVIDUAL HAS CONSENTED**

- **IF IN ANY DOUBT AS TO HOW TO PROCEED, PLEASE CONTACT THE MONITORING OFFICER FOR ADVICE**

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- Read and understand the concern that has been raised
- Plan your investigation-
 - What additional information do you need?
 - Who do you need to interview?
 - What outside agencies, if any, do you need to liaise with?
 - Do you need to liaise with the manager(s) of individual(s) who is/ are the subject of the concern.
- Estimate the time to be taken to carry out the investigation. **Remember the presumption is that the investigation should normally be completed within forty (40) working days.**
- Write to the individual who raised the concern to introduce yourself and giving an estimated date for conclusion of the investigation. If any additional information is required before holding interviews then request it at this stage.
- Write to the individual(s) who is/ are the subject of the concern and advise that a concern has been raised and that you have been asked to investigate under the Whistleblowing procedure. Notify the manager(s) of individual(s) who is/ are the subject of the concern, if appropriate.
- Arrange and hold interviews with all relevant people as soon as possible. This is important as memories of events can fade. **Delays in investigating will lessen the effectiveness of the procedure and make it harder to obtain the evidence. Delays can also cause unnecessary concern and resentment for the person under investigation.**
- Send statements/ transcripts of interviews to the individual interviewed following the interview for them to confirm accuracy and add any clarification.
- If there are delays in the investigation, make sure to keep the individual who raised the concern informed and given updated completion estimate.
- Once the investigation has concluded, promptly prepare a written report containing the findings of the investigation. Make sure that if you are summarising interviews that the summaries are accurate. **Remember the decision as to action to be taken is for the Monitoring Officer although you should make a recommendation for consideration.**
- Write to the individual who raised the concern to advise them that the investigation has been completed and a report referred to the Monitoring Officer. **Do not advise that individual as to the outcome of the investigation but advise that the Motoring Officer will consider the report and write to that individual accordingly.**
- Write to the individual(s) who is/ are the subject of the concern to advise them that the investigation has been completed and a report referred to the Monitoring Office. **Again, do not advise as to the outcome of the investigation but state that the Motoring Officer will consider the report and write to that individual accordingly.**
- **REMEMBER CONFIDENTIALITY AND YOU MUST NOT DISCLOSE THE IDENTITY OF THE PERSON RAISING THE CONCERN UNLESS THAT INDIVIDUAL HAS CONSENTED**
- **YOU MUST ENSURE THAT ALL CORRESPONDENCE IS COPIED TO THE MONITORING OFFICER QUOTING THE MATTER REFERENCE NUMBER**

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Blow the Whistle: Report a Concern



Tower Hamlets is committed to the highest standards of transparency, openness, integrity and accountability. In line with this, our whistleblowing policy provides a framework for anyone to raise concerns which they believe are in the public interest and may relate to unsafe, illegal, improper or unethical conduct.

This form should be used where you have a concern of this kind.

In filing this report in good faith you will be protected from detrimental treatment, e.g. victimisation or dismissal. The Whistleblowing Policy complies with the Public Interest Disclosure Act 1998 and the Enterprise and Regulatory Reform Act 2013. You can view the Policy document by following [this link](#), and the process by going [here](#)

Contact Details of the person reporting a concern

Your identity will be kept confidential so long as it does not hinder or frustrate any investigation. We will always ask you for consent if we need to disclose your identity.

Anonymous concerns will not be considered unless there are exceptional circumstances where it is decided that the concern raises a serious issue affecting the public interest and which is capable of investigation without the need to ascertain your identity.

| | | |
|--|--------------|---------------------------------|
| Name | | |
| Address | | |
| Phone number | | |
| Email address | | |
| Please provide your details below if you are a friend, manager or trade union or other representative completing this form on behalf of someone else: | | |
| Name | | |
| Address | | |
| Phone number | | |
| Email address | | |
| For Monitoring Office use only | | |
| Received by: | Date: | Acknowledgement due: |
| Sent to: | Date: | Initial Report estimate: |

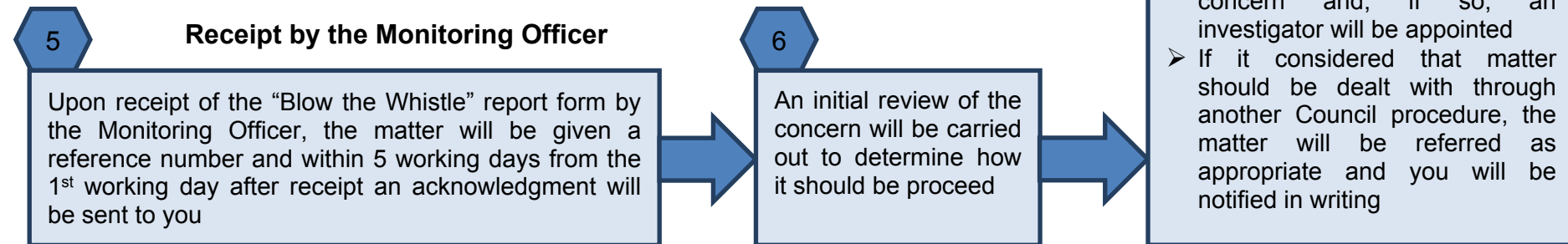
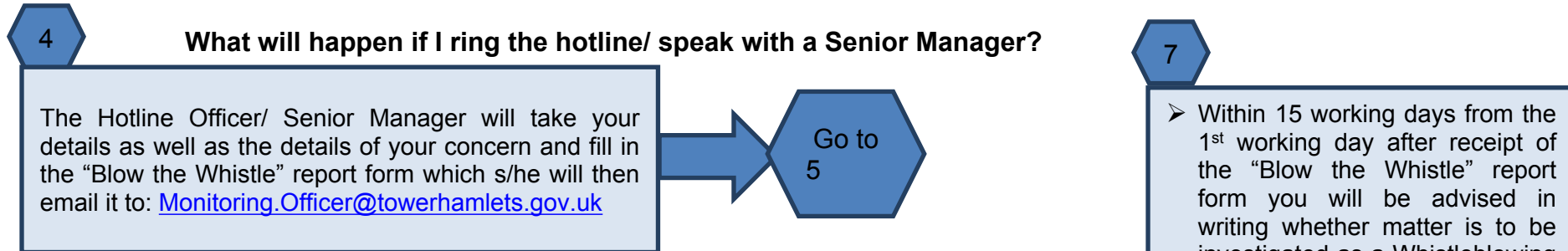
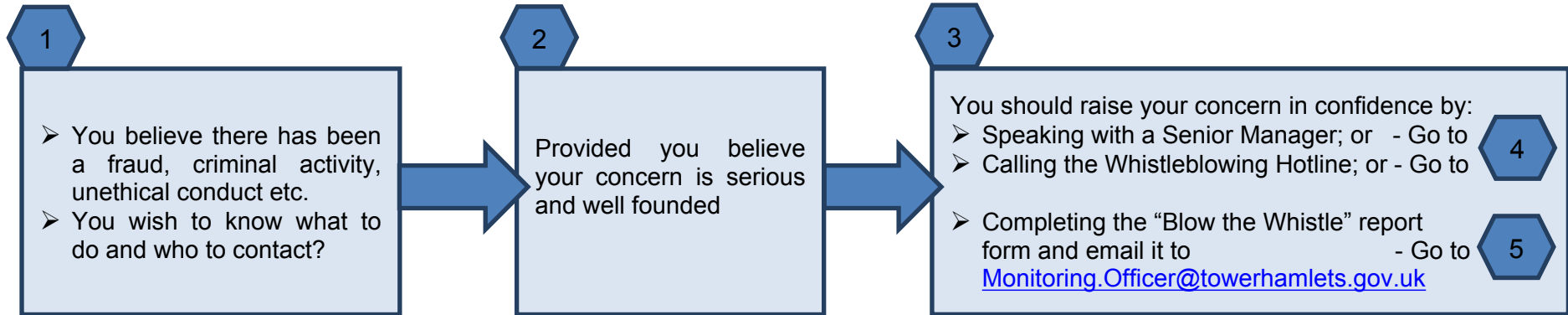
Nature of the Concern:

| | | |
|---|---|--------------------------|
| Please provide as much information as you can about your concern. | | |
| You should include where possible: | | |
| Name/s of any specific individual/s who's behaviour you are concerned about: | | |
| A description of what specifically concerns you (e.g. what have you observed)? | | |
| The dates and places you observed this: | | |
| Why does this concern you? | | |
| Any names and email/phone numbers of other people who could corroborate your observations. | | |
| Details of any other organisations/people you have reported this to, such as an external body, your Union or a Senior Manager | | |
| Are there any special circumstances for which you require assistance or appropriate support why we investigate your concern? | Yes I would like someone to support me | <input type="checkbox"/> |
| Please place a X in the relevant box | I already have the support I need | <input type="checkbox"/> |
| | I do not need any support | <input type="checkbox"/> |
| Please advise what those special circumstances are so that we can assess them | | |

You should email your completed form to: Monitoring.officer@towerhamlets.gov.uk

RAISING A CONCERN

WHISTLEBLOWING HOTLINE: 0800 528 0294



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APPENDIX 6

LONDON BOROUGH OF TOWER HAMLETS **ENFORCEMENT POLICY**

1) Background

This policy is designed to provide a suitable framework to ensure a fair and consistent approach is applied for cases under consideration.

2) Legislative framework

The Council currently has the power to prosecute offences under legislation including the Fraud Act 2006 and Prevention of Social Housing Fraud Act 2013.

3) Suitability for Prosecution and Sanction Action

Cases are scrutinised by the Corporate Anti-Fraud Manager for the suitability for prosecution or sanction action taking into account a number of factors.

Primarily evidence and the public interest test are applied before further additional details of the case are taken into account. Details of the considered criteria are given below:

A) *Sufficiency of evidence*

- Is there enough evidence to provide a realistic prospect of conviction?
- Has the evidence been collected in an appropriate manner?
- Can the evidence be used in court?
- Is the evidence reliable?

B) **Public interest test**

Generally it must be seen to be in the public interest to prosecute. Poor publicity surrounding an attempted prosecution can lead to criticism of the Authority. To consider whether it is in the public interest to prosecute then seven (7) questions need to be considered:

- (a) How serious is the offence committed? The more serious the offence, the more likely it is that a prosecution is required. When deciding the level of seriousness of the offence committed, prosecutors should include amongst the factors for consideration the suspect's culpability and the harm to the victim by asking themselves the questions at b) and c).
- (b) What is the level of culpability of the suspect? The greater the suspect's level of culpability, the more likely it is that a prosecution is required. Culpability is likely to be determined by the suspect's level of involvement; the extent to which the offending was premeditated and/or planned; whether they have previous criminal convictions and/or out-of-court disposals and any offending whilst on bail or whilst subject to a court order; whether the offending was or is likely to be continued, repeated or escalated; and the suspect's age or maturity (see paragraph d) below for suspects under 18).

Prosecutors should also have regard when considering culpability as to whether the suspect is, or was at the time of the offence, suffering from any significant mental or physical ill health as in some circumstances this may mean that it is less likely that a prosecution is required. However, prosecutors will also need to consider how serious the offence was, whether it is likely to be repeated and the need to safeguard the public or those providing care to such persons.

- (c) What are the circumstances of and the harm caused to the victim? The circumstances of the victim are highly relevant. The greater the vulnerability of the victim, the more likely it is that a prosecution is required. This includes where a position of trust or authority exists between the suspect and victim. A prosecution is also more likely if the offence has been committed against a victim who was at the time a person serving the public.

Prosecutors must also have regard to whether the offence was motivated by any form of discrimination against the victim's ethnic or national origin, gender, disability, age, religion or belief, sexual orientation or gender identity; or the suspect demonstrated hostility towards the victim based on any of

those characteristics. The presence of any such motivation or hostility will mean that it is more likely that prosecution is required.

In deciding whether a prosecution is required in the public interest, prosecutors should take into account the views expressed by the victim about the impact that the offence has had. In appropriate cases, this may also include the views of the victim's family.

Prosecutors also need to consider if a prosecution is likely to have an adverse effect on the victim's physical or mental health, always bearing in mind the seriousness of the offence. If there is evidence that prosecution is likely to have an adverse impact on the victim's health it may make a prosecution less likely, taking into account the victim's views. However, we do not act for victims or their families in the same way as solicitors act for their clients, and prosecutors must form an overall view of the public interest.

- (d) Was the suspect under the age of 18 at the time of the offence? The criminal justice system treats children and young people differently from adults and significant weight must be attached to the age of the suspect if they are a child or young person under 18. The best interests and welfare of the child or young person must be considered including whether a prosecution is likely to have an adverse impact on his or her future prospects that is disproportionate to the seriousness of the offending. Prosecutors must have regard to the principal aim of the youth justice system which is to prevent offending by children and young people. Prosecutors must also have regard to the obligations arising under the United Nations 1989 Convention on the Rights of the Child.

As a starting point, the younger the suspect, the less likely it is that a prosecution is required. However, there may be circumstances which mean that notwithstanding the fact that the suspect is under 18, a prosecution is in the public interest. These include where the offence committed is serious, where the suspect's past record suggests that there are no suitable alternatives to prosecution, or where the absence of an admission means that out-of-court disposals which might have addressed the offending behaviour are not available.

- (e) What is the impact on the community? The greater the impact of the offending on the community, the more likely it is that a prosecution is required. In considering this question, prosecutors should have regard to how community is an inclusive term and is not restricted to communities defined by location.
- (f) Is prosecution a proportionate response? Prosecutors should also consider whether prosecution is proportionate to the likely outcome, and in so doing the following may be relevant to the case under consideration.

- The cost to the CPS and the wider criminal justice system, especially where it could be regarded as excessive when weighed against any likely penalty. (Prosecutors should not decide the public interest on the basis of this factor alone. It is essential that regard is also given to the public interest factors identified when considering the other questions in paragraphs 4.12 a) to g), but cost is a relevant factor when making an overall assessment of the public interest.)
 - Cases should be capable of being prosecuted in a way that is consistent with principles of effective case management. For example, in a case involving multiple suspects, prosecution might be reserved for the main participants in order to avoid excessively long and complex proceedings.
- (g) Do sources of information require protecting? In cases where public interest immunity does not apply, special care should be taken when proceeding with a prosecution where details may need to be made public that could harm sources of information, international relations or national security. It is essential that such cases are kept under continuing review.

C) *Additional factors of the case*

A key consideration in the decision whether to prosecute is the level of *dishonesty* involved in the fraud. An investigated case may result in a relatively large amount of value t, but another with a lower amount of abuse may present as more serious because of the level of knowledge and deception involved.

Other factors taken into consideration are:

- Where the offender was in a position of trust (e.g. employee or Councillor).
- Where there is evidence of collusion (e.g. with a contractor Landlord or employee)
- Where Authorised Officer powers have been obstructed.

- Where there are errors or flaws in the system of control applied by the Council

The facts of the case are provided by the investigating officer in summary form at the end of the investigation following a taped Interview under Caution and calculation of any resulting losses.

The Principal Investigation Officer handling the case will evaluate the case and pass her/ his recommendations on to the appropriate Team Leader.

The Team Manager will consider all the available evidence and determine whether any further action will be appropriate on the case in terms of criminal prosecution action, Civil action, Disciplinary action or all three. The above mentioned points are taken into consideration as are any serious social or personal factors that may have come to light during the investigation. Materiality of the loss will also be considered in ensuring cases are pursued making the best use of resources.

The Authority aims to facilitate prosecution action on all cases where there is suitable evidence and supporting criteria. The team has an officer dedicated to preparing the paperwork required and liaising with the Legal department to ensure optimum results are achieved when the case goes to court.

All sums at risk will be pursued and recovery made either by Proceeds of Crime remedy or alternative method including asset recovery.

All cases where there is a successful outcome will be publicised as far as possible to both give confidence to the public that the Council will not tolerate abuse and to act as deterrence to others.

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