

AUDIT COMMITTEE

Tuesday, 23 July 2019 at 6.30 p.m.

Committee Room One - Town Hall Mulberry Place

This meeting is open to the public to attend.

Members:

Chair: Councillor Val Whitehead

Vice-Chair:

Councillor Mufeedah Bustin, Councillor Marc Francis, Councillor Ehtasham Haque, Councillor Ayas Miah, Councillor Kyrsten Perry, Councillor Abdal Ullah and Councillor Andrew Wood

Deputies:

Councillor Mohammed Ahbab Hossain, Councillor Bex White, Councillor Gabriela Salva Macallan and Councillor Peter Golds

[The quorum for this body is 3 Members]

Contact for further enquiries:

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APOLOGIES FOR ABSENCE

1. APPOINTMENT OF VICE-CHAIR

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

5 - 8

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.

3. MINUTES OF THE PREVIOUS MEETING(S)

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To confirm the minutes of the Audit Committee held on 11th April 2019.

4. DELOITTE ITEMS FOR CONSIDERATION

4 .1 External Audit Report 2018-19

Report to follow.

5. TOWER HAMLETS ITEMS FOR CONSIDERATION

5 .1 Annual Financial Report 2018-19

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5 .2 Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings 2019/20

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5 .3 NFI Progress Report

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5 .4 Internal Audit and Counter Fraud Progress Report

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5 .5 Q1 Risk Management Update 2019/20

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5 .6 Head of Internal Audit Annual Report

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5 .7 Annual Governance Statement

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5 .8 Treasury Management Report for 2018-19

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5 .9 EXCLUSION OF PRESS & PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

EXEMPT/CONFIDENTIAL SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

SECTION TWO

5 .10 Poplar Baths - Refinancing

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6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Next Meeting of the Committee:

Thursday, 14 November 2019 at 6.30 p.m. to be held in the Committee Room One - Town Hall Mulberry Place

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Asmat Hussain, Corporate Director of Governance and Monitoring Officer,
Tel: 020 7364 4800

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 11 APRIL 2019

COMMITTEE ROOM ONE - TOWN HALL MULBERRY PLACE

Members Present:

Councillor Val Whitehead (Chair)
Councillor Tarik Khan
Councillor James King
Councillor Victoria Obaze
Councillor Kyrsten Perry
Councillor Bex White
Councillor Andrew Wood

Other Councillors Present:

Apologies:

Councillor Puru Miah
Kevin Bartle
Jonathan Gooding

Officers Present:

Kevin Miles	– (Chief Accountant, Resources)
Tony Qayum	– (Anti-Fraud Manager, Risk Management , Resources)
Anthony Sotande-Peters	– (Interim Strategic Risk Advisor, Risk Management and Audit)
Steven Tinkler	– (Interim Head of Business Support)
Christine McInnes	– (Divisional Director, Education and Partnership, Children's)
John O'Shea	– Support and Learning Service, Early Years
Farhana Zia	– Senior Committee Officer

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Val Whitehead declared she is a trustee and treasurer of Toyhouse libraries, which receives some grant funding from the council. However she does not have any pecuniary benefit from it.

Councillor Bex White declared she is a trustee at the Canaan Project which works with Schools in Tower Hamlets. However she does not have any pecuniary benefit from it.

Councillor Kyrsten Perry declared she works for the East End Community Foundation. She works on the development and fund raising side of the organisation.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the 31st January 2019 meeting were agreed and approved to be an accurate record of the meeting save for one amendment on Page 15 of the agenda pack:

Item 5.2 – Risk Management Report Q3

The action point should state:

ACTION: Members agreed the Committee should continue to receive the Corporate Risk Register and Members should also receive directorate level registers for information outside of the Committee meeting itself.

Matters arising

Councillor King queried if the information relating to Christchurch had been shared with the members of the Committee. Mr Sotande-Peters confirmed an email was sent on the 27th February 2019 to all members of the Committee.

Councillor Val Whitehead enquired if the information asked for under matters arising at the last meeting, in relation to HR had been resolved. Following discussion, the Chair requested a representative from HR attend the next meeting of the Audit Committee to provide an explanation with regard to the number of consultants employed by the Council.

Mr Qayum updated Members with regard to the action point at 5.1, Page 11 of the agenda pack. He said he had made enquiries with the NFi and that a presentation would be made at a future meeting of the Audit Committee.

3. KPMG ITEMS FOR CONSIDERATION

Mr Kevin Miles, Chief Accountant presented this report on behalf of KPMG. He said the report summarised the results of the work KPMG had undertaken looking at the Council's 2017/18 grant claims and returns.

Mr Miles referred Members to pages 24 and 25 of the agenda and said the external auditors had certified one claim under the Housing Benefit Subsidy which had a value of £225.4 million. He said there had been a discrepancy of £78k which did not affect the overall benefit subsidy payable to the Council.

Mr Miles also informed Members the Teachers' Pension Return showed nominal errors amounting to £185 and that the Auditors were comfortable with the receipts. He stated the Auditors did not have any major concerns regarding the Grants return.

In response from questions from Members the following was noted:

- Mr Miles confirmed Deloitte were the Council's external auditors, replacing KPMG.

Members of the Committee **RESOLVED** to **NOTE** the report.

4. DELOITTE ITEMS FOR CONSIDERATION

4.1 LBTH Audit Planning Report

Both the Audit Planning Report and the Pensions Fund report from Deloitte were considered together. See below.

4.2 LBTH Pensions Fund

Mr Angus Fish, from Deloitte's presented the Audit Planning and the Pensions Fund report.

He said both reports set out the scope of the work and the legislation which governed their work. Mr Fish said the Audit Plan set out the significant risks they had identified, and referred Members to pages 29 and 30 of the agenda pack.

He said the Pensions fund report followed a similar format and formed part of the Statement of Accounts identifying the significant risks.

In response to questions from Members the following was noted:

- In reference to page 31, Mr Fish explained that the 2% rate used for determining materiality was the sector norm. He said for an organisation such as the Council, it had a relatively high capital resource and less varying spend. Councillor Wood disagreed and said £25M for materiality was set too high.
- In reference to page 40, Risk 3 – Management override of controls, the Chair asked Mr Fish to explain how real the risk was. Mr Fish stated this related to management overriding controls, to present a more favoured financial picture. For example the manipulation of journals posted on the accounting system with a manual journal giving a different answer. Mr Fish said that with estimates there was no one answer but a range of answers and management may exert some bias to look at individual estimates rather than a reasonable range.
- Councillor Wood asked if the London CIV (Collective Investment Vehicle) for Pensions was also part of external Audit's remit. Mr Fish stated a separate team would look at the value of the CIV and the methodology behind every different type of investment.
- Mr Fish stated that narrative reports were the norm for Local Government and the reports provided for the Audit Plan and the Pensions Fund and the risks identified would be further examined and reported on as part of the Statement of Account which will be published at the end May. Mr Fish said further comments from the Audit

Committee would be included before the publication of the accounts in July.

Members of the Committee **RESOLVED** to **NOTE** the reports from Deloitte with regard to the Audit Plan and the Pension Fund.

5. TOWER HAMLETS ITEMS FOR CONSIDERATION

5.1 Internal Audit and Anti-Fraud Progress Report

Mr Steven Tinkler, Interim Head of Audit and Risk Management, introduced this report stating that the report provided an update on the progress made against the delivery of the 2018-19 Annual Audit Plan, as well as the current counter fraud performance and audits which have received limited assurance ratings.

Mr Tinkler referred Members to paragraph 4.7 in the report and highlighted BDO, the external audit partner, had completed 13 school audits. In addition he stated PricewaterhouseCoopers had completed a one-off review looking at Tower Hamlets Homes move to Boatmans house.

Paragraphs 5.1 to 5.4 highlighted the work for the counter-fraud team and the successes they had achieved.

In response to questions from Members the following was noted:

- The number of properties recovered under Social Housing Fraud is 54, two more than the previous year. A higher target has been set for the following year. Data sharing within the organisation and other authorities has resulted in a higher number of referrals. Mr Qayum informed Members Tower Hamlets had a high rate of performance in this area. Referrals are triaged and where evidence is found the anti-fraud team investigates further.
- In response to if the Anti-fraud team had sufficient resources to investigate fraud and its timeliness, Steven Tinkler informed Members the investigation timeframe was being looked at. A new case management system was being procured which would allow the team to provide targeted information and performance reports. Mr Qayum informed Members the Council had a dedicated resource of 2FTE to investigate blue badge fraud, which many other local authorities did not.
- Mr Tinkler added that the Blue Badge replacement scheme will mean more people will qualify for a Blue Badge and the outcome of 175 badges seized is the best figure the team had achieved in some years. Tower Hamlets had a zero tolerance policy in relation to Blue Badge fraud.

- In relation to the 60 residents' permits that were cancelled, Mr Qayum explained these were due to people mis-using permits when they do not live in Tower Hamlets.
- Regarding the issue of stolen Blue Badges, Mr Qayum explained a new 'white badge' scheme would be introduced and that discussion was taking place with Parking Enforcement on what this would entail.
- Members congratulated the Anti-Fraud team on the successes they had achieved.

Control and Monitoring of Purchase Cards – Follow Up Audit

Mr Steven Tinkler provided the Committee with an update on behalf of Mr Kevin Bartle who had given his apologies for the meeting.

Mr Tinkler stated the issue with Purchase Cards was due to the lack of organisational discipline which had led to a potential abuse of credit cards. Over time the number of people with access to Purchase Cards had been reduced and the compliance/control function has been absorbed within the procurement team. Mr Tinkler said there would be an improvement in this area and the risk of fraud was low.

In response to questions from Members the following was noted:

- The Purchase Cards had a limit of £500.
- The situation with Purchase Cards was particularly bad about two years ago when the audit of Youth Services showed the abuse of credit cards and the lack of control within the department.
- There will be a follow up audit in six months of this report.

Special Education Needs and Disability (SEND) – Follow Up Audit

Christine McInnes, Service Head for Education and Partnerships stated she welcomed the internal audit report and the recommendations therein. She said the two high priority recommendations had not been implemented due to issues with the migration and testing of the new IT system. She explained the SEND service had undergone a restructure and the budget was stretched. Staff were focussing on increasing the KPI for Education and Health Care Plans. The Council had a low performance rate of 28% when the national average was 65%.

Ms McInnes stated the priority was to improve performance. New procedures and systems had been put in place to ensure the timely completion of the Care Plans. She said her team would continue to implement the recommendations of the audit report.

In response to questions from Members the following was noted:

- The SEND team dealt with approximately 400 assessment requests, with 320 new plans issued in 2018.
- There are 2,900 live plans on the system.
- The migration of data to the IT system had proved challenging however staff training in using the new system is ongoing.

The Chair thanked Ms Christine McInnes and Mr John O'Shea for attending the meeting.

The Committee **RESOLVED** to:

1. **NOTE** the contents of the report and took into account the assurance opinion assigned to the systems reviewed during the period.

5.2 Proposed Internal Audit and Counter Fraud and Corruption Strategy / Plan 2019-20

Mr Steven Tinkler, Interim Head of Audit and Risk Management introduced this report stating that the report outlines the combined Internal Audit and Counter Fraud Plan for 2019-10. Mr Tinkler said the plan had been developed in consultation with the Corporate Leadership Team and his knowledge of the organisation. The Plan highlighted five to six areas and had a more strategic outlook. Mr Tinkler said there was a mix of strategic reviews, transformation activities and projects.

One of the key values the strategy wants to embed is Internal Audit's involvement in the design of a project. He said the Audit Team could provide assistance with the board scope of a project and provide risk opinion on projects.

In response to questions from Members the following was noted:

- The counter-fraud strategy follows the 'Enfield' model whereby the London Borough of Enfield were given £30M over two years by government to develop a single investigation service, as some of the functions and monies had moved to the DWP. The Enfield model introduced new innovative ways to counter-fraud measures and is the standard promoted by CiPFA. All fraud risks are scored with and without controls and the work has been standardised.
- In response to how Internal Audit is perceived within the organisation, Mr Tinkler said the peer review by Kent County Council made several recommendations regarding how the Council's Audit process could be improved and the strategy incorporated these recommendations.
- Mr Tinkler gave an example of how Internal Audit had highlighted concerns in relation to Children's Services however the recommendations were ignored until the Ofsted inspection verdict. Since then the profile of the Audit function within the Council had vastly improved. Mr Tinkler stated he had weekly meetings with the Portfolio

Lead for Resources and the Corporate Leadership Team and was working with colleagues across the organisation to embed the strategic values of internal audit.

- **ACTION:** The Kent County Council peer review recommended the appointment of an Independent expert on to the Committee and this should be pursued.
- In reference to page 101, paragraph 7.2.4 Members recommended the referral of counter-fraud to the police should be strengthened to avoid delays in prosecuting.
- In reference to the Internal Audit Plan – pages 107 to 126, Mr Tinkler confirmed the number of days to be spent on each Audit had not been stated, primarily because the scope of the work is more important rather than the number of days it will take,

The Committee **RESOVLED** to

AGREE the proposed combined Internal Audit and Counter Fraud Plan for 2019-20 and the Internal Audit Charter.

5.3 Q4 Risk Management Update 2018-19

Mr Anthony Sotande-Peters, Interim Strategic Risk Advisor introduced this report stating that the purpose of the report was to inform Members of the ways in which risks are identified and managed. The report provided a summary of risk activities over the fourth quarter 2018/19 and appended at Appendix 1 was Corporate Risk Register.

At the request of the Committee, the risk registers for each Directorate were also included.

In response to questions raised by the Committee the following was noted:

- The risk preparation around Brexit and its impact was dynamic and fluid. The Council had worked to ensure EU workers had settled status and was now preparing for the EU elections which are likely to go ahead on the 23rd May. Mr Sotande-Peters reassured Members the short, medium and long term risks for a 'no deal' or 'soft' Brexit had been given consideration. He said colleagues in the Strategic, Policy and Performance team were driving this piece of work, giving consideration to all the different scenarios.
- Councillor Wood expressed concern that issues such as complaints, the removal of asbestos, the infrastructure funding gap and the recycling rate were not on the risk register. He said he was aware the waste management contract was being brought back in house, but this did not appear on the register. Councillor Wood also enquired about the risks concerning the development of the new Town Hall in Whitechapel.

- **ACTION:** Mr Sotande-Peters confirmed there was a separate risk register in relation to the Town Hall Development and said he would circulate this to the Members of the Committee.
- In relation to the Waste Management Contract Mr Sotande-Peters said the Public Realm team had been working on the perceived risks. He said they had an action plan in place to mitigate against the risks. Councillor King suggested the risks identified as part of the current contract with Veolia should be used to future proof risks going forward.

The Committee **RESOLVED** to **NOTE**:

1. The corporate risks and recommend changes and updates as necessary.
2. Request risk owner(s) with risks requiring further scrutiny provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at its next meeting.
3. Ensure that an effective risk management framework is in place within the council and leading the council to be risk mature, dynamic risk organisation.

5.4 Treasury Management Quarterly Update Report (Oct 2018 - Dec 2018)

Mr Kevin Miles, Chief Accountant Corporate Finance presented the report and stated the report included an update on the treasury management activity for the period 1st October 2018 to 31st December 2018.

He said the Councils investments were set out in Appendix 1 and the balance outstanding at the end of December was £387.90m, which included £10m pension fund awaiting investment. Mr Miles said that internal investments had outperformed the benchmark, however market uncertainties and negative investment performance of external funds was a concern however these losses had largely reserved in the quarter to March.

Mr Miles said the Corporate Director for Resources, Mr Murton and the Divisional Director for Finance, Mr Bartle had a meeting with Arlingclose, the external investment advisors to discuss the investment strategy. Due to market uncertainty, only 76m rather than the planned 100m had so far been invested in external funds. The position will be kept under review and subsequently reported upon.

In response to questions the following was noted:

- The £10m pension fund cash balance awaiting investments is held in a money market fund, pending possible investment. It is earning interest.

The Committee **RESOLVED** to **NOTE**

1. The contents of the treasury management activities and performance against targets for quarter ending 31st December 2018; and
2. The Council's investments as set out in Appendix 1. The balance outstanding as at 31st December 2018 was £387.90m which includes £10m, pension fund cash awaiting investment.

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

The Chair, Councillor Val Whitehead asked Members and Officers to note the Audit Committee dates for the new municipal year. In particular she pointed out the first meeting would be on the **23rd July 2019** and not June as previously quoted on the municipal calendar.


Mr Steven Tinkler informed Members that following the Finance restructure, Mr Paul Rock from Kent County Council had been appointed to the Head of Internal Audit and Risk Management post and as such this would be his last meeting.

On behalf of the Committee, the Chair thanked Mr Tinkler for the work he had done and wished him the best for the future.

The meeting ended at 8.23 p.m.

Chair, Councillor Val Whitehead
Audit Committee

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>23rd July 2019</p>	
Report of: Neville Murton, Corporate Director Resources	Classification: [Unrestricted]
Annual Financial Reports 2018-19 (Incorporating Deloitte's Reports to Those Charged With Governance 2018-19)	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	All Wards

Executive Summary

It was intended to present the Annual Financial Report for 2018-19 for approval to this committee, but due to delays with the completion of the audit, it will not be possible to approve the report at this meeting. The auditors have raised a number of issues in their draft report (item 4 of this agenda) that require further attention. Officers are drawing up an action plan to address these issues and will work with the auditors to bring the Annual Financial Report back to Committee for approval at an additional meeting to be arranged in September. The Annual Financial Report comprises a Narrative Report by the Corporate Director, Resources, the audited Statement of Accounts and the Annual Governance Statement.

Recommendations:

The Audit Committee is recommended to:

1. Note the unaudited Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2019
2. Note the officer action plan to address audit matters arising.
3. Note the initial report from the external auditor as presented at item 4 of this agenda. A final report will be brought to the next meeting of this committee.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial report statements by the statutory deadline of 31st July each year. The external auditors are required to audit this report and to provide an audit opinion by the same date.

2. ALTERNATIVE OPTIONS

- 2.1 The Council produces its Statement of Accounts in line with the relevant guidance and legislation.
- 2.2 This report is produced to ensure the correct approval process is followed and Members are kept informed of the Council's financial position as a result no alternative action is considered appropriate.

3. DETAILS OF THE REPORT

- 3.1 The Annual Financial Report comprises three main elements:
- A Narrative Report
 - The Statement of Accounts
 - The Annual Governance Statement (signed for approval by the Mayor and Chief Executive).

- 3.2 The Annual Financial Report for 2018-19 is attached as Appendix 1. The audit is continuing as at the date of this report.

The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit Regulations 2015. The accounts must be prepared and certified by 31st May by the Corporate Director, Resources (the 'responsible financial officer') stating that it presents a true and fair view of the financial position of the Council. By no later than 31st July the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. However, on this occasion, it has not been possible to meet the 31st July deadline for the reasons set out in this report.

- 3.3 For 2018-19 the audit of the Accounts was conducted by Deloitte, commencing in June 2019.
- 3.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to this Committee by the auditors. 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 this Audit Committee.

Note that Deloitte's appointment commenced on 1st April 2018.

- 3.5 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 (IFRS).
- 3.6 The title of the document tabled is the Annual Financial Report rather than the Statement of Accounts. However, the Auditor’s opinion just applies to the Statement of Accounts section of the document. Although the Auditor 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.
- 3.7 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.

- 3.8 The Council’s 2018-19 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet and Overview & Scrutiny Committee in May, this was earlier than in 2018.
- 3.9 **Audit Opinion** – the audit review is continuing as at the date of this report. There are matters the auditors want to bring to the attention of Members. Officers have drawn up an action plan to ensure the Accounts will be tabled and approved at a later meeting – it is envisaged this meeting will take place in September 2019. The action plan is included as Appendix 2 to this report. The late audit of the Accounts will be reported to the PSAA (Public Sector Audit Appointments).
- 3.10 **Value For Money Assessment** – The draft VFM conclusion on page 14 of the auditor’s report. The auditor envisages issuing a qualified VFM conclusion due to the 2018 Ofsted report and subsequent budget monitoring reports showing overspends in Children services.
- 3.11 **Objections to the Accounts by the public** - As part of the process for the inspection of the Council’s Accounts, local electors are able to raise objections to the Statement of Accounts with the external auditors. No objections to the 2018-19 Accounts have been received but documents have been requested for inspection). An objection was received to the 2016-17 Accounts relating to the legality of the Council entering into PFI contracts. The Council entered into these contracts over ten years ago. KPMG have confirmed the PFI

contracts were legal but have asked that a report is brought to this Committee in November 2019 to outline the contract monitoring arrangement procedures across schools.

- 3.12 Set out below are the main elements of Statement of Accounts with a brief explanation of the information contained in each element,

Comprehensive Income and Expenditure Account	<p>This summarises the revenue activities of the Council during 2018-19 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 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 2018-19 of £1.316 billion (£1.26bn in 2017-18), The deficit on the provision of service increased marginally to £97.8m, however technical accounting entries for pension actuarial losses and lower building values (£150m less) caused a deficit of £194m compared with a £268m gain in 2017-18. These technical entries do not affect the Council's usable reserves.</p> <p>The pension loss was mainly due to a lower discount factor being used by the actuary (as they are instructed), this offset a £78m increase in investment values. This deficit includes a number of technical 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. The change in actual usable reserves is explained within the Movement of Reserves</p>
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	<p>statement below.</p> <p>The Expenditure and Funding Analysis (note 7) explains and reconciles the figures in the CI&E to the Directorate expenditure figures reported in the outturn report.</p>
Movement in Reserves Statement	<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>After transferring £18.6m from earmarked reserves, the General Fund balance at 31st March 2019 is £26.8m. This £6.5m reduction in 2018-19 is roughly in line with the original budgeted reduction.</p> <p>An earmarked reserve has been created for collection fund income variations – this balance was previously shown within creditors.</p> <p>Unspent New Homes Bonus monies of £16.8m received in 2018-19 have been also transferred in the earmarked reserve</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. a table of reserves is included as note 8 in the Accounts.</p>
Balance Sheet	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2019. The value of the assets of the Council must equal the value of its liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and</p>

	<p>any debts owing to the Council.</p> <p>Property, plant and equipment have decreased to £2.262 billion in value, a decrease of around £150 million due the Valuer marking down the value of housing properties.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council. £50m of new borrowing was taken out in 2018-19, this was to part fund the repayment of a £60m LOBO loan.</p> <p>The net assets of the Council (assets less liabilities) was £1.723 billion, which was an decrease from 31st March 2018 when the figure was £2.015 billion. The main reason for the decrease is the fall in property values and the increased pension deficit.</p>
Housing Revenue Account	<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 11,476 dwellings.</p> <p>The HRA balance as at 31st March 2019 is £53.7 million, up £6.1 million.</p>
Group Accounts	<p>For a number of years it has been agreed in principle with the auditors that Group Accounts are not required as the asset and liabilities of Tower Hamlets Homes (THH) are not considered material enough to warrant the production of group accounts. 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> <p>Group accounts will be considered in the future once Seahorse Homes and Mulberry Housing have material assets and liabilities – by 31st March 2019, the companies only had small working</p>

	capital loans from the Council.
Collection Fund	<p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £70,000 which 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 surplus of £17.8 million for 2018-19. The overall balance carried forward on the Fund is a deficit of £17.0 million. The 2018-19 deficit was due primarily to appeals on business rates bills and refurbishment of office blocks which has temporarily removed NNDR charges – these backdated charges will be reinstated once the refurbishment work is complete.</p> <p>From 1st April 2018, the Council and GLA share NNDR receipts which are paid into a London wide pool. This extra share of NNDR income is offset by the removal of Revenue Support Grant (£54m in 2017-18).</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 the assets and liabilities of the Pension Fund as at 31 st March 2019.

	<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 £1.56 billion (an increase of over 5% from the £1.48 billion March 2018 valuation).</p> <p>The results of the triennial revaluation completed during 2016-17 estimated a funding deficit of £235 million (an improvement from £365m in 2013) and a funding level of 82.7% (up from 71.8% in 2013). The next triennial valuation will be in 2020. The actuary estimated the funding level of the fund was around 90% at March 2018.</p> <p>The Pensions Fund Annual Reports will be considered by the September Pensions Committee.</p>
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4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implications within this report.

5. OTHER STATUTORY IMPLICATION

5.1.1 BEST VALUE (BV) IMPLICATION

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 Deloitte. Deloitte 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.

5.1.2 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

There are no SAGE implications arising out of this report.

5.1.3 RISK MANAGEMENT IMPLICATION

There are no specific risk management implications.

5.1.4 CRIME AND DISORDER REDUCTION IMPLICATION

There are no crime and disorder reduction implications.

6. **COMMENTS OF THE CHIEF FINANCE OFFICER**

- 6.1 The draft Annual Financial Statement and in particular the Statement of Accounts have been prepared by the CFO's staff in accordance with the relevant regulatory requirements. These continue to be subject to the external audit process with any significant issues being brought to the Committee's attention both at this and the next meeting of the committee.

7. **COMMENTS OF LEGAL SERVICES**

- The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015. 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.
- 7.2 The Accounts and Audit Regulations 2015 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 31 May 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 31 July 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 31 July along with any certificate, opinion or report issued or given by the Local Auditor under the Local Audit and Accountability Act 2014.
- 7.3 As indicated in 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.
- 7.4 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 2018-19 will go towards demonstrating that the Council is meeting this duty.

- 7.5 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.
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Linked Reports, Appendices and Background Documents

Linked Report

Appendices

1. Annual Financial Report 2018-19
2. Officers' action plan

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:

- Kevin Miles, Chief Accountant (ext. 6791)

LONDON BOROUGH OF TOWER HAMLETS

DRAFT

ANNUAL FINANCIAL REPORT 2018-19

(UNAUDITED)

DRAFT ANNUAL FINANCIAL REPORT 2018-19

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Narrative Report – 2018/19

Overview by Neville Murton Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2018/19, 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 2018/19, 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

On-going reductions in mainstream government grant funding and a continuing upward trend in the demand for key front line services in adult social care, children's services and housing have collectively created a challenging financial environment for the Council.

Through sound financial management the Council's spend for the year is broadly in line with the revenue budget with the use of £6.4m General Fund reserves compared to £5.6 million budgeted at the start of the year. Children Services spend pressures have been the main contributor to more reserves being used. In addition, earmarked reserves have been applied against General Fund revenue services totalling £17.6 million.

After these transfers, the Council's general fund balance is £26.8m. This is considered an adequate reserve balance for the stable financial management of the Council considering the challenges it faces in the coming years.

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 2018/19 include :

- Delivering 462 additional rented homes
- Temporary accommodation was found for 1,857 households
- 1,113 residents supported into employment
- 530 businesses supported through council activities
- Over 5,125 tonnes of litter collected
- 7,000 kilometres of streets cleaned every week
- 3,977 adults received support from adult social care services
- Making our borough greener and air cleaner, including a programme of tree planting in streets, parks and open spaces. Parks won 11 green flag awards and 7 gold awards

- 99.1% of 97% Council Tax due as budgeted collected and 96.1% of 99.7% Business Rates collected as budgeted for 2018/19.

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 nearly £133 million spent on its capital programme. The main areas of investment was in housing, with £19.9 million of improvement works spent through the housing capital programme and £57.5million spent on temporary accommodation. £12 million was spent on the Whitechapel corporate site.

Looking forward, the Council will continue to face significant financial challenges. The Medium Term Financial Strategy agreed by Full Council in February 2019 includes a further £37.6m million savings programme in the years 2019 to 2022. This forms the basis of a balanced budget over the next three years. Major external challenges include the potential impact of government welfare reforms and changes to the way in which local authority services are funded. The impact of Brexit on the Borough is still to be quantified.

The Council is currently reviewing the Medium Term Financial Strategy with a view to developing longer term strategies to deliver savings.

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.

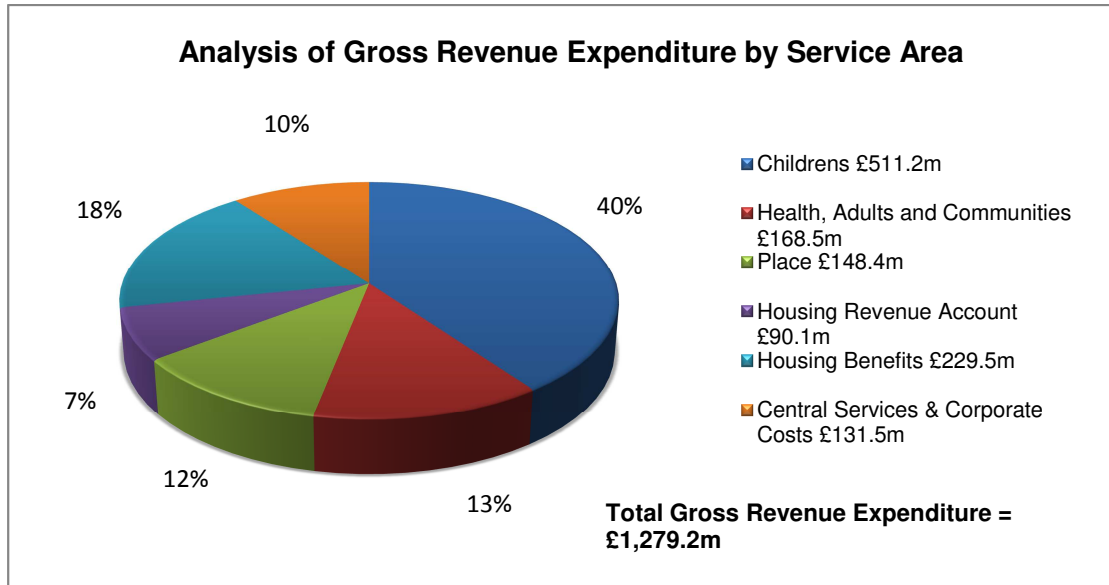
Review of the Year

Revenue Income and Expenditure

The Council's expenditure is reported in line with the Directorate structure in place as at the 31st March 2019.

Overall, the Council's Directorate spend was overspent by £2.6 million against the General Fund budget of £343.7 million. The HRA account showed a surplus of £6.1 million, which was £1.3m lower than planned.

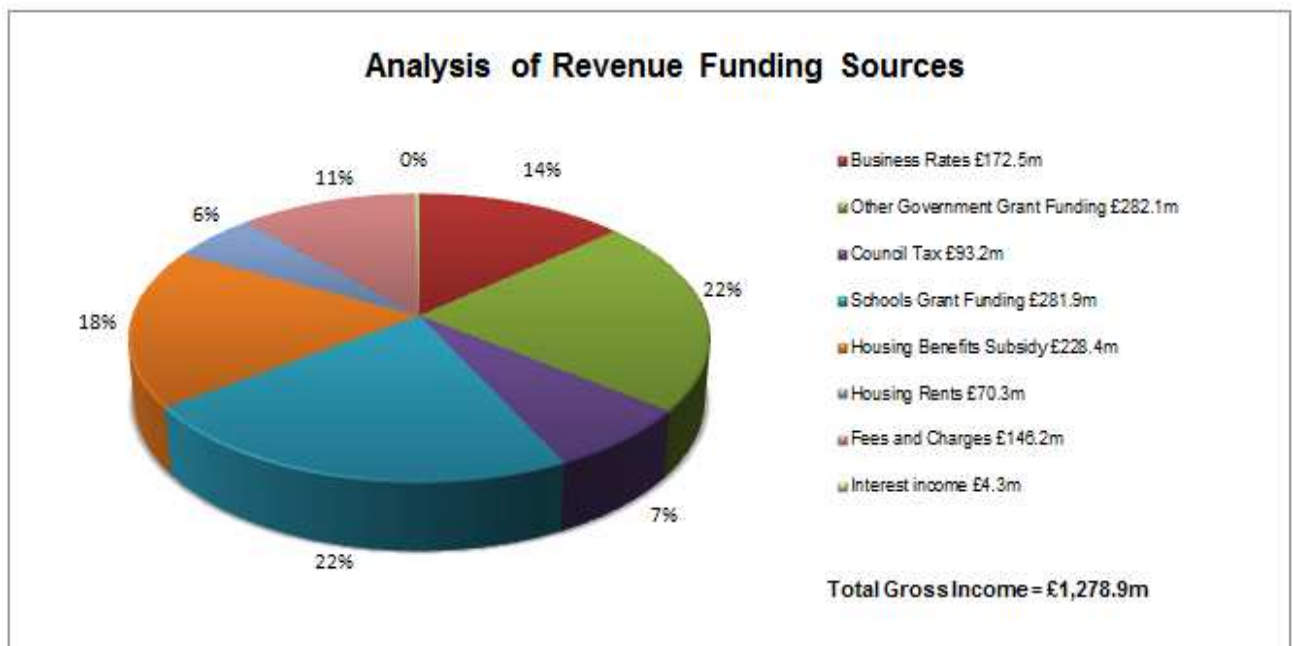
The Council's gross expenditure on services, excluding accounting adjustments, was £1.3 billion (£1.2 billion in 2017/18). An analysis by directorate is shown in the following diagram. Note that these expenditure figures are per the Council's management accounts spend and do not include the effect of technical accounting entries that appear in the Comprehensive Income and Expenditure Statement.



Revenue Funding

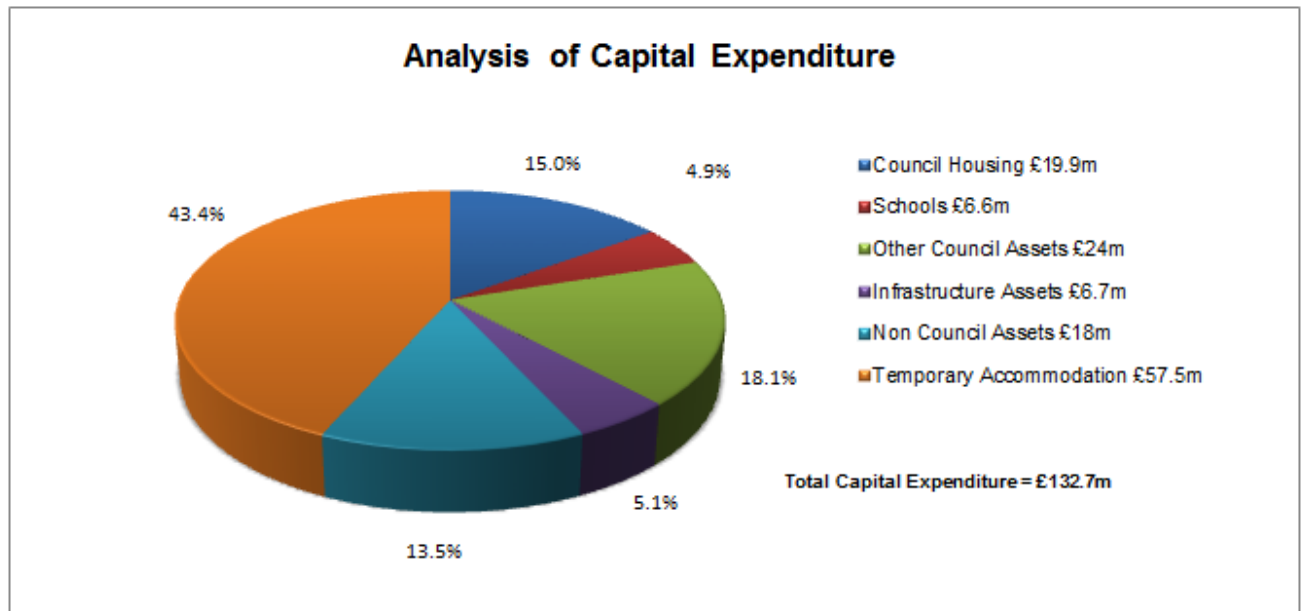
Business rates (£0.2 billion), and government grants and subsidies (£0.8 billion) continue to be the main sources of revenue funding

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



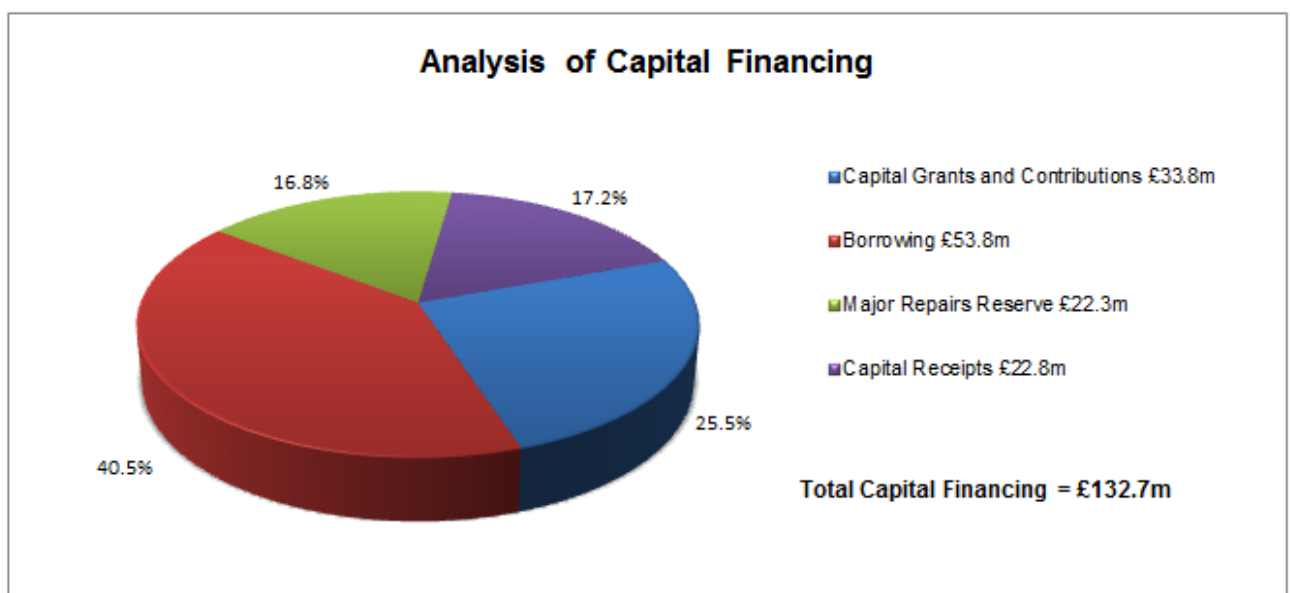
Capital Investment

The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on council housing and temporary accommodation.



Investment shown as being in 'non-Council assets' includes £2 million of expenditure on schools not owned by the Council and £9 million of expenditure on leaseholder properties.

The table below shows the sources of funding for the capital programme. The majority of this funding was from borrowing and capital grants and contributions. Purchase of properties to use as homeless accommodation were funded from borrowing to enable the use of retained receipts from right to buy sales.



Borrowing

At the year end the Council had outstanding borrowings of £79.1 million (£85.3 million 2017/18). This was reduced by repaying a £60m LOBO loan 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.

Despite investment values increasing by over £78 million in the year, at the end of 2018/19 there was a net liability of £661.6 million (£563 million 2017/18), this increased deficit is mainly due to a reduction in the discount factor used to calculate the net present value of liabilities. 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 with contributions to the scheme in future years. These contributions have been reflected in the Council's Medium Term Financial Strategy.

This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes took place at 31 March 2016 reporting a much lower deficit of £235m.

FURTHER INFORMATION

Further information about the accounts and a copy of the summary are available from the Divisional Director of Finance, Procurement and Audit, 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									
		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	FINANCIAL INSTRUMENT REVALUATION RESERVE £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEFERRED CAPITAL RECEIPTS £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
Balance as at 31 March 2017		31,737	159,335	39,077	9,460	156,849	82,029	478,487	464,595	1,525,678	(619,122)	(2,301)	0	0	(3,929)	0	1,364,921	1,843,408
Movement in reserves during 2017/18																		
Surplus or (Deficit) on the Provision of Services ¹		(110,253)	0	12,990	0	0	0	(97,263)	0	0	0	0	0	0	0	0	0	(97,263)
Other comprehensive expenditure and income		0	0	0	0	0	0	0	216,962	0	51,679	0	0	0	0	0	268,641	268,641
Total Comprehensive Expenditure and Income		(110,253)	0	12,990	0	0	0	(97,263)	216,962	0	51,679	0	0	0	0	0	268,641	171,378
Adjustments between accounting basis and funding basis under regulations ¹		94,414	0	(4,509)	(3,975)	37,707	10,807	134,444	(53,099)	(50,963)	(24,398)	(6,726)	0	0	742	0	(134,444)	0
Net Increase or Decrease before Transfers to Earmarked Reserves		(15,839)	0	8,481	(3,975)	37,707	10,807	37,181	163,863	(50,963)	27,281	(6,726)	0	0	742	0	134,197	171,378
Transfers to or from earmarked reserves	8	16,016	(16,016)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	1,341	(1,341)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in 2017/18		1,518	(17,357)	8,481	(3,975)	37,707	10,807	37,181	163,863	(50,963)	27,281	(6,726)	0	0	742	0	134,197	171,378
Balance as at 31 March 2018 carried forward		33,255	141,978	47,558	5,485	194,556	92,836	515,668	628,458	1,474,715	(591,841)	(9,027)	0	0	(3,187)	0	1,499,118	2,014,786
Movement in reserves during 2018/19																		
Surplus or (Deficit) on the Provision of Services		(56,761)	0	(41,067)	0	0	0	(97,828)	0	0	0	0	0	0	0	0	0	(97,828)
Other comprehensive expenditure and income		0	0	0	0	0	0	0	(136,520)	0	(57,444)	0	0	0	0	0	(193,964)	(193,964)
Total Comprehensive Expenditure and Income		(56,761)	0	(41,067)	0	0	0	(97,828)	(136,520)	0	(57,444)	0	0	0	0	0	(193,964)	(291,792)
Adjustments between accounting basis and funding basis under regulations		64,406	0	47,198	(5,485)	(3,643)	1,331	103,807	(8,955)	(48,486)	(26,737)	(1,892)	(17,417)	(538)	218	0	(103,807)	0
Net Increase or Decrease before Transfers to Earmarked Reserves		7,645	0	6,131	(5,485)	(3,643)	1,331	5,979	(145,475)	(48,486)	(84,181)	(1,892)	(17,417)	(538)	218	0	(297,771)	(291,792)
Transfers to or from earmarked reserves	8	(14,179)	14,179	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	86	(86)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		(6,448)	14,093	6,131	(5,485)	(3,643)	1,331	5,979	(145,475)	(48,486)	(84,181)	(1,892)	(17,417)	(538)	218	0	(297,771)	(291,792)
Balance as at 31 March 2019		26,807	156,071	53,689	0	190,913	94,167	521,647	482,983	1,426,229	(676,022)	(10,919)	(17,417)	(538)	(2,969)	0	1,201,347	1,722,994

¹ Adjusted for academy transfers in 2017/18 as per Note 2

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.

2017/18 (as restated)			Note	2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
538,699	406,776	131,923	Children’s Services	524,474	402,039	122,435
162,076	66,068	96,008	Health, Adults and Communities	175,518	76,283	99,235
154,392	82,636	71,756	Place	190,585	82,836	107,749
18,372	2,641	15,731	Governance	21,298	3,107	18,191
83,387	91,030	(7,643)	Local Authority Housing (Housing Revenue Account)	133,148	92,573	40,575
296,760	266,133	30,627	Resources	268,691	235,821	32,870
6,592	8,262	(1,670)	Corporate Cost and Central Items	2,369	28,925	(26,556)
1,260,278	923,546	336,732	NET COST OF SERVICES	1,316,083	921,584	394,499
		64,582	Other Operating Expenditure ¹			(7,714)
		23,253	Financing and Investment Income and Expenditure			38,702
		(327,304)	Taxation and Non-Specific Grant Income			(327,659)
		97,263	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			97,828
Other Comprehensive Income and Expenditure						
		(216,962)	(Surplus)/Deficit on revaluation of non-current assets			136,520
		(51,679)	Actuarial (gains) or losses on pension assets and liabilities			57,444
		(268,641)	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			193,964
(171,378) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE						291,792

¹ Adjusted for academy transfers in 2017/18 as per Note 2

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 2019.

31 March 2018 Restated ¹ £'000		Notes	31 March 2019 £'000
	Long-term Assets		
2,411,141	Property, plant and equipment	12	2,261,987
18,835	Heritage Assets	18	18,835
0	Long-term investments	15	67,461
590	Long Term Debtors	13	1,207
2,430,566	Total Long-term assets		2,349,490
	Current Assets		
359,126	Short-term investments	15	242,648
0	Assets held for sale	21	160
100,800	Short-term debtors	19	146,328
114,524	Cash and cash equivalents	20	103,217
574,450	Total Current Assets		492,353
	Current liabilities		
4,426	Short-term borrowing	15	5,219
157,986	Short-term creditors	22	179,302
7,373	Provisions	23	6,011
169,785	Total Current liabilities		190,532
	Long Term Liabilities		
7,160	Provisions	23	7,354
83,293	Long-term borrowing	15	72,289
562,923	Liability related to defined benefit pension schemes	41	661,560
104,772	Capital grants receipts in advance	37	127,991
61,454	Deferred liabilities	40	58,648
834	Deferred Income - Receipt in Advance		464
820,436	Total Long-Term Liabilities		928,306
2,014,795	NET ASSETS		1,723,005
	Reserves		
	Usable Reserves		
33,258	General Fund		26,809
47,561	Housing Revenue Account		53,692
118,605	Earmarked reserves	8	132,786
23,373	Schools reserves	8	23,287
194,556	Capital Receipts Reserve		190,913
92,836	Capital Grants Unapplied		94,167
5,485	Major Repairs Reserve		0
515,674	Total Usable Reserves		521,654
	Unusable Reserves	25	
628,456	Revaluation Reserve		482,981
1,474,721	Capital Adjustment Account		1,426,235
(9,027)	Collection Fund Adjustment Account		(10,919)
0	Financial Instruments Adjustment Account		(17,417)
0	Financial Instruments Revaluation Reserve		(538)
(591,841)	Pensions Reserve		(676,022)
(3,187)	Accumulated Absences Account		(2,969)
1,499,121	Total Unusable Reserves		1,201,351
2,014,795	TOTAL RESERVES		1,723,005

¹ Adjusted for academy transfers in 2017/18 as per Note 2



Date 31/05/2019

Neville Murton - Corporate Director of Resources

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.

2017/18 As restated ¹ £'000		Notes	2018/19 £'000
(97,263)	Net surplus or (deficit) on the provision of services		(97,828)
160,675	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	127,350
(70,596)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	9,937
(7,184)	Net cash flows from Operating Activities		39,459
(58,900)	Investing Activities	<u>27</u>	(47,979)
(3,691)	Financing Activities	<u>28</u>	(2,787)
(69,775)	Net increase or decrease in cash and cash equivalents		(11,307)
184,299	Cash and cash equivalents at the beginning of the reporting period		114,524
114,524	Cash and cash equivalents at the end of the reporting period	<u>20</u>	103,217

¹ Adjusted for academy transfers in 2017/18 as per Note 2

1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018-19 financial year and its position at the year-end of 31st March 2019. 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 2018-19 and the *Service Reporting Code of Practice (SeRCOP) 2018-19*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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 for the year ending 31st March 2019 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 to be accrued.

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.

The council has also decided to make a voluntary MRP contribution for HRA properties equal to 100% over the life of the asset as recommended in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. This is subject to Council approval and will be adopted from 2019/20

6. Accounting Standards not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the code.

The following new standards are in the 2019-20 code:

- *IFRS 16 Leases - will be a substantial change in accounting for lessees. It will mean local authorities recognising the right-of-use asset on the balance sheet for the majority of leases with a corresponding lease liability representing the lessee's obligation to make lease payments for the asset.*

7. Charges to Revenue for Non Current 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 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.*

8. Council Tax and Non-domestic Rates (England)

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income 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 as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

9. 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 authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority 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 2019.

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
- this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- 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.

10. 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:

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

11. 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. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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.

MHCLG has approved a statutory override to enable Local Authorities to defer fair value gains and losses on pooled funds through unusable reserves from 2018/19 onwards. The council has elected to designate pooled funds through other comprehensive income (FVOCI), which allows fluctuations in fair value to be taken to the Financial Instruments Revaluation Reserve.

Early Loan Redemption – Premia and discounts on the early redemption of loans are charged to the comprehensive income and expenditure accounts. Premia are then normally charged to the financial instrument adjustment account (FIAA) over the unexpired period of the loan repaid unless loan modification regulations apply. A LOBO loan was repaid prematurely in November 2018, the premium has been spread over the unexpired period of the loan through the FIAA.

12. 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. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

13. 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.

14. 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 Council does not actively acquire or dispose of heritage assets as part of its normal day-to-day business. Where the Council holds heritage assets, these have usually been donated. Where the Council does acquire or dispose of a heritage asset, treatment of each asset will be considered on a case by case basis.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £18.8 million at 31 March 2019. 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 what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. For example this may include 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.

15. 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 44). 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.

The Council has set up a wholly owned company, Seahorse Homes and is a minority shareholder in Mulberry Housing Society. As these companies have not commenced significant trading by 31st March 2019 and do not have material assets or liabilities other than small working capital loans, group accounts have not been required.

16. 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.

17. 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.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

- 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.

18. 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 2018-19 (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.

19. 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:

- **dwellingings** - straight-line allocation over the useful life of the property as estimated by the valuer
- **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.

20. 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.

21. 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 30 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

There are a number of NDR appeals outstanding that date back to 2005. These are to be heard by the Government's external Valuation Office. A provision has been raised based on an estimate of the income from a lower valuation

27. Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its second phase which commenced on 1 April 2014 and will run until March 2019, after which point the government has announced its abolition. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

28. Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

29. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

30. Prior Period Adjustments

Where an error or information comes to light that materially affects the understanding of the previous period's accounts, then a prior period adjustment is made. The restated figures are explained in note 2 to the accounts.

For 2017/18, four schools were identified that had transferred to academy status after the accounts had been prepared. The material value of these assets warrant a prior period adjustment to the 2017/18 comparative figures, though the usable reserves of the Council remain unchanged.

2 Restated Accounting Statements

During 2018/19, it became apparent that four schools had transferred out of Council control to academy status during 2017/18. These schools were; Ian Mikardo High Special Needs School, PFI Mulberry Secondary School, PFI Clara Grant School and PFI Stepney Green Secondary School.

Although these school transfers did not affect the usable financial resources of the Council as at 31st March 2018, it has been necessary to restate the 2017/18 statements to remove the value of the schools from the balance sheet. The book value of the schools was £75.850 million as at 31st March 2018.

Restated financial statements are outlined below:

MOVEMENT IN RESERVES STATEMENT

	Usable Reserves 31st March 2018 previously stated	Academies Removed	Usable Reserves 31st March 2018 restated	Unusable Reserves 31st March 2018 previously stated	Academies Removed	Unusable Reserves 31st March 2018 restated
	£'000	£'000	£'000	£'000	£'000	£'000
Surplus or (Deficit) on the Provision of Services	(21,413)	(75,850)	(97,263)	0	0	0
Total Comprehensive Expenditure and Income	(21,413)	(75,850)	(97,263)	268,641	0	268,641
Adjustments between accounting basis & funding basis under regulations	58,594	75,850	134,444	(58,594)	(75,850)	(134,444)
Net Increase or Decrease before Transfers to Earmarked Reserves	37,181	0	37,181	210,047	(75,850)	134,197
Balance as at 31 March 2018	33,255	0	33,255	1,574,968	(75,850)	1,499,118

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	Net Expenditure 2017/18 previously stated	Academies Removed	Net Expenditure 2017/18 restated
	£'000	£'000	£'000
Other Operating Expenditure	(11,268)	75,850	64,582
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	21,413	75,850	97,263
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	(247,228)	75,850	(171,378)

BALANCE SHEET

	Balance as at 31 March 2018 previously stated	Academies Removed	Balance as at 31 March 2018 restated
	£'000	£'000	£'000
Property, Plant and Equipment	2,486,991	(75,850)	2,411,141
Total Long-Term Assets	2,506,416	(75,850)	2,430,566
NET ASSETS	2,090,643	(75,850)	2,014,793
Revaluation Reserve	665,233	(36,775)	628,458
Capital Adjustment Account	1,513,792	(39,075)	1,474,717
Total Unusable Reserves	1,574,970	(75,850)	1,499,120
TOTAL RESERVES	2,090,643	(75,850)	2,014,793

3 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 events 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 2019 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 2018 and 31st March 2019 have been used to construct the balance sheet.

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 £1.0 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 1,000 NNDR (Business Rates) appeals that are yet to be heard by the Government's Valuation Tribunal. Provision is being made in 2019/20 for appeals where there might be a reduction in NNDR due.

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 within the IAS19 calculation basis. During 2018/19, the Council's actuaries advised that the net pensions liability had increased by over £98 million to £662 million mainly as a result of a lower discount factor used to calculate the net present value of liabilities, this is despite a £79 million increase in asset values.

4 Material Items of Income and Expense

Current Year Items

LOBO loan repayment - A £60m LOBO loan was repaid in November 2018. An early termination premium of £17.852m was payable. This premium cost will be charged over the remaining 42 years of the loan.

Revaluation of Properties - an £81m unrealised revaluation loss on the value of property (of which, £44m relates to HRA dwellings) is included in the net cost of services on the face of the Comprehensive Income & Expenditure Account. The total change in the value of property due to revaluations during 2018/19 was an decrease of £218m. The net decrease credited to the revaluation reserve was £136m (of which, £123m relates to HRA dwellings), which is shown as part of other comprehensive income and expenditure.

5 Events After the Balance Sheet Date

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

6 Expenditure and Funding Analysis

This statement shows the reconciliation between the net expenditure in the Comprehensive Income and Expenditure Account and the expenditure chargeable to the General Fund and Housing Revenue Account balances.

2017/18 (as restated)				2018/19		
Expenditure Chargeable to GF and HRA balances	Adjustments between funding and accounting basis	Net Expenditure in the CIES		Expenditure Chargeable to GF and HRA balances	Adjustments between funding and accounting basis	Net Expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
107,576	24,347	131,923	Children's Services	107,821	14,614	122,435
139,143	(43,135)	96,008	Health, Adults and Communities	140,897	(41,662)	99,235
63,416	8,340	71,756	Place	67,341	40,408	107,749
13,392	2,339	15,731	Governance	14,309	3,882	18,191
(8,481)	838	(7,643)	Local Authority Housing (Housing Revenue Account)	(6,128)	46,706	40,578
27,046	3,581	30,627	Resources	21,925	10,944	32,869
(6,178)	4,508	(1,670)	Corporate Cost and Central Items	(3,882)	(22,674)	(26,556)
335,914	818	336,732	NET COST OF SERVICES	342,283	52,218	394,501
(345,913)	106,444	(239,469)	Other Income and Expenditure	(341,963)	45,292	(296,671)
(9,999)	107,262	97,263	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES	320	97,510	97,830
(70,819)			Opening General Fund and HRA balances	(80,819)		
(9,999)			Less Deficit/(Surplus) on General Fund and HRA Balance in Year	320		
(80,818)			CLOSING GENERAL FUND AND HRA BALANCES	(80,499)		

6a Note to the Expenditure and Funding Analysis

This statement shows the adjustments from the net chargeable amounts to the General Fund and Housing Revenue Account to arrive at the Comprehensive Income and Expenditure Statement amounts:

Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	2017/18 (As restated) Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments		Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	2018/19 Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments
£'000	£'000	£'000	£'000	£'000		£'000	£'000		£'000	£'000
22,888	2,457	7,692	(8,690)	24,347	Children's Services	11,300	2,207	9,297	(8,190)	14,614
0	(1,163)	4,116	(46,088)	(43,135)	Health, Adults and Communities	0	830	5,367	(47,859)	(41,662)
487	628	7,844	(619)	8,340	Place	30,948	172	9,434	(146)	40,408
0	0	2,234	105	2,339	Governance	0	1,764	2,077	41	3,882
7,397	0	(3,040)	(3,519)	838	Local Authority Housing (Housing Revenue Account)	53,393	0	(3,040)	(3,647)	46,706
(1,901)	(463)	5,937	8	3,581	Resources	(776)	4,745	6,972	3	10,944
13,225	6,823	(15,590)	50	4,508	Corporate Cost and Central Items	12,723	(19,082)	(18,409)	2,094	(22,674)
42,096	8,282	9,193	(58,753)	818	NET COST OF SERVICES	107,588	(9,364)	11,698	(57,704)	52,218
25,067	2,453	15,206	63,718	106,444	Other income and expenditure from the Expenditure and Funding Analysis	(41,391)	(3,705)	15,039	75,349	45,292
67,163	10,735	24,399	4,965	107,262	DIFFERENCE BETWEEN SURPLUS OR DEFICIT AND THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	66,197	(13,069)	26,737	17,645	97,510

Adjustments for Capital Purposes

This column includes the following adjustments:

- Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these are not chargeable to the Comprehensive Income and Expenditure Statement
- Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Transfers to/from Earmarked Reserves

This column adjusts for the application of earmarked reserves against expenditure and the transfer of any balances to earmarked reserves which are not included in the Comprehensive Income and Expenditure Statement as they are not chargeable under generally accepted accounting practices.

Net Change for Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs
- Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

Other Adjustments

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- Services – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.
- Other income and expenditure – this column represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2018/19	USABLE RESERVES						UNUSABLE RESERVES	
	GENERAL FUND BALANCE	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
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	19,193	0	16,864	0	0	36,057	(36,057)	0
Revaluation losses on PPE (charged to SDPS)	36,638	44,789	0	0	0	81,427	(81,427)	0
Capital grants and contributions applied	(12,393)	(3,256)	0	0	(18,996)	(34,645)	34,645	0
Revenue expenditure funded from capital under statute	8,942	9,013	0	0	0	17,955	(17,955)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,175	8,396	0	0	0	9,571	(9,571)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>								
Statutory provision for the financing of capital investment	(8,188)	(451)	0	0	0	(8,639)	8,639	0
Capital expenditure charged against the General Fund and HRA balances	810	42	0	0	0	852	(852)	0
Adjustments involving the Capital Receipts Reserve								
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	0	(22,309)	0	22,309	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(22,788)	0	(22,788)	22,788	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	4,284	0	0	(4,284)	0	0	0	0
Unattached capital receipts	(428)	(692)	0	1,120	0	0	0	0
Deferred Capital Receipts	0	0	0	0	0	0	0	0
Adjustment involving the Major Repairs Reserve								
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	(22,349)	0	0	(22,349)	22,349	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	0	17,417	0	0	0	17,417	(17,417)	0
Adjustment involving the Pensions Reserve								
Reversal of items relating to retirement benefits debited or credited to the CIES	68,594	1,231	0	0	0	69,825	(69,825)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(40,048)	(3,040)	0	0	0	(43,088)	43,088	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	1,892	0	0	0	0	1,892	(1,892)	0
<u>Other adjustments include</u>								
Adjustments involving the Capital Grants Unapplied Account								
Capital grants and contributions unapplied credited to CIES when receivable	(16,385)	(3,942)	0	0	20,327	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
Revaluation gains written out on disposal	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	(218)	0	0	0	0	(218)	218	0
Adjustments involving the Financial Instruments Revaluation Reserve								
Unrealised gains and losses on valuation of investments	538	0	0	0	0	538	(538)	0
Total Adjustments	64,406	47,198	(5,485)	(3,643)	1,331	103,807	(103,807)	0

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2017/18 (as restated)	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	
	£'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	19,954	0	0	18,038	0	0	37,992	(37,992)	0
Revaluation losses on PPE (charged to SDPS)	19,985	0	0	0	0	0	19,985	(19,985)	0
Capital grants and contributions applied	(9,091)	0	(1,720)	0	0	(23,935)	(34,746)	34,746	0
Revenue expenditure funded from capital under statute	10,808	0	10,047	0	0	0	20,855	(20,855)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	95,830	0	25,004	0	0	0	44,984	(44,984)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,483)	0	(449)	0	0	0	(7,932)	7,932	0
Capital expenditure charged against the General Fund and HRA balances	(8,372)	0	(2,201)	0	0	0	(10,573)	10,573	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(30,156)	0	(26,788)	0	56,944	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(20,340)	0	(20,340)	20,340	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,737	0	0	0	(1,737)	0	0	0	0
Unattached capital receipts	(260)	0	(2,580)	0	2,840	0	0	0	0
Deferred Capital Receipts	0	0	0	0	0	0	0	0	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(22,013)	0	0	(22,013)	22,013	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	0	0		0	0	0	0	0	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	63,576	0	1,225	0	0	0	64,801	(64,801)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(37,363)	0	(3,040)	0	0	0	(40,403)	40,403	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	6,726	0	0	0	0	0	6,726	(6,726)	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	(30,735)	0	(4,007)	0	0	34,742	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	(742)	0	0	0	0	0	(742)	742	0
Total Adjustments	18,564	0	(4,509)	(3,975)	37,707	10,807	58,594	(58,594)	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 posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19.

	BALANCE AT 31 MARCH 2017 £000	TRANSFERS OUT 2017/18 £000	TRANSFERS IN 2017/18 £000	BALANCE AT 31 MARCH 2018 £000	TRANSFERS OUT 2018/19 £000	TRANSFERS IN 2018/19 £000	BALANCE AT 31 MARCH 2019 £000
GENERAL FUND							
General Fund Reserve	31,740	0	1,518	33,258	(6,449)	0	26,809
EARMARKED RESERVES							
1 Transformation	25,000	(10,025)	0	14,975	(5,777)	0	9,198
2 ICT / Finance Systems	23,068	(2,100)	0	20,968	(4,865)	0	16,103
3 Other	962	(209)	176	929	0	0	929
4 Parking Control	3,295	0	0	3,295	0	0	3,295
5 Building Control	373	(156)	0	217	0	0	217
6 Land Charges	749	0	0	749	0	0	749
7 Adults, Health & Wellbeing (including Public Health)	0	0	1,297	1,297	0	420	1,717
8 Insurance	20,771	0	463	21,234	0	0	21,234
9 Schools Balances	24,714	(1,341)	0	23,373	(86)	0	23,287
10 Housing Revenue Account (HRA)	39,079	0	8,481	47,560	0	6,131	53,691
11 New Civic Centre	20,000	(2,753)	0	17,247	0	0	17,247
12 New Homes Bonus	7,258	0	4,855	12,113	0	16,826	28,939
13 Free School Meals	6,000	(2,000)	0	4,000	0	0	4,000
14 Mayor's Investment Priorities	10,000	(2,980)	0	7,020	(2,380)	0	4,640
15 Risk Reserve	10,500	(2,346)	600	8,754	(5,345)	978	4,387
16 Collection Fund Smoothing Reserve	0	0	0	0	0	14,943	14,943
17 Revenue Grants	1,643	(385)	483	1,741	(172)	253	1,822
18 Mayor's Tackling Poverty Reserve	5,000	(934)	0	4,066	(700)	0	3,366
Earmarked Reserve Total	198,412	(25,229)	16,355	189,538	(19,325)	39,551	209,764
Total Usable Reserve Total	230,152	(25,229)	17,873	222,796	(25,774)	39,551	236,573

Corporate Reserves

- 1 Reserve created to support the delivery of the Council's transformation programme.
- 2 Reserve to support the planned investment in Council's finance systems.
- 3 Other - mainstream grants fund.
- 4 Parking control reserve.
- 5 Building Control reserve created from Building Control service revenue.
- 6 Reserve created from Land Charges revenue.
- 7 Reserves held for Adults, Health and Wellbeing and Public Health services.
- 8 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.
- 9 Reserves held by schools under the scheme of delegation.
- 10 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 11 Reserve to contribute towards funding of new Civic Centre.
- 12 Unspent New Homes Bonus receipts to be used to fund housing schemes.
- 13 Reserve to fund free school meals programme.
- 14 Reserve to fund Mayor's Investment Priority schemes.
- 15 Risk Reserve to manage funding of risks arising.
- 16 Collection Fund Smoothing Reserve - used to manage fluctuations in receivable NNDR
- 17 Unspent revenue grants without repayment conditions.
- 18 Contribution toward funding of welfare reform programme.

9 Other Operating Expenditure

2017/18 As restated ¹ £'000	Note	2018/19 £'000
Levies		
233 - Lee Valley Regional Park Authority		230
201 - Environment Agency		216
1,358 - London Pensions Fund Authority		1,414
3 - Financial Reporting Council		0
1,795 Total Levies		1,860
1,737 Payments to Housing Capital Receipts Pool		4,284
63,891 Net (gain) / loss on disposal of non-current assets		(12,738)
(2,841) Unattached capital receipts		(1,120)
64,582 Total		(7,714)

¹ Adjusted for academy transfers in 2017/18 as per Note 2

10 Financing and Investment Income and Expenditure

2017/18 £'000		2018/19 £'000
10,800 Interest payable and similar charges		27,917
15,206 Pensions interest cost and expected return on pensions assets		15,039
(2,950) Interest receivable and similar income	<u>15</u>	(4,259)
197 Surplus or deficit of trading operations	<u>29</u>	5
23,253 Total		38,702

11 Taxation and Non Specific Grant Income

2017/18 £'000		2018/19 £'000
(87,150) Council Tax income		(93,185)
(118,562) Non domestic rates		(172,506)
(83,872) Non-ringfenced Government grants	<u>37</u>	(30,152)
(37,720) Capital grants and contributions	<u>37</u>	(31,816)
(327,304) Total		(327,659)

12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2018/19	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 2018	1,201,039	1,036,252	24,833	162,286	54,858	8,022	9,507	2,496,797	204,508
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	0	0	0	0	0	1,888	0
Adjusted cost/valuation at 1 April 2018	1,201,143	1,038,036	24,833	162,286	54,858	8,022	9,507	2,498,685	204,508
Additions	19,898	68,644	1,175	6,736	742	0	17,583	114,778	1,784
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(138,582)	(27,923)	0	0	0	0	0	(166,505)	(17,791)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(44,178)	(37,250)	0	0	0	0	0	(81,427)	(3,842)
Derecognition - Disposals	(8,518)	0	0	0	0	0	0	(8,518)	0
Derecognition - Other	0	(1,177)	0	0	0	0	0	(1,177)	0
Assets Reclassified (to)/from Held for Sale	0	(169)	0	0	0	0	0	(169)	0
Other Reclassification of Assets	992	(15,422)	0	0	0	0	14,430	0	0
At 31 March 2019	1,030,755	1,024,738	26,008	169,022	55,600	8,022	41,521	2,355,666	184,659
Accumulated Depreciation and Impairment									
At 1 April 2018	(104)	9,702	22,296	53,753	6	3	0	85,656	2,835
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	0	0	0	0	0	1,888	0
Adjusted accumulated depreciation at 1 April 2018	0	11,486	22,296	53,753	6	3	0	87,544	2,835
Depreciation charge	15,912	15,816	591	3,932	0	4	0	36,255	3,436
Depreciation written out to the Revaluation Reserve	(15,828)	(14,158)	0	0	0	0	0	(29,986)	(3,236)
Derecognition - Disposals	(124)	0	0	0	0	0	0	(124)	0
Derecognition - Other	0	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	(9)	0	0	0	0	0	(9)	0
Other Reclassification of Assets	40	(1,061)	0	0	0	0	1,020	(1)	0
At 31 March 2019	0	12,074	22,887	57,685	6	7	1,020	93,679	3,035
Net Book Value									
At 31 March 2019	1,030,755	1,012,664	3,121	111,337	55,594	8,015	40,501	2,261,987	181,624
At 31 March 2018	1,201,143	1,026,550	2,537	108,533	54,852	8,019	9,507	2,411,141	201,673

12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2017/18	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLU S ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	As restated ¹ £'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2017	1,342,492	992,333	24,691	157,546	54,414	7,575	31,517	2,610,568	257,384
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	0	(166,622)	5,212
Adjusted cost/valuation at 1 April 2018	1,203,994	963,827	24,647	157,545	54,415	8,001	31,517	2,443,946	262,596
Additions	19,853	74,341	186	4,741	443	21	4,071	103,656	5,862
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(23,954)	110,949	0	0	0	0	0	86,995	16,294
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	0	(19,985)	0	0	0	0	0	(19,985)	(11,651)
Derecognition - Disposals	(12,724)	(92,233)	0	0	0	0	0	(104,957)	(68,593)
Derecognition - Other	(12,211)	(647)	0	0	0	0	0	(12,858)	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	26,081	0	0	0	0	0	(26,081)	0	0
At 31 March 2018	1,201,039	1,036,252	24,833	162,286	54,858	8,022	9,507	2,496,797	204,508
Accumulated Depreciation and Impairment									
At 1 April 2017	151,745	112,337	21,787	49,940	5	(426)	0	335,388	23,782
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	0	(166,622)	5,212
Adjusted accumulated depreciation at 1 April 2018	13,247	83,831	21,743	49,939	6	0	0	168,766	28,994
Depreciation charge	17,053	16,766	553	3,814	0	3	0	38,189	4,038
Depreciation written out to the Revaluation Reserve	(29,850)	(90,618)	0	0	0	0	0	(120,468)	(30,197)
Derecognition - Disposals	(188)	(252)	0	0	0	0	0	(440)	0
Derecognition - Other	(366)	(25)	0	0	0	0	0	(391)	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 2018	(104)	9,702	22,296	53,753	6	3	0	85,656	2,835
Net Book Value									
At 31 March 2018	1,201,143	1,026,550	2,537	108,533	54,852	8,019	9,507	2,411,141	201,673
At 31 March 2017	1,190,747	879,996	2,904	107,606	54,409	8,001	31,517	2,275,180	233,602

¹ Adjusted for academy transfers in 2017/18 as per Note 2

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 advised by qualified valuer.
- 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 at 31st March 2019 as below:

	Committed sum £'000	Costs to 31/3/2019 £'000	2019/20 onwards £'000
Bow Site - SEN Provision (Phoenix)	13,887	211	13,676
Bartlett Park Improvements	3,406	525	2,881
Whitechapel Civic Centre	109,500	12,146	97,354
Raine House (Wapping Community Hub)	1,263	86	1,177
Granby Community Hub	1,629	391	1,238
New Housing - Infill Sites - Baroness	28,500	8,338	20,162
Barnsley East - Phase 1: Community Centre	1,352	258	1,094
TOTAL	159,537	21,955	137,582

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 2018/19, school assets held at depreciated replacement cost (DRC) were also subject to a desktop valuation as at 31st March 2019. A summary of total valuation per asset category is shown below.

In 2018/19, 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 2016'.

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	-	59,836	3,121	111,337	55,593	-	40,501	270,388
Valued at current value in:								
2018/19	1,030,755	723,068	-	-	-	-	-	1,753,823
2017/18	-	124,139	-	-	-	-	-	124,139
2016/17	-	30,527	-	-	-	274	-	30,801
2015/16	-	50,491	-	-	-	7,741	-	58,232
2014/15	-	24,603	-	-	-	-	-	24,603
Value at 31 March 2019	1,030,755	1,012,664	3,121	111,337	55,593	8,015	40,501	2,261,986

13 LONG TERM DEBTORS

	1st April 2017 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2018 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2019 £'000
Mortgages on Right to Buy properties	26	0	0	26	1	0	27
Sundry Loans	592	86	(114)	564	1,117	(501)	1,180
	618	86	(114)	590	1,118	(501)	1,207

Sundry Loans - During 2018/19, loans totalling £420k were advanced to Seahorse Homes, a wholly owned company, £400k was repaid as not required for scheme financing during 2018/19. A working capital loan of £10k was also advanced to Mulberry Housing Society, a community benefit society. Loans of £600k were also advanced to Oxford House, a local charitable organisation. These loans were provided at market rates.

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
	2018	2019	2018	2019	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Liabilities						
Borrowings at amortised cost	83,293	72,289	2,009	2,413	85,301	74,702
Deferred Liabilities (PFI and Finance Leases)	61,454	58,650	2,417	2,806	63,871	61,455
Creditors - Financial Liabilities carried at contract amount	0		50,245	50,120	50,245	50,120
Total Liabilities	144,747	130,939	54,671	55,339	199,418	186,277
Financial Assets						
Long Term Investments - Pooled Funds (Elected through FVOCI)	0	55,461	0	180	0	55,641
Loans and receivables	0	12,000	359,126	242,468	359,126	254,468
Debtors - financial assets carried at contract amounts	0	0	6,289	8,028	6,289	8,028
Cash held at bank and cash equivalents	0	0	82,889	103,217	82,889	103,217
Total Financial Assets	0	67,461	448,304	353,893	448,304	421,354

NOTES

1. Market loans of £17.5 million have been included in long term borrowing. A £60m of LOBO (lender's option, borrower's option) loan was redeemed prematurely in November 2018.

2. Included in loans and receivables is £5m of deposits due to be settled within 1 and 3 years as at 31 March 2019.

3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, stepped deposits, collar/structured deposits, certificates of deposits, call accounts and money market funds.

4. The terms of the stepped deposits of £5m from 20 August 2018 - 20 August 2021 earn an interest rate of 1.2% in the first year; 1.35% in the second year and 1.50% in the final year.

5. Balances in the money market funds at 31 March 2019 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 £17.5 million (£106.9 million as at 31st March 2018) of short-term deposits with banks and building societies excluded from loans and receivables.

6. The above long term figures are based on holding the instrument for its full term.

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. As at 31 March 2019 the Tower Hamlets Homes Pension Fund had an IAS19 deficit of £7.3 million.

15 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:

	2017/18		2018/19	
	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	10,800	0	10,065	0
Loan repayment penalty	0	0	17,852	0
Interest income	0	2,950	0	4,797
Unrealised Losses on Pooled Funds - through FVOCI	0	0	0	(538)
TOTAL INTEREST AND INVESTMENT INCOME	10,800	2,950	27,917	4,259

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 2019.
- 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 2018	31 March 2018	31 March 2019	31 March 2019
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Public Works Loans Board	7,483	8,803	57,125	80,363
Market Loans - Fixed Interest	17,577	33,635	17,577	29,081
Market Loans - Lender's option, borrower's option loans	60,241	98,520	0	0
Deferred liabilities - (PFI/Finance Leases)	63,871	63,871	61,455	61,455
Creditors - Financial Liabilities carried at contract amount	50,245	50,245	50,120	50,120
Financial Liabilities	199,418	255,074	186,277	221,019

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 2018	31 March 2018	31 March 2019	31 March 2019
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Fixed term deposits with banks and building societies	359,119	356,207	254,461	252,200
Pooled Funds - Elected through FVOCI	0	0	55,641	55,834
Equity Shares (not quoted in an active market)	7	7	7	7
Debtors - financial assets carried at contract amounts	6,289	6,289	8,028	8,028
Cash held at Bank	31,635	31,635	35,015	35,015
Cash equivalents (deposits with banks and other financial institutions)	82,889	82,790	68,202	68,143
Financial Assets	479,939	476,928	421,354	419,227

The fair value is lower than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is lower than the rates available for similar investments 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 2018 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2018 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	101,688	0%	0%	0%
Money Market Funds	12,836	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	82,112	0%	0%	0%
6 - 12 months	209,660	0%	0%	0%
Over 12 months	67,347	0%	0%	0%
TOTAL	473,643	0%	0%	0%

	Amounts at 31 March 2019 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2019 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	103,217	0%	0%	0%
Money Market Funds	0	0%	0%	0%
Pooled Funds - Elected through FVOCI	55,641	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	40,079	0%	0%	0%
6 - 12 months	202,227	0%	0%	0%
Over 12 months	12,155	0%	0%	0%
TOTAL	413,319	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 £1.8 million of the £x million balance (2017/18 - £1.4 million of the £66 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 2018 £'000	31 March 2019 £'000
Three to six months	337	349
Six months to one year	241	400
More than one year	822	1,009
TOTAL	1,400	1,758

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 2018 £'000	31 March 2019 £'000
Public Works Loans Board	7,483	57,125
Market debt	77,818	17,577
PFI / Finance Leases	63,871	61,455
TOTAL	149,172	136,157
Less than 1 year	4,425	5,219
Between 1 and 2 years	3,808	3,767
Between 2 and 5 years	14,231	15,189
Between 5 and 10 years	27,083	23,980
More than 10 years	99,626	88,004
TOTAL	149,172	136,157

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 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2017/18 £'000	2018/19 £'000
Increase in interest payable on variable rate borrowings	600	0
Increase in interest receivable on variable rate investments	(3,900)	(883)
Impact on Income and Expenditure Account	(3,300)	(883)

Fair Value Movements	2017/18 £'000	2018/19 £'000
Decrease in fair value of fixed rate investments	492	820
Decrease in fair value of fixed rate borrowing liabilities	336	0
Impact on Income and Expenditure Account	828	820

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)

	2017/18 £'000	2018/19 £'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 2019 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. It was not practicable or cost effective to obtain valuations prior to 2010.

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 2017 £'000	2017/18 Acquisitions £'000	2017/18 Disposals £'000	2017/18 Revaluation £'000	Balance at 31st March 2018 £'000	2018/19 Acquisitions £'000	2018/19 Disposals £'000	2018/19 Revaluation £'000	Balance at 31st March 2019 £'000
Value of Heritage Assets held by Council									
(a) - Works of art	8,910	0	0	9,500	18,410	0	0	0	18,410
(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)	12	24	0	0	36	0	0	0	36
TOTAL HERITAGE ASSETS	9,311	24	0	9,500	18,835	0	0	0	18,835

(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. This value includes a sculpture valued at £18m was relocated to the Borough during 2017/18.

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 Bonham's 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 £238k and is not yet completed. The asset is shown at historical cost.

19 DEBTORS

	31 March 2017 £'000	31 March 2018 £'000
Central government bodies	31,218	29,342
Other local authorities	186	9,642
Other entities and individuals	65,688	99,561
Payments in advance	3,708	7,783
Total	100,800	146,328

20 CASH AND CASH EQUIVALENTS

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

	31 March 2018 £'000	31 March 2019 £'000
Cash held by the Council	31,635	35,015
Short-term deposits with banks and building societies	82,889	68,202
Total Cash and Cash Equivalents	114,524	103,217

21 ASSETS HELD FOR SALE

As at the 31st March 2018, the Council has no properties which are classified as Assets Held for Sale. There was one property as at 31st March 2017 which was sold during 2017/18.

	Current		Non Current	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Value at 1st April	3,850	0	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	0	160	0	0
Revaluation losses	0	0	0	0
Revaluation gains	0	0	0	0
Assets declassified as held for sale:				
Property, Plant and Equipment	0	0	0	0
Assets sold	(3,850)	0	0	0
Value at 31st March	0	160	0	0

22 CREDITORS

	31 March 2018 £000	31 March 2019 £000
Central government bodies	10,803	18,443
Other local authorities	8,432	18,588
Other entities and individuals	67,865	72,584
Accruals	50,245	50,120
Receipts in advance	20,641	19,567
Total	157,986	179,302

23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 31 March 2017 £'000	Amounts used in 2017/18 £'000	Contributions in 2017/18 £'000	Balance at 31 March 2018 £'000	Amounts used in 2018/19 £'000	Contributions in 2018/19 £'000	Balance at 31 March 2019 £'000
(a) Single Status	62	0	0	62	0	0	62
(b) ICT provision and other corporate provisions	3,906	(372)	490	4,024	(73)	405	4,356
(c) Contract disputes	304	0	0	304	0	0	304
(d) Business rates appeals provision	583	(3,450)	5,850	2,983	(7,635)	5,941	1,289
TOTAL	4,855	(3,822)	6,340	7,373	(7,708)	6,346	6,011

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

LONG-TERM PROVISIONS	Balance at 31 March 2017 £'000	Amounts used in 2017/18 £'000	Contributions in 2017/18 £'000	Balance at 31 March 2018 £'000	Amounts used in 2018/19 £'000	Contributions in 2018/19 £'000	Balance at 31 March 2019 £'000
(e) Insurance Fund	7,004	(113)	100	6,991	(304)	498	7,185
(f) Repayment of deposits	169	0	0	169	0	0	169
TOTAL	7,173	(113)	100	7,160	(304)	498	7,354
							13,365

- (a) For additional costs resulting from single status type agreements which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provisions including adult social care payments due in 2019/20.
- (c) Provision for contract disputes.
- (d) Council share of provision for NNDR business rates appeals.
- (e) 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.
- (f) 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.

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 2018 £'000	31 March 2019 £'000
628,456 Revaluation Reserve	482,981
1,474,721 Capital Adjustment Account	1,426,235
0 Financial Instruments Adjustment Account	(17,417)
(591,841) Pensions Reserve	(676,022)
(9,027) Collection Fund Adjustment Account	(10,919)
(3,187) Accumulating Compensated Absences Adjustment Account	(2,969)
0 Financial Instruments Revaluation Reserve	0
1,499,122 Total Unusable Reserves	1,201,889

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.

2017/18 As restated ¹ £'000	2018/19 £'000
464,595 Balance at 1 April	628,456
348,291 Upward revaluation of assets	52,018
Downward revaluation of assets and impairment losses not charged to the	
(131,329) Surplus/Deficit on the Provision of Services	(188,538)
Surplus or deficit on revaluation of non-current assets not posted to the	
216,962 Surplus or Deficit on the Provision of Services	(136,520)
Difference between current value depreciation and historical cost	
(5,288) depreciation	(7,308)
(47,813) Accumulated gains on assets sold or scrapped	(1,647)
(53,101) Amount written off to the Capital Adjustment Account	(8,955)
628,456 Balance at 31 March	482,981

¹ Adjusted for academy transfers in 2017/18 as per Note 2

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.

2017/18 As restated ¹ £'000		2018/19 £'000
1,525,680	Balance at 1 April	1,474,721
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(37,992)	Charges for depreciation and impairment of non current assets	(36,057)
(19,985)	Revaluation losses and reversals on Property, Plant and Equipment	(81,427)
(20,855)	Revenue expenditure funded from capital under statute	(17,955)
(120,834)	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	(9,571)
(199,666)		(145,010)
53,101	Adjusting amounts written out of the Revaluation Reserve	8,955
(146,566)	Net written out amount of the cost of non current assets consumed in the year	(136,055)
	Capital financing applied in the year:	
20,340	Use of the Capital Receipts Reserve to finance new capital expenditure	22,788
22,013	Use of the Major Repairs Reserve to finance new capital expenditure	22,349
34,746	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	34,645
7,932	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	8,639
10,573	Capital expenditure charged against the General Fund and HRA balances	(852)
95,605		87,569
1,474,721	Balance at 31 March	1,426,235

¹ Adjusted for academy transfers in 2017/18 as per Note 2

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.

A £60m LOBO loan was repaid prematurely in November 2018. The premium is being charged to revenue over the remaining life of the loan.

2017/18 £'000	2018/19 £'000
0 Balance at 1 April	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with	
0 statutory requirements	(17,417)
0 Balance at 31 March	(17,417)

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

2017/18 £'000	2018/19 £'000
(619,122) Balance at 1 April	(591,841)
51,679 Actuarial gains or losses on pensions assets and liabilities	(57,444)
Reversal of items relating to retirement benefits debited or credited to the Surplus or	
(64,801) Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(69,825)
40,403 Employer's pensions contributions and direct payments to pensioners payable in the year	43,088
(591,841) Balance at 31 March	(676,022)

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.

2017/18 £'000		2018/19 £'000
(2,301)	Balance at 1 April	(9,027)
	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	
(6,726)	accordance with statutory requirements	(1,892)
(9,027)	Balance at 31 March	(10,919)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2017/18 £'000		£'000	2018/19 £'000
(3,929)	Balance at 1 April		(3,187)
3,929	Settlement or cancellation of accrual made at the end of the preceding year	3,187	
(3,187)	Amounts accrued at the end of the current year	(2,969)	
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from		
742	remuneration chargeable in the year in accordance with statutory		218
(3,187)	Balance at 31 March		(2,969)

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

2017/18 £'000		£'000	2018/19 £'000
0	Balance at 1 April		0
0	Upward revaluation of investments	321	
0	Downward revaluation of investments	(859)	
0	Change in impairment loss allowance	0	
0			(538)
	Accumulated gains or losses on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other		
0	Investment Income		0
	Accumulated gains or losses on assets sold and maturing assets written out to the General Fund Balances for financial assets designated to fair value		
0	through other comprehensive income		0
0	Balance at 31 March		(538)

26a NOTE A TO THE CASH FLOW STATEMENT

2017/18 As restated ¹ £'000		2018/19 £'000
(97,263)	Net Surplus or (Deficit) on the Provision of Services	(97,828)
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>	
37,992	Depreciation	36,057
19,985	Impairment and downward valuations	81,427
0	Adjustments for effective interest rates	
16,744	Increase/Decrease in Creditors	21,056
(33,395)	Increase/Decrease in Debtors	(46,330)
(3,990)	Pension Liability	26,737
2,505	Contributions to/(from) Provisions	(1,168)
120,834	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	9,571
160,675		127,350
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>	
(10,811)	Capital Grants credited to surplus or deficit on the provision of services	(15,649)
	Proceeds from the sale of short and long term investments	49,016
	Premiums or Discounts on the repayment of financial liabilities	
(59,785)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(23,430)
(70,596)		9,937
(7,184)	Net cash flows from operating activities	39,459

¹ Adjusted for academy transfers in 2017/18 as per Note 2

26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2017/18 £'000		2018/19 £'000
2,950	Interest received	4,259
(10,800)	Interest paid	(27,917)
(7,850)		(23,658)

27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2017/18 £'000		2018/19 £'000
(103,696)	Purchase of property, plant and equipment, investment property and intangible assets	(114,778)
(47,452)	Purchase of short-term and long-term investments	
56,944	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	
	Proceeds from short-term and long-term investments	22,959
35,304	Other receipts from investing activities	39,339
(58,900)	Net cash flows from investing activities	(52,480)

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2017/18 £'000		2018/19 £'000
(2,351)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,417)
(1,340)	Repayments of short- and long-term borrowing	(370)
(3,691)	Net cash flows from financing activities	(2,787)

29 TRADING OPERATIONS

The following services are reported as trading activities

	Expenditure £'000	2017/18 Income £'000	Surplus/ (Deficit) £'000	Expenditure £'000	2018/19 Income £'000	Surplus/ (Deficit) £'000	Balance 31/03/2019 £'000
Street Trading	2,529	2,332	(197)	2,299	2,294	(5)	565
TOTAL TRADING ACCOUNTS	2,529	2,332	(197)	2,299	2,294	(5)	565

30 CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2016 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.

Fatal Incident in Mile End Park

Following a fatal incident involving a child in the Mile End Park in 2015, a coroners hearing in 2018 considered 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 must contribute towards the development of new affordable homes as agreed with the Greater London Authority.

Leisure Contracts

The Council has agreement in principle to recover over £1million of leisure contract payments made in 2016/17. This is awaiting ratification as at the balance sheet date.

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 for the Integrated Community Equipment Service (ICES) and Better Care Fund (BCF).

In 2017/18 the Better Care Fund Pooled Budget was revised to incorporate ICES and the Improved Better Care Fund, to provide one single framework partnership agreement relating to the commissioning of health and social care services to deliver the Tower Hamlets Better Care Fund Plan.

The Council manages and delivers statutory functions, alongside Tower Hamlets Clinical Commissioning Group, to collaboratively 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.

2018/19	BCF £'000
Income	
The Council	23,165
Tower Hamlets Clinical Commissioning Group (CCG)	23,465
	46,630
Expenditure	46,630
Surplus/(Deficit) for the year	0
2017/18	BCF £'000
Income	
The Council	19,616
Tower Hamlets Clinical Commissioning Group (CCG)	25,611
	45,227
Expenditure	45,227
Surplus/Deficit for the year	0

32 MEMBERS' ALLOWANCES

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

	2017/18 £'000	2018/19 £'000
Allowances	888	1,016
Total	888	1016

33 OFFICERS' REMUNERATION

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

2017/18	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution ⁵ £	Other £	Total £
Mr W Tuckley - Chief Executive	198,894	83	0	38,956	0	237,933
Total Head of Paid Service	198,894	83	0	38,956	0	237,933
Corporate Directors						
Children's Services	140,862	21	0	0	0	140,883
Health, Adults & Community	124,947	0	0	24,240	0	149,187
Mr G White - Governance & Monitoring Officer (Interim) ¹	42,562	0	0	0	0	42,562
Governance & Monitoring Officer ²	92,053	0	0	17,854	0	109,907
Mr A Dalvi - Place ³	89,510	0	82,956	4,568	0	177,034
Place ⁴	99,957	216	0	19,392	0	119,565
Public Health	102,579	0	0	14,751	0	117,330
Resources	127,422	81	0	24,733	0	152,236
	1,018,786	401	82,956	144,494	0	1,246,637

¹ Left 07/07/2017

² Commenced 03/07/2017

³ Retired 31/05/2017. Salary includes elements relating to leave paid and notice period.

⁴ Commenced 13/06/2017

⁵ Pension contributions paid by Council towards future pension payable under terms of Local Government Pension Scheme. Scheme actuary calculates these required employer contributions.

2018/19	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution ⁴ £	Other £	Total £
Mr W Tuckley - Chief Executive ¹	202,872	0	0	39,735	15,564	258,171
Total Head of Paid Service	202,872	0	0	39,735	15,564	258,171
Corporate Directors						
Children's Services	143,679	328	0	0	0	144,007
Health, Adults & Community	134,193	0	0	26,067	0	160,260
Governance & Monitoring Officer	126,096	0	0	24,456	0	150,552
Place	129,969	0	0	25,226	0	155,195
Public Health	104,631	0	0	15,046	0	119,677
Resources ²	89,105	37	0	16,246	0	105,388
Resources (Acting) ³	49,208	0	0	9,547	0	58,755
	979,753	365	0	156,323	15,564	1,152,005

¹ Other item is a one off payment for untaken leave in lieu of election preparation.

² Left 11/11/2018

³ Commenced 12/11/2018

⁴ Pension contributions paid by Council towards future pension payable under terms of Local Government Pension Scheme. Scheme actuary calculates these required employer contributions.

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 (£)	2017/18					2018/19				
	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	165	(1)	123	(9)	288	164	0	138	(11)	302
55,000 - 59,999	111	0	51	(5)	162	117	(2)	49	(5)	166
60,000 - 64,999	58	(2)	36	(5)	94	58	(1)	36	(4)	94
65,000 - 69,999	21	(2)	22	(5)	43	18	0	23	(7)	41
70,000 - 74,999	27	(1)	20	(1)	47	22	0	28	(5)	50
75,000 - 79,999	19	(1)	29	(3)	48	19	0	30	(1)	49
80,000 - 84,999	11	0	3	(1)	14	17	(1)	7	(3)	24
85,000 - 89,999	7	0	5	(2)	12	7	0	4	(1)	11
90,000 - 94,999	6	0	8	(5)	14	4	(1)	8	(3)	12
95,000 - 99,999	2	0	6	(2)	8	3	0	2	(2)	5
100,000 - 104,999	4	0	3	(1)	7	3	0	6	(1)	9
105,000 - 109,999	1	0	2	(1)	3	1	0	4	0	5
110,000 - 114,999	0	0	2	(2)	2	0	0	5	(5)	5
115,000 - 119,999	5	0	0	0	5	2	(1)	1	(1)	3
120,000 - 124,999	1	0	1	(2)	2	3	0	2	(1)	5
125,000 - 129,999	1	0	1	0	2	0	0	0	0	0
130,000 - 134,999	0	0	0	0	0	1	0	0	0	1
135,000 - 139,999	0	0	1	(1)	1	0	0	0	0	0
140,000 - 144,999	0	0	1	(1)	1	0	0	0	0	0
	439	(7)	314	(46)	753	439	(6)	343	(50)	782

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)	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
0 - 20,000	0	3	188	60	188	63	1,202	705
20,001 - 40,000	0	1	44	37	44	38	1,199	1,117
40,001 - 60,000	0	1	19	7	19	8	903	372
60,001 - 80,000	0	0	7	13	7	13	464	891
80,001 - 100,000	0	1	4	2	4	3	363	268
100,001 - 150,000	0	0	11	4	11	4	1,378	498
150,001 - 200,000	0	0	5	2	5	2	850	347
200,001 - 250,000	0	0	2	2	2	2	437	449
300,001 - 350,000	0	0	0	0	0	0	0	0
Total	0	6	280	127	280	133	6,796	4,647

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on previous page. During 2018/19, a payment of £372,707 was made as compensation for wrongful dismissal.

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.

	2017/18 £'000	2018/19 £'000
Expenditure		
Property, Plant and Equipment	103,657	114,778
Heritage Assets	25	0
Revenue Expenditure Funded from Capital Under Statute	20,855	17,955
TOTAL	124,537	132,733
Sources of Finance		
Borrowing	36,864	53,803
Capital Grants and Contributions	34,747	34,645
Capital Receipts	20,340	22,788
Major Repairs Reserve	22,013	22,349
Direct Revenue Funding	10,573	(852)
TOTAL	124,537	132,733

	2017/18 £'000	2018/19 £'000
Opening Capital Financing Requirement	281,703	310,635
Capital investment		
Property, Plant and Equipment	103,657	114,778
Heritage Assets	25	0
Revenue Expenditure Funded from Capital under Statute	20,855	17,955
Sources of finance		
Capital Grants and Contributions	(34,747)	(34,645)
Capital Receipts	(20,340)	(22,788)
Major Repairs Reserve	(22,013)	(22,349)
Sums set aside from revenue:		
• Direct Revenue Funding	(10,573)	852
• Minimum Revenue Provision ¹	(7,483)	(8,188)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(449)	(451)
Closing Capital Financing Requirement	310,635	355,799
Explanation of movements in year		
Decrease in underlying need to borrow (supported by government financial assistance)	(7,932)	(8,639)
Increase in underlying need to borrow (unsupported by government financial assistance)	36,864	53,803
Assets acquired under finance leases	0	0
Increase/(decrease) in Capital Financing Requirement	28,932	45,164

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 - Deloitte LLP.

	2017/18 £'000	2018/19 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	210	162
Additional fees payable to external Audit for inquiries relating to previous year	21	0
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	20	0
Fees payable in respect of other services provided by external auditors during the year	37	0
Total	289	162

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 2017/18	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2017/18 before Academy Recoupment	0	329,295	329,295
B	Academy figure Recouped 2017/18	0	(47,492)	(47,492)
C	Total DSG after Academy Recoupment 2017/18	0	281,803	281,803
D	Brought forward from 2016/17			1,655
E	Carry forward to 2018/19 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2017/18	1,655	281,803	283,458
G	In-year adjustments	0	0	0
H	Final budget distribution for 2016/17	1,655	281,803	283,458
I	Less actual central expenditure	0	(264,445)	(264,445)
J	Less actual ISB deployed to schools	(18,827)	0	(18,827)
K	Council contribution for 2017/18	0	0	0
L	Carry forward to 2018/19 agreed in advance	-	17,357	185

- A DSG figure as issued by DfE in March 2018.
B Academy figure Recouped 2017/18.
C Total DSG after Academy Recoupment 2017/18.
D Figure brought forward from 2016/17.
E The amount which the Council decided after consultation with the schools forum to carry forward to 2018/19 rather than distribute in 2017/18.
F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G Changes to Initial distribution in 2017/18.
H Budgeted distribution of DSG at year end.
I Actual amount of central expenditure items in 2017/18.
J Amount of ISB distributed to schools.
K Contribution from the Council in 2017/18 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 2018/19	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2018/19 before Academy Recoupment	49,109	294,227	343,336
B	Academy figure Recouped 2018/19	0	(66,959)	(66,959)
C	Total DSG after Academy Recoupment 2018/19	49,109	227,268	276,377
D	Brought forward from 2017/18	185		185
E	Carry forward to 2019/20 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2018/19	49,294	227,268	276,562
G	In-year adjustments	0	0	0
H	Final budget distribution for 2018/19	49,294	227,268	276,562
I	Less actual central expenditure	(53,667)		(53,667)
J	Less actual ISB deployed to schools		0	0
K	Council contribution for 2018/19	0	(227,458)	(227,458)
L	Carry forward to 2019/20	(4,373)	(190)	(4,563)

- A DSG figure as issued by DfE in March 2019.
B Academy figure Recouped 2018/19.
C Total DSG after Academy Recoupment 2018/19.
D Figure brought forward from 2017/18.
E The amount which the Council decided after consultation with the schools forum to carry forward to 2019/20 rather than distribute in 2018/19.
F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G Changes to Initial distribution in 2018/19.
H Budgeted distribution of DSG at year end.
I Actual amount of central expenditure items in 2018/19.
J Amount of ISB distributed to schools.
K Contribution from the Council in 2018/19 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 2017/18:

	2017/18	2018/19
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Business Rate Related Grants	(5,554)	(9,369)
Local Service Support Grant	0	(34)
New Homes Bonus	(24,185)	(20,749)
Revenue Support Grant (Formula Grant)	(54,133)	0
Total Non-Ringfenced Government Grants	(83,872)	(30,152)
Capital Grants and Contributions		
Non-conditional grants:		
Schools-funded Capital Programme	(1,989)	(2,753)
Transport for London Funding	(1,291)	(3,012)
Major Works Contributions (cash received)	(4,008)	(3,942)
Capital Maintenance Grant	(3,065)	(2,599)
Basic Needs/New Pupil Places	(6,837)	0
Community Infrastructure Levy (CIL)	(13,520)	(7,280)
Other Non-Conditional Grants Received	(230)	(617)
Conditional grants:		
Building the Pipeline Housing Grant	(1,700)	0
GLA Building Council Homes for Londoners	0	(3,177)
Other Conditional Grants Applied	(185)	(1,042)
Developers' Contributions (capital)	(4,895)	(7,394)
Total Capital Grants and Contributions	(37,720)	(31,816)
Credited to Services		
Capital Grants funding REFCUS	(4,910)	(1,756)
Developers' Contributions (capital) funding REFCUS	(2,924)	(2,403)
Developers' Contributions (revenue)	(3,567)	(2,557)
Dedicated Schools Grant	(282,983)	(281,864)
Education Services Grant	(1,049)	0
PFI Credits	(8,997)	(8,706)
School Sixth Form Grant	(13,810)	(680)
Pupil Premium Grant	(19,947)	(18,273)
Public Health Grant	(35,963)	(35,049)
Reception Baseline Assessment	(3,183)	(3,008)
Housing Benefit Subsidy	(257,898)	(228,123)
Better Care Fund	(8,658)	(11,907)
Other Revenue Grants	(20,621)	(23,864)
Total Credited to Services	(664,510)	(618,191)
Total Grant Income in Comprehensive Income & Expenditure Account	(786,102)	(680,159)
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 2018 £'000	31st March 2019 £'000
Receipt in Advance Grant Balances		
Capital Grants Receipts in Advance		
Developers' Contributions (capital)	85,732	101,603
Major Works Invoices	15,719	22,677
Disabled Facilities Grant	1,897	2,576
New Homes Bonus London Enterprise Panel (LEP) - capital element	851	453
Other conditional capital grants and contributions	573	682
Total Capital Grants Receipts in Advance	104,772	127,991
Revenue Grants Receipts in Advance		
Developers' Contributions (revenue)	12,471	10,492
Dedicated Schools Grant	186	0
PFI Credits	4,816	1,167
New Homes Bonus London Enterprise Panel (LEP) - revenue element	2,604	304
Housing Benefit Subsidy	9,827	0
Flexible Homelessness Support Grant	2,080	5,202
Other conditional revenue grants	2,359	2,698
Total Revenue Grants Receipts in Advance	34,344	19,863
Total Grant Receipt in Advance Balances	139,116	147,854

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 central government departments and other grant making bodies are set out in the subjective analysis in Note 37 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2018 are within the creditors note.

Partnerships

The Council has partnership arrangements with the following organisations:
NDC (New Deal for the Community)
CCG (Clinical Commissioning Group)

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 44.

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 2017/18 £'000	Payments by the Council over £10k 2018/19 £'000	Amounts due to Orgs. > £10k at 31/03/19 £'000
Aldgate and Allhallows Barking Foundation	D Jones	Trustee			
Balagonji Educational Trust	G K Choudhury				
Bangladesh Football Association	A Begum	Husband - Trustee			
Betar Bangla	S Islam	Member			
Bromley By Bow Centre	H Uddin	Employee	970	838	31
Culloden Bangladeshi Parents Association	A M O Ahmed	Member	11	20	0
Community Martial Arts Trust	A Miah	Employee			
Developmental Council of Bangladeshis in the UK	K U Ahmed	Joint Treasurer			
Docklands Sailing & Watersports Centre	D Chesterton	Member			
Department for Work and Pensions	O Rahman	Employee			
East London Foundation Trust	D Jones	Council Representative	4,572	4,183	838
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	A Cregan	Council Representative	161	260	24
Golapgonj Education Trust	S Khatun	Member			
Green Candle Dance Company	P Golds	Council Representative	68	58	
Island Sports Trust	P Golds	Council Representative			
John Scurr Primary School	S Islam	Governor			
Lee Valley Regional Park Authority	D Jones	Council Representative			
London Councils	C Harrison	Pensions CIV Joint Committee	1,006	1,336	
London Legacy Development Corporation	R Blake	Council Representative	1,000		
Mile End Park Partnership Board	D Jones	Council Representative			
Mulberry Girls School	D Jones	Governor	32	35	
National Housing Federation	J Pierce	Employee			
Norton Folgate Almshouses Charity	J Pierce	Council Representative			
Olga Primary School	C Harrison	Governor	48	43	
Poplar Bangladeshi Project	A M O Ahmed	Member			
Poplar Harca	A M O Ahmed	Appointment by the Authority	5,478	3,878	351
Rich Mix Cultural Foundation	D Jones	Director		21	
Solander Gardens Community & Education	H Miah	Secretary			
Spitalfields Housing Association Ltd	A Mukit*	Board Member			
St Katherine & Shadwell Trust	S Haque	Deputy			
St Pauls Way Trust School	R Saunders	Council Representative	48	37	12
	R Blake	Member, Husband - Member			
St Peters Bengali Association	M A Mustaqim	Employee			
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
Tower Hamlets Cemetery	D J Edgar	Member	17	14	
	R Blake	Member			
Tower Hamlets Community Housing	G Robanni	Council Representative	162	126	25
	C Harrison	Member			
	R Khan	Member			
	A W Gibbs	Husband - Member			
Tower Hamlets Homes	G Robanni	Council Representative	12,236		
	M Francis	Appointment by the Authority			
Tower Hamlets Youth Sport Foundation	A Begum	Husband - Trustee	17	49	
Trinity Buoy Wharf	D Jones	Trustee			
Unison	C Harrison	Employee	391	537	
	D Hassell*	Member			
	S Islam	Member			
Victoria & Albert Museum of Childhood	D Jones	Council Representative			
Wadajir Somali Centre	A M O Ahmed	Member	39	33	
London School of Economics	D Hassell*	Employee			
Spitalfields Neighbourhood Planning Forum	A Begum	Family member chair			
Social Organisation for Unity and Leisure	A Begum	Family member chair			
Canary Wharf Sports Group	A Begum	Family member chair			

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2017/18 £'000	Payments by the Council over £10k 2018/19 £'000	Amounts due to Orgs. > £10k at 31/03/19 £'000
Boundary Community School	A Mukit	Family member employee			
Tower Hamlets Education Partnership	A W Gibbs	Appointment by the Authority			
London Fire and Emergency Planning Authority	A W Gibbs	Function of a Public Nature (2017/18 only)	34		
	R Blake	Member since Oct, 17			
Madani Girls School	Shafi Ahmed	General Secretary			
Harry Gosling Primary School	Shafi Ahmed	Co-opted Governor			
Progressive Youth Organisation (PYO)	Suluk Ahmed	One of the directors			
Chartered Institute of Housing	R Blake	Influencing Group			
Local Government Association, Environment Economy Transp	R Blake	Member (reported in 2017/18)	59		
Tower Project	R Blake	Trustee (reported in 2017/18)	2,516		
Liberty	D J Edgar	Member			
Shadwell Basin	D Jones	Family member (husband) - Director			
Compass Wellbeing	D Jones	Family member (husband) - Director (reported in 2017/18)	2,135		
Shahporan Masjid and Islamic Centre	M A Mustaqim*	Secretary			
Account 3	M A Mustaqim*	Employee (reported in 2017/18)	253		
CACI LTD	D Radley	Family member (husband's cousin) - Director (reported in 2017/18)			
Whitechapel Gallery	A Ali	Appointment by the Authority			
Bromley By Bow Bangladeshi Forum	K U Ahmed	Secretary			
Roman Road Trust	R Blake	Brother - Board Member			
Tower Hamlets and Canary Wharf Further Education Trust	R Blake	Trustee			
Campus Educational Trust	D Chesterton*	Trustee			
Secure Foundation	D Chesterton*	Trustee			
Australian Foyer Foundation	D Chesterton*	Trustee			
ELMV Ellen Elizabeth Marine Venture	D Chesterton*	Trustee			
Capstan Square Resident LTD	D Chesterton*	Director			
House Mill Trust	A Cregan	Trustee			
Inspire Malawi	J Dockerill	Trustee			
Unicef UK	A W Gibbs	Director of Advocacy			
Wine & Spirits Trade Association	A W Gibbs	Husband - Director of Policy			
Health and Wellbeing Board	A W Gibbs	Chair			
Sylhet Aid- River Trust	A Miah*	Chair person			
Ocean Business Association	Ayas Miah	Chair Person			
Biswanath Probashi Education Trust	Ayas Miah	Trustee			
Dosh Ghor Progoty Trust	Ayas Miah	Trustee			
Human Rights & Peace for Bangladesh	Ayas Miah	Secretary			
Solander Gardens Muslim Community & Education Centre	H Miah	Secretary			
St. Johns Community Association	M Miah	Board Member			
Al Aqsa	M Miah	Board Member			
MHP Communications	J Peck	Managing Director			
PCS Union	O Rahman	Branch Chair			
Jalalabad Probashi Khallayan Parishod UK	O Rahman	Executive Board Member			
Business in the Community	R Saunders	Director			
Organisations	Officer	Relationship With Organisation			
Marathon Events Ltd	W Tuckley	Director			
Seahorse Homes Ltd	A Sutcliffe	Board member			
	N Murton	Board member			
Mulberry Housing	A Sutcliffe	Board member			20
London Education Partnership	A Sutcliffe	Board member			10

* Lee Valley Regional Park Authority levy shown

12,401

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 2018 £'000	Buildings 31 March 2019 £'000
Poplar Baths Leisure Centre	18,482	18,020
Poplar Baths Housing	11,879	5,013
Dame Colet Residential Development	8,104	3,350
Total	38,465	26,383

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 2018 £'000	Buildings 31 March 2019 £'000
Finance lease liabilities (net present value of minimum lease payments)	28,915	28,040
Finance costs payable in future years	63,143	61,233
Minimum lease payments	92,058	89,273

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

	Minimum Lease		Finance Lease	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	2,785	2,785	875	875
Later than one year and not later than five years	11,139	11,139	3,498	3,498
Later than five years	78,134	75,349	24,542	23,667
	92,058	89,273	28,915	28,040

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 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), as well as a number of vehicles (including minibuses and vans), and 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 2018 £'000	Vehicles Plant & Equipment 31 March 2018 £'000	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000
Adults Health and Wellbeing				
Not later than one year	149	0	149	0
Later than one year and not later than five years	597	0	597	0
Later than five years	1,221	0	1,071	0
Chief Executive's				
Not later than one year	0	55	0	20
Later than one year and not later than five years	0	20	0	0
Later than five years	0	0	0	0
Children Schools and Families				
Not later than one year	0	256	0	150
Later than one year and not later than five years	0	305	0	156
Later than five years	0	1	0	1
Place				
Not later than one year	2,874	314	2,874	240
Later than one year and not later than five years	3,817	651	1,009	410
Later than five years	2,175	0	2,101	0
Total				
Not later than one year	3,023	625	3,023	410
Later than one year and not later than five years	4,414	976	1,606	566
Later than five years	3,396	1	3,172	1
	10,834	1,603	7,801	977

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 2018 £'000	Vehicles Plant & Equipment 31st March 2018 £'000	Land & Buildings 31st March 2019 £'000	Vehicles Plant & Equipment 31st March 2019 £'000
Adults Health and Wellbeing				
Minimum Lease Payments	149	0	149	0
Chief Executive's				
Minimum Lease Payments	0	98	0	55
Children Schools and Families				
Minimum Lease Payments	0	299	0	258
Place				
Minimum Lease Payments	2,908	606	2,873	315
Total				
Minimum Lease Payments	3,057	1,003	3,022	628

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 2018 £'000	31st March 2019 £'000
Not later than one year	(3,314)	(3,539)
Later than one year and not later than five years	(11,255)	(10,730)
Later than five years	(20,820)	(19,852)
	(35,388)	(34,121)

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. The contract ends in 2026.

Movement on PFI Assets	Mulberry School (Academy) £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Asset value at 31 March 2018 ¹	0	199,443	2,226	201,669
Depreciation	0	(3,255)	(178)	(3,433)
Revaluations	0	(18,397)	0	(18,397)
Enhancements	0	1,784	0	1,784
Derecognition	0	0	0	0
Asset value at 31 March 2019	0	179,575	2,048	181,623

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2018	5,593	27,584	1,780	34,957
Repayments/Amortisation of deferred liability	(328)	(1,016)	(199)	(1,543)
Liabilities at 31 March 2019	5,265	26,568	1,581	33,414
Consisting of:				
Long term liability	4,895	25,205	1,383	31,483
Short-term liability	370	1,363	198	1,931
Liability value at 31 March 2019	5,265	26,568	1,581	33,414

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	370	1,363	198	1,931
Within 2 - 5 years	1,585	9,501	791	11,877
Within 6 - 10 years	3,310	15,704	592	19,606
Within 11 - 15 years	0	0	0	0
	5,265	26,568	1,581	33,414
Interest				
Within 1 year	591	4,180	0	4,771
Within 2 - 5 years	1,967	14,014	0	15,981
Within 6 - 10 years	1,148	5,972	0	7,120
Within 11 - 15 years	0	0	0	0
	3,706	24,166	0	27,872
Service Charges				
Within 1 year	673	3,618	0	4,291
Within 2 - 5 years	2,694	10,169	0	12,863
Within 6 - 10 years	3,367	10,445	0	13,812
Within 11 - 15 years	0	0	0	0
	6,734	24,232	0	30,966

¹ As restated. Adjusted for academy transfers in 2017/18 as per Note 2

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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Account						
Cost of Services						
Current service costs	47,986	53,436	319	373	48,305	53,809
Impact of settlements and curtailments	1,290	977	0	0	1,290	977
Total Service Cost	49,276	54,413	319	373	49,595	54,786
Interest income on plan assets	(30,422)	(32,906)	(1,325)	(1,454)	(31,747)	(34,360)
Interest cost on defined benefit obligation	45,414	47,816	1,539	1,583	46,953	49,399
Total Net Interest	14,992	14,910	214	129	15,206	15,039
Net Charge to the Comprehensive Income and Expenditure Account	64,268	69,323	533	502	64,801	69,825
Remeasurement of the Scheme Liabilities						
Changes in demographic assumptions	0	0	0	(1,970)	0	(1,970)
Changes in financial assumptions	(33,701)	109,373	(2,014)	2,660	(35,715)	112,033
Other experience	0	0	0	0	0	0
Return on plan assets excluding amounts included in net interest	(13,229)	(55,916)	(2,001)	(4,086)	(15,230)	(60,002)
Total remeasurements recognised in Comprehensive Income and Expenditure Statement	(46,930)	53,457	(4,015)	(3,396)	(50,945)	50,061
Movement in Reserves Statement - General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(64,268)	(69,323)	(533)	(502)	(64,801)	(69,825)
Actual amount charged against the General Fund Balance for pensions in the year	68,890	28,220	431	412	69,321	28,632

In 2018/19 the Council paid £14.664 million into the Teachers Pension Scheme, representing 16.5% of pensionable pay. The figures for 2017/18 were £15.893 million and 16.5% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2017/18 and 2018/19 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 losses of £57.4 million (£51.7 million gain in 2017/18) 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 £465.7 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	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
1st April	(1,911,848)	(1,936,554)	(68,652)	(64,970)	(1,980,500)	(2,001,524)
In-year adjustment to exclude/(incorporate) THH deficit	(4,616)	(7,383)	0		(4,616)	(7,383)
Current service cost	(47,986)	(53,436)	(319)	(262)	(48,305)	(53,698)
Interest cost	(45,414)	(47,816)	(1,539)	(1,583)	(46,953)	(49,399)
Contributions	(8,474)	(9,483)	(55)	(47)	(8,529)	(9,530)
Actuarial gains / (losses)	33,701	(109,373)	2,014	(690)	35,715	(110,063)
Benefits paid	49,373	50,543	3,581	3,381	52,954	53,924
Past service costs	0	0	0	(111)	0	(111)
Losses on curtailments	(1,290)	(977)	0	0	(1,290)	(977)
31st March	(1,936,554)	(2,114,479)	(64,970)	(64,282)	(2,001,524)	(2,178,761)

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

	The Council		LPFA		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
1st April	1,298,703	1,375,695	62,675	62,906	1,361,378	1,438,601
In-year adjustment to exclude/(incorporate) THH deficit	5,350				5,350	0
Expected rate of return	30,422	32,906	1,325	1,454	31,747	34,360
Actuarial (losses) / gains	13,229	55,916	2,001	4,086	15,230	60,002
Contributions						
Members contributions	8,474	9,483	55	47	8,529	9,530
Employer contributions	68,890	28,220	431	412	69,321	28,632
Benefits paid	(49,373)	(50,543)	(3,581)	(3,381)	(52,954)	(53,924)
31st March	1,375,695	1,451,677	62,906	65,524	1,438,601	1,517,201

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

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
The Council	(1,777,605)	(1,663,196)	(1,911,848)	(1,936,554)	(2,114,479)
LPFA	(68,409)	(63,016)	(68,652)	(64,970)	(64,282)
Fair value of assets					
The Council	1,139,418	1,155,656	1,298,703	1,375,695	1,451,677
LPFA	57,032	53,961	62,675	62,906	65,524
Deficit in the scheme					
The Council	(638,187)	(507,540)	(613,145)	(560,859)	(662,802)
LPFA	(11,377)	(9,055)	(5,977)	(2,064)	1,242
Total deficit in the schemes	(649,564)	(516,595)	(619,122)	(562,923)	(661,560)

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 £654.2 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 further 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 2020 are £27.197 million to the Council's scheme and £0.138 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	
	2017/18	2018/19	2017/18	2018/19
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	22.1 years	22.1 years	20.7 years	19.8 years
Women	24.1 years	24.1 years	23.7 years	22.7 years
Longevity at 65 for future pensioners:				
Men	23.9 years	23.9 years	23.1 years	21.6 years
Women	25.8 years	25.8 years	26 years	24.4 years
Rate of inflation	2.4%	2.5%	2.4%	2.5%
Rate of increase in salaries	2.2%	2.3%	3.9%	4.0%
Rate of increase in pensions	2.4%	2.5%	2.4%	2.5%
Rate for discounting scheme liabilities	2.6%	2.4%	2.5%	2.3%
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	
	2017/18	2018/19	2017/18	2018/19
Equities	63%	63%	61%	50%
Bonds	19%	19%	0%	5%
Property	10%	10%	7%	9%
Infrastructure	0%	0%	4%	6%
Commodities	0%	0%	0%	0%
Cash	4%	4%	6%	8%
Cash flow matching	0%	0%	0%	0%
Target return portfolio/other	4%	4%	22%	22%

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2018/19 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2019:

	2014/15	2015/16	2016/17	2017/18	2018/19
	%	%	%	%	%
The Council					
Experience gains and (losses) on assets	6.96	-2.87	11.73	1.04	4.39
Experience gains and (losses) on liabilities	11.94	-11.25	13.11	1.84	-5.96
London Pensions Fund Authority					
Experience gains and (losses) on assets	0.00	-0.04	0.15	3.05	6.36
Experience gains and (losses) on liabilities	10.35	-7.04	9.79	3.10	-1.06

42 Income and Expenditure Analysed by Nature

The Council's expenditure and income as shown in the Comprehensive Income and Expenditure Statement is analysed as follows:

2017/18 As restated ¹ £'000		2018/19 £'000
<u>Expenditure:</u>		
471,108	Employee benefits expenses	470,077
705,967	Other service expenses	706,127
4,372	Support service recharges	4,248
79,030	Depreciation, amortisation and impairment	135,637
26,006	Interest payments	43,494
1,795	Precepts and levies	1,860
1,737	Payments to housing capital receipts pool	4,284
61,050	Gains and losses on disposal of non-current assets	(13,858)
1,351,065	TOTAL EXPENDITURE	1,351,869
<u>Income:</u>		
(249,368)	Fees, charges and other service income	(255,326)
(2,950)	Interest and investment income	(4,797)
(205,713)	Income from council tax and non-domestic rates	(265,691)
(795,770)	Government grants and contributions	(728,227)
(1,253,801)	TOTAL INCOME	(1,254,041)
97,264 (SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES		97,828

¹ As restated. Adjusted for academy transfers in 2017/18 as per Note 2

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 1/4/2017 £'000	2017/18 Expenditure £'000	2017/18 Income £'000	Balance at 31/3/2018 £'000	2018/19 Expenditure £'000	2018/19 Income £'000	Balance at 31/3/2019 £'000
(a) Welfare Savings / Client Financial Affairs	3,519	2,687	2,836	3,667	2,306	2,752	4,113
(b) Social Services Trust Funds - sundry other	208	13	15	210	11	19	218
(c) Tower Hamlets Further Education Trust	98	46	0	52	0	240	292
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	178	73	89	194	0	274	468
TOTAL TRUST FUNDS	4,163	2,820	2,940	4,283	2,317	3,285	5,251

- (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 residents of the borough in various social care trust funds.

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 2019 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	4	4
Total	11	11

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 Hamlets 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	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Non-current assets - equipment	2,537	3,121	63	74	2,600	3,195
Short-term debtors	0	146,328	(1,575)	(1,326)	(1,575)	145,002
Cash and cash equivalents	0	103,217	6,447	7,275	6,447	110,492
Short-term creditors	64,678	179,302	1,713	2,220	66,391	181,522
Pensions liability	562,923	661,560	0	7,383	562,923	668,943
Pensions reserve	(562,923)	(661,560)	0	(7,383)	(562,923)	(668,943)
Income and Expenditure Reserve			3,221	3,803	3,221	3,803

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	2017/18 £'000	2018/19 £'000
EXPENDITURE			
Repairs and maintenance		19,415	18,929
Supervision and management		34,436	38,347
Rents, rates, taxes and other charges		2,584	5,716
Depreciation of non-current assets	6		
On dwellings		17,052	15,912
On other assets		986	952
Revaluation losses (and reversals)		0	44,789
Debt management costs		72	79
Movement in the allowance for bad debts		(1,205)	(589)
Sums directed by the Secretary of State that are expenditure in accordance with the Code		10,047	9,013
TOTAL EXPENDITURE		83,387	133,148
INCOME			
Gross rental income			
Dwelling rents		65,904	66,061
Non dwelling rents		4,402	4,195
Charges for services and facilities		20,609	22,198
Contributions towards expenditure		115	119
TOTAL INCOME		91,030	92,573
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		(7,643)	40,575
HRA services share of Corporate and Democratic Core		143	143
NET COST OF HRA SERVICES		(7,500)	40,718
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		(1,784)	(13,913)
Unattached capital receipts		(2,580)	(692)
Interest payable and similar charges ¹	10	3,909	21,444
Interest and investment income		(533)	(523)
Pensions interest cost and expected return on pension assets	7	1,225	1,231
Capital grants and contributions receivable		(5,727)	(7,198)
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		(12,990)	41,067

¹ 2018/19 figure includes £17,852k of finance costs relating the repayment of LOBO loans.

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	2017/18		2018/19	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(39,079)		(47,561)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(12,991)		41,067	
Net additional amount required by statute to be debited to the HRA balance for the year		4,509		(47,198)	
Decrease (Increase) in the HRA Balance			(8,482)		(6,131)
Transfers to or (from) reserves			0		0
Balance on the Statutory HRA Carried Forward			(47,561)		(53,692)

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2017/18		2018/19	
	£'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	(10,047)		(9,013)	
Capital grants and contributions	5,727		7,198	
Gain or loss on sale of HRA non-current assets	1,784		13,913	
Unattached capital receipts	2,580		692	
Reversal of revaluation losses on non-current assets	0		(44,789)	
Net charges made for retirement benefits in accordance with IAS19	1,815		1,809	
Transfers from General Fund (as directed by Secretary of State)	0	1,859	0	(30,190)
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	2,201		(42)	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	0		(17,417)	
Transfer to / from Capital Adjustment Account	449		451	
Other adjustments (transfer to capital receipts reserve)	0	2,650	0	(17,008)
Net additional amount required by statute to be debited to the HRA Balance for the year		4,509		(47,198)

2 HOUSING STOCK

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

	2017/18	2018/19
Low-rise flats (1-2 storeys)	255	257
Medium-rise flats (3-5 storeys)	6,761	6,694
High-rise flats (6 or more storeys)	3,776	3,751
Houses and bungalows	776	774
TOTAL AT 31st MARCH	11,568	11,476

3 NON-CURRENT ASSETS

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

	2017/18 £'000	2018/19 £'000
Dwellings	1,201,143	1,030,755
Other Land and Buildings	63,222	63,389
Surplus Assets Not Held for Sale	278	103
Assets Under Construction	9,507	40,501
Assets Held for Sale	0	160
TOTAL	1,274,150	1,134,908

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 31 st March 2017	1,190,747	63,329	282	31,517	0	1,285,875
Additions, disposals, transfers and revaluations	10,396	(107)	(4)	(22,010)	0	(11,725)
Total value at 31 st March 2018	1,201,143	63,222	278	9,507	0	1,274,150
Additions, disposals, transfers and revaluations	(170,388)	167	(175)	30,994	160	(139,242)
TOTAL VALUE AT 31st MARCH 2019	1,030,755	63,389	103	40,501	160	1,134,908

The vacant possession value of dwellings within the Council's HRA was £4,319 million in 2018/19 (£4,464 million in 2017/18). 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

	2017/18 £'000	2018/19 £'000
Balance at 1st April	9,460	5,485
Transfer from Capital Adjustment Account - depreciation	18,038	16,864
Financing of capital expenditure	(22,013)	(22,349)
Balance at 31st March	5,485	0

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	Dwellings £'000	2017/18 Other £'000	Total £'000	Dwellings £'000	2018/19 Other £'000	Total £'000
Expenditure	23,849	10,303	34,152	25,162	10,229	35,391
Sources of finance						
Borrowing	0	94	94	895	544	1,439
Capital Receipts	973	151	1,124	1,248	183	1,431
Capital Grants and Contributions	8,720	0	8,720	9,725	489	10,214
Major Repairs Reserve	11,966	10,047	22,013	13,336	9,013	22,349
Direct Revenue Financing	2,190	11	2,201	(42)	0	(42)
TOTAL CAPITAL FINANCING	23,849	10,303	34,152	25,162	10,229	35,391

(ii) Capital Receipts

Capital receipts (gross) in 2018/19 from the disposal of non-current assets within the HRA amounted to £22.591 million (£27.183 million in 2017/18) as follows:

	2017/18 £'000	2018/19 £'000
Dwellings	27,183	22,591
Other land and buildings	0	0
TOTAL CAPITAL RECEIPTS	27,183	22,591

6 DEPRECIATION

	2017/18 £'000	2018/19 £'000
Dwellings	17,052	15,912
Other Land and Buildings	986	952
TOTAL DEPRECIATION	18,038	16,864

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	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Net Cost of Services						
Current service costs	0	0	0	0	0	0
Net Operating Expenditure						
Interest cost	3,711	3,947	0	0	3,711	3,947
Settlements / Curtailments	0	0	0	0	0	0
Expected return on assets in the scheme	(2,486)	(2,716)	0	0	(2,486)	(2,716)
Net Charge to the Income and Expenditure Account	1,225	1,231	0	0	1,225	1,231
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with IAS19	(1,225)	(1,231)	0	0	(1,203)	(1,231)
Employer's contribution to scheme	3,040	3,040	0	0	3,040	3,040

8 RENT ARREARS

	2017/18 £'000	2018/19 £'000
Gross rent arrears at 31 st March	5,082	5,011
Arrears as % of rent receivable	7.7	7.6
Provision made for bad debts	4,038	4,098

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 2018/19.

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	2017/18 £'000	2017/18 £'000	2018/19 £'000	2018/19 £'000
INCOME					
Council Tax (net of benefits)	2	115,158		122,619	
Transfers from General Fund - Council Tax Benefits			115,158		122,619
Distribution of prior year deficit on Collection Fund			0		
National Non-Domestic Rates	3	421,125		431,423	
- Transitional Protection		23,461	444,586	14,829	446,252
Business Rate Supplement			15,481		15,927
TOTAL INCOME			575,225		584,798
EXPENDITURE					
Council Tax					
Precepts and demands					
London Borough of Tower Hamlets		85,836		93,777	
Greater London Authority		24,861	110,697	27,980	121,757
Increase in provision for Council Tax bad debts	5		2,771		1,626
Distribution of prior year Council Tax surplus on Collection Fund			1,333		1,929
National Non-Domestic Rates					
Interest		0			
Transitional Protection		0			
Cost of collection allowance		1,017	1,017	1029	1,029
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets		134,614		292,816	
DCLG		148,075		0	
Greater London Authority		166,024	448,713	164,709	457,525
Distribution of Prior Year Surplus on NNDR Collection Fund					
London Borough of Tower Hamlets		(394)		(11,357)	
DCLG		(657)		(15,028)	
Greater London Authority		(263)	(1,314)	(11,472)	(37,857)
Business Rate Supplement					
Payment to Greater London Authority	4	15,868		15,422	
Cost of collection allowance		16	15,884	17	15,439
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		41		992	
DCLG		69		0	
Greater London Authority		28	138	558	1,550
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		5,850		2,560	
DCLG		6,435		0	
Greater London Authority		7,215	19,500	1,440	4,000
TOTAL EXPENDITURE			598,739		566,998
INCREASE/(DECREASE) IN FUND BALANCE			(23,514)		17,800
BRS Debtor/(Creditor)			(230)		146
COLLECTION FUND BALANCE (Deficit)/Surplus for the year			(23,744)		17,946
Balance at the beginning of the year			(11,264)		(35,008)
			0		0
(Deficit)/Surplus for the year			(23,744)		17,946
BALANCE AT END OF YEAR	1		(35,008)		(17,062)

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 is just £130. Any surplus is attributable to the Council and the Greater London Authority. The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a surplus of £19.9m in 2018/19 (a deficit of £23.467m during 2017/18). For the NNDR income relating to the year 2018/19, 64% is attributable to the Council and London Pool and 36% to the GLA. In 2017/18, 30% was attributable to the Council, 37% to the GLA and 33% to the DCLG. In 2018/19 any income over £190.2m due to the Council is payable to the London Pool.

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 2018/19 Council Tax was set the position was as follows:

Band	2017/18 No. of Properties	2017/18 Council Tax Base	2018/19 No. of Properties	2018/19 Council Tax Base
A	3,941	706	3,984	446
B	25,793	16,973	25,900	17,012
C	38,002	30,519	38,914	31,299
D	26,499	24,056	27,728	25,156
E	19,869	22,060	20,887	23,161
F	9,127	12,037	9,906	13,050
G	3,608	5,558	4,108	6,283
H	567	1,053	673	1,262
Total	127,406	112,962	132,100	117,669

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:

	2017/18		2018/19		Increase / (Decrease) £	%
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000		
Tower Hamlets	966.80	85,836	986.14	93,777	19.34	2.00%
Greater London Authority	280.02	24,861	294.23	27,980	14.21	5.07%
TOTAL	1,246.82	110,697	1,280.37	121,757	33.55	2.62%

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 2018/19 was 48.3p in the £ (47.9p in the £ in 2017/18). The total rateable value in the borough as at 31st March 2019 was £1,039 million (£1,046 million at 31 March 2018). A periodic revaluation of business properties took place in April 2017. At March 2019 there were around 1,013 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. Provision is being made for the remaining appeals during 2019/20. Tower Hamlets Council acts as the billing authority for the borough and under the Localised Business Rates regime retains 64% of the net income due with the Greater London Authority receiving 36%. A safety net system also operates in the Council General Fund to adjust the income receivable.

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 2016/17 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 2018/19 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

2017/18 £'000		2018/19 £'000
16,486	Non Domestic Rates Due	16,117
	Less Allowances and Other Adjustments	
1,005	Mandatory & Discretionary Relief	1,055
0	Provision for Bad Debts	0
16	Cost of Collection	17
15,465	Collectable from Business Rate Supplement Payers	15,045

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 2018/19 the Council Tax bad debt provision was increased by £1.626 million (£2.771 million in 2017/18) and £1.286 million of irrecoverable debts were written off (£1.497 million in 2017/18).

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2017/18 £'000	2018/19 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers			
Normal	3	30,311	31,935
Augmentation	3	2,462	1,465
Deficit funding	3	43,388	0
From members	3	10,819	11,768
Transfers in			
Transfers in from other pension funds	4	5,966	6,157
Benefits			
Pensions	4	(42,711)	(44,757)
Lump sum benefits	4	(13,192)	(13,550)
Payments to and on account of leavers			
Refunds of contributions		(274)	(224)
State scheme premiums		0	
Transfers out to other pension funds		(4,761)	(4,847)
Administrative expenses	13,14b	(509)	(1,009)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		31,499	(13,062)
RETURN ON INVESTMENTS			
Investment income	11	18,281	8,770
Taxes on Income		(167)	(73)
Change in market value of investments			
Realised		(9,174)	6,842
Unrealised	10	75,791	79,824
Investment management expenses	13	(3,251)	(183)
NET RETURN ON INVESTMENTS		81,480	95,180
Net increase in the Fund during the year		112,979	82,118
Add: Opening net assets of the scheme		1,367,677	1,480,656
CLOSING NET ASSETS OF THE SCHEME		1,480,656	1,562,774

NET ASSETS STATEMENT AS AT 31ST MARCH		2017/18 £'000	2018/19 £'000
Investments Assets			
Equities		0	
Pooled Investment Vehicles			
Unit Trusts		1,302,839	1,155,525
Property		142,803	160,254
Equity Protection		0	242,591
Other		0	79
		<hr/>	<hr/>
		1,445,642	1,558,449
Cash deposits	6	8,733	2,557
Other investment balances	5	833	782
Current Assets	5	27,662	7,276
Current Liabilities	5	(2,214)	(6,290)
NET ASSETS		1,480,656	1,562,774

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 pensions 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 appointed external professional investment advisors. The advisers meet Committee Members and officers 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 six specialist investment managers with mandates corresponding to the principle asset class.

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 2016 (as amended).

(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 the 31 March 2019. The actuarial present value of promised retirement benefits, valued on an IAS19 basis, is disclosed in Note 12 of the accounts as permitted under IAS 26.

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 2019.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2019.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2019.
- (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 2019. 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 pension fund account notes (specifically note 12 - Actuarial Position) for 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 2018/19, the Council's actuaries advised that the net pensions liability had increased by £98.6 million to £661.6 million as a result of falling bond yields used to calculate net present values of liabilities.

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 2019 range from 15.8% to 41.4% of pensionable pay. Contributions shown in the revenue statement may be categorised as follows:-

	2017/18 £'000	2018/19 £'000
Members normal contributions		
Council	9,367	10,239
Admitted bodies	128	115
Scheduled body	1,324	1,414
Total members	10,819	11,768
Employers		
Normal contributions		
Council	26,099	27,112
Admitted bodies	598	599
Scheduled bodies	3,614	4,224
Deficit funding contributions		
Council	43,388	0
Other contributions		
Council	2,462	178
Total employers	76,161	32,113
Total contributions	86,980	43,881

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 2018/19 employees made contributions of £18,689.32 into the AVC Scheme operated by Aviva (Norwich Union) and £1,842.93 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831) 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. In April 2011 the method of indexation changed from the retail prices index to the consumer prices index. Transfers out/in are those sums paid to, or received from, other pension schemes and related to the period of previous pensionable employment. Transfer values have been brought into the accounts on a cash basis. Benefits payable are analysed below.

	2017/18				2018/19			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(40,548)	(761)	(1,402)	(42,711)	(42,594)	(761)	(1,402)	(44,757)
Lump sum retirement benefits	(10,012)	(451)	(1,059)	(11,522)	(10,357)	(451)	(1,059)	(11,867)
Lump sum death benefits	(1,670)	0	0	(1,670)	(1,681)	0	0	(1,681)
Total Pensions and Benefits	(52,230)	(1,212)	(2,461)	(55,903)	(54,632)	(1,212)	(2,461)	(58,305)
Transfer Values Received (Individual)	5,966	0	0	5,966				0
Transfer Values Paid (Individual)	(4,761)	0	0	(4,761)				0
Total	(51,025)	(1,212)	(2,461)	(54,698)	(54,632)	(1,212)	(2,461)	(58,305)

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.

	2017/18 £'000	2018/19 £'000
Debtors		
Other Investment Balances		
Investment sales	0	0
Dividends receivable	0	0
Tax recoverable	833	784
	<u>833</u>	<u>784</u>
Current Assets		
Contributions due from admitted bodies	115	156
London Borough of Tower Hamlets	1,063	608
	<u>1,178</u>	<u>764</u>
Total Debtors	2,011	1,548
Creditors		
Other Investment Balances		
Investment purchases	0	0
	<u>0</u>	<u>0</u>
Current Liabilities		
Admitted Bodies	32	1
Unpaid benefits	1,154	1,141
Administrative expenses	529	4,634
HMRC Creditor Income Tax Deducted	499	514
	<u>2,214</u>	<u>6,290</u>
Total Creditors	2,214	6,290
Net Debtors	(203)	(4,742)

6. CASH

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

	2017/18 £'000	2018/19 £'000
Schroders: Property Portfolio	8,733	2,557
London Borough of Tower Hamlets Pension Fund	26,484	6,512
TOTAL CASH	35,217	9,069

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

By virtue of 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. INVESTMENT STRATEGY STATEMENT

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish an Investment Strategy Statement (ISS) in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The ISS which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 29th November 2018.

9. MEMBERSHIP OF THE FUND

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

	2018	2019
London Borough of Tower Hamlets		
Active Members	5,859	5,925
Pensioners	4,723	5,019
Deferred Pensioners	7,443	7,287
Dependants	1,038	1,047
	19,063	19,278
Admitted & Scheduled Bodies		
Active Members	776	815
Pensioners	332	361
Deferred Pensioners	456	457
Dependants	32	38
	1,596	1,671

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilisys
City Gateway
Compass Contract
East End Homes
Energy Kidz
Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
Greenwich Leisure Limited
One Housing Group (formerly Island Homes)
Swan Housing Association
Tower Hamlets Community Housing
Vibrance (formerly Redbridge Community Housing Limited)
Wettons Cleaning Ltd

Scheduled Bodies

Attwood Academy (Ian Mikardo School)
Canary Wharf College
Culloden Primary School
East London Arts & Music
Green Spring Academy
London Enterprise Academy
Letta Trust (Stebon and Bygrove Schools)
Mulberry Academy
Old Ford Primary School
Sir William Burrough
Solebay Academy
St. Pauls Way Community School
Tower Hamlets Homes Limited
Tower Trust (Clara Grant and Stepney Green Schools)
Wapping High School

10. INVESTMENTS

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

Manager

GMO UK Ltd
Schroders Asset Management Property Fund
Legal & General Investment Management
Insight Investment Management (Global) Ltd
London LGPS CIV
Goldman Sachs Asset Management

Mandate

Global Equity
Property, Equity Protection
UK Equity, Index Linked Gilts
Absolute Return Fund
Pooled
Absolute Return Fund

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

	2018		2019	
	£ million	%	£ million	%
GMO UK Ltd.	0.9	0.1	0.9	0.1
Goldman Sachs Asset Management Property Fund	77.1	5.3	52.5	3.4
Insight Investment Management (Global) Ltd	71.8	4.9	46.9	3.0
Legal & General Investment Management - Equities	493.2	33.9	351.0	22.5
Legal & General Investment Management - Gilts	75.0	5.2	0.0	0.0
London CIV	585.8	40.3	705.1	45.1
Schroders Asset Management Property Fund	151.5	10.4	162.8	10.4
Schroders Equity Protection Fund	0.0	0.0	242.6	15.5

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 2018 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2019 £'000
Pooled Investments	1,302,839	206	152,131	24,736	1,479,912
Pooled Property Investments	142,804	0	0	17,451	160,254
	1,445,643	206	152,131	42,187	1,640,166

Other Investment Balances

Cash Deposits	8,733	0	0	(6,176)	2,557
Amounts receivable for sales of investments					
Investment income due	832	0	0	(50)	782
Amounts payable for purchases of investments	0	0	0	0	0
Net Investment Assets	1,455,208	206	152,131	35,961	1,643,505

	Market Value as at 1 Apr 2017 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2018 £'000
Bonds	0	0	0	0	0
Equities	324,294	46,636	(314,634)	(56,296)	0
Pooled Investments	894,752	145,198	135,306	127,583	1,302,839
Pooled Property Investments	133,610	13,943	(9,215)	4,466	142,804
	1,352,656	205,777	(188,543)	75,753	1,445,643

Other Investment Balances

Cash Deposits	4,096	0	0	4,637	8,733
Investment income due	1,673	0	(841)	0	832
Amounts payable for purchases of investments	(45)	0	45	0	0
Net Investment Assets	1,358,380	0	(796)	4,637	1,455,208

10. INVESTMENTS (continued)

A further analysis of investments assets is as follows.

	Market Value as at 31 Mar 2018 £'000	Market Value as at 31 Mar 2019 £'000
Equities		
UK		
Quoted	0	0
Overseas		
Quoted	0	0
	<u>0</u>	<u>0</u>
Pooled Funds - Additional Analysis		
UK		
Fixed Income Unit Trust	81,152	81,152
Unit Trusts	1,221,687	1,074,372
	<u>1,302,839</u>	<u>1,155,524</u>
Pooled Property Investments	142,803	160,254
Pooled Equity Protection Fund	0	242,591
	<u>142,803</u>	<u>402,845</u>
Cash Deposits	8,733	2,557
Investment Income Due	832	782
	<u>9,565</u>	<u>3,339</u>
Total Investment Assets	<u>1,455,207</u>	<u>1,561,708</u>
Investment Liabilities		
Amounts Payable for Purchases	0	0
Total Investment Liabilities	<u>0</u>	<u>0</u>
Net Investment Assets	1,455,207	1,561,708

The market value per investment manager is as follows:

	Market Value 31 Mar 2018		Market Value 31 Mar 2019	
	£'000	%	£'000	%
GMO UK Ltd	0	0.0%	79	0.0%
Insight Investment Management (Global) Ltd	71,779	5.0%	46,901	3.0%
Legal & General	568,209	39.3%	350,994	22.5%
London LGPS CIV	585,774	40.5%	705,087	45.2%
Goldman Sachs Asset Management	77,077	5.3%	52,542	3.4%
Schroders Asset Management Property Fund	142,803	9.9%	160,254	10.3%
Schroders Equity Protection Fund	0	0.0%	242,591	15.6%
	1,445,642	100.0%	1,558,448	100.0%

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2017/18 £'000	2018/19 £'000
Dividends from overseas equities	10,824	5,312
Dividends from UK equities	647	0
Net rents from properties	6,395	1,166
Interest on cash deposits	52	25
Foreign tax	196	(4)
TOTAL	18,114	6,499

TAXES ON INVESTMENT INCOME

	2017/18 £'000	2018/19 £'000
Withholding tax - equities	167	167
Withholding tax - pooled	0	0
TOTAL	167	167

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 2016 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £235 million and the funding level to be 82.8%. This compares to a deficit at the previous revaluation in 2013 of £365 million and a corresponding funding level of 71.8%.

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
2017/18	15.00
2018/19	15.00
2019/20	15.00

The Pension Committee agreed to accept the three year deficit payment in advance at a net present value. The net present value of this payment was £43.38m paid on 1 December 2017.

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 2016 determined that this would require a contribution (additional to the future contribution rate) of 9.1% of members' pensionable pay equivalent to £15.0 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 2017/18 was 19.9%.

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".

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 2016. The main actuarial assumptions used in revaluation and applied during the intervalation period were as follows:

Financial Assumptions	Nominal
Price inflation (CPI)	2.1%
Pay increases	2.0%
Funding basis discount rate	4.2%

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.1	24.1
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	23.9	25.8

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 £2,007 million (£1,983 million in 2016/17). 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 31st March 2016 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 2016

	Males	Females
Average future life expectancies at age 65 years	22.1	24.1
Current pensioners	22.1	24.1
Future pensioners	23.9	25.8

Financial assumptions

Year ended	31st March 2018	31st March 2019
Pension increase rate	2.4%	2.5%
Salary increase rate	2.2%	2.3%
Discount rate	2.6%	2.4%

13. MANAGEMENT EXPENSES

	2017/18 £'000	2018/19 £'000
Administration costs	398	818
Investment management expenses	3,251	3,048
Oversight & governance	111	171
	3,760	4,037

14. INVESTMENT EXPENSES

	2017/18 £'000	2018/19 £'000
Management fees	3,229	2,029
Custody fees	22	19
Transaction Costs	38	23
	3,289	2,071

14b. EXTERNAL AUDIT FEE

	2017/18 £'000	2018/19 £'000
Audit Fee included within note 13	21	21
	21	21

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 Fund employs a custodian to provide secure safe-keeping of the Fund's assets and to ensure all trades are settled in a timely manner.

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 2018 and 31st March 2019 is set out below.

Interest Rate Risk	As At 31st March 2018	As At 31st March 2019
Asset Type	£'000	£'000
Cash and cash equivalents	8,733	(37,076)
Cash balances	27,619	46,879
Fixed interest securities	142,805	134,487
Total	179,157	144,290

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2019	Change in year in net assets available +100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	(37,076)	(371)	371
Cash balances	46,879	469	(469)
Fixed interest securities	134,487	(1,345)	1,345
Total change in net assets available	144,290	(1,247)	1,247

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2018	Change in year in net assets available to pay benefits +100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	8,733	87	(87)
Cash balances	27,619	276	(276)
Fixed interest securities	142,805	(1,428)	1,428
Total change in net assets available	179,157	(1,066)	1,066

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.

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 9.0%. 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 2019 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2018 £'000	As At 31st March 2019 £'000
Asset Type		
Overseas quoted securities	0	0
Overseas unit trusts	1,080	789
Cash	0	0
Total overseas assets	1,080	789

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2019 £'000	Change in year in net assets available to pay benefits	
		+9.0% £'000	-9.0% £'000
Asset Type			
Overseas quoted securities	0	0	0
Overseas unit trusts	789	860	718
Cash	0	0	0
Total change in net assets available	789	860	718

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2018 £'000	Change in year in net assets available to pay benefits	
		+8.8% £'000	-8.8% £'000
Asset Type			
Overseas quoted securities	0	0	0
Overseas unit trusts	1,080	1,175	985
Cash	0	0	0
Total change in net assets available	1,080	1,175	985

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 Committee. 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 2017/18 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	
Global Equities	9.0%
Fixed Interest	4.3%
Multi Asset	4.1%
Property	1.7%
Alternatives	4.1%
Cash	0.2%

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 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	48,702	0.0%	48,702	48,702
Investment portfolio assets				
Global equity	241,902	9.0%	263,673	220,131
Fixed Interest	74,559	4.3%	77,765	71,353
Multi Asset	324,300	0.0%	324,300	324,300
Alternatives	757,987	4.1%	789,064	726,910
Pooled Property Investments	134,487	1.7%	136,773	132,201
Investment income due	784	0.0%	784	784
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	0	0.0%	0	0
Total assets available to pay benefits	1,582,721		1,641,062	1,524,380

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 2018 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	35,217	0.0%	35,217	35,217
Investment portfolio assets				
UK equities	493,650	9.7%	541,616	445,684
Total fixed interest	74,559	8.2%	80,687	68,431
Alternatives	734,629	4.2%	765,156	704,102
Pooled Property Investments	142,805	1.8%	145,339	140,271
Investment income due	832	0.0%	832	832
Total assets available to pay benefits	1,481,692	0%	1,568,846	1,394,539

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 2019.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	0	0	0	0
Pooled Funds				
Unit Trusts	1,155,525	0	0	1,155,525
Property Unit Trust	160,254	0	0	160,254
Equity Protection	242,591	0	0	242,591
Other	79	0	0	79
Derivative Contracts				
Forward Foreign Exchange Contracts				0
Cash and bank Deposits	3,338	0	0	3,338
Current Assets	7,276	0	0	7,276
Current Liabilities	(6,290)	0	0	(6,290)
	1,562,774	0	0	1,562,774

During the year ended 31st March 2018 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2018 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	0	0	0	0
Pooled Funds				
Unit Trusts	1,302,839	0	0	1,302,839
Property Unit Trust	142,803	0	0	142,803
Other	0	0	0	0
Derivative Contracts				
Forward Foreign Exchange Contracts		0	0	0
Cash and bank Deposits	36,237	0	0	36,237
Current Assets	947	0	0	947
Current Liabilities	(2,713)	0	0	(2,713)
	1,480,113	0	0	1,480,114

Auditors' Report 2018/19 – to follow.

Included after audit for publication 31st July 2019.

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 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.

Certificate of the Corporate Director or Resources

I certify that the Statement of Accounts 2018/19 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31st March 2019 and its income and expenditure for the year ended 31 March 2019.



Neville Murton

Corporate Director of Resources
31st May 2019

The Statement of Accounts for the year ended 2018/19 will be approved by the Council's Audit Committee by 31st July 2019.

Annual Governance Statement 2018 – 19

Date Issued
May 2019

Prepared by
Steven Tinkler
Chief Internal Auditor

What is Corporate Governance?

Corporate Governance refers to the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The *International Federation of Accountants / CIPFA 2014: International Framework Good Governance in the Public Sector*, further states that to deliver good governance in the public sector, both governing bodies and individuals working for them must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest requires behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.

Our governance arrangements aim to ensure that we meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our public money and resources are safeguarded, properly accounted for and used economically, efficiently and effectively.

The governance framework comprises the systems, processes, cultures and values by which Tower Hamlets is directed and controlled, and through which we engage with and lead the local community. The framework brings together an underlying set of legal requirements, good practice and management processes.

How do we know our arrangements are working?

To monitor the effectiveness of our corporate governance systems, we have approved and adopted a '*Code of Corporate Governance*' which is consistent with the principles of the CIPFA / SOLACE 2016: *Delivering Good Governance in Local Government Framework 2016 Edition*.

This code is subject to review, challenge and endorsement by the Audit Committee or scrutiny panels as appropriate. A copy of the code can be located via www.towerhamlets.gov.uk or can be obtained from the Monitoring Officer.

Each year we review our corporate governance processes, systems and the assurances on the governance framework to create an annual governance statement. We review our compliance with the approved code of corporate governance, consulting with and obtaining positive assurances from the corporate leadership team and governance officers.

In addition we also reflect and take into consideration the work of internal and external audit and other inspection bodies completed during the year. The issues identified during the review are highlighted in the action plan at the end of this statement.

This AGS builds upon those of previous years. It summarises the key governance framework which has been in place for the year ended 31 March 2019 up to the date of approval of the statement of accounts and records any significant governance issues that need to be addressed over the coming year.

As we are continually changing and seeking improvement it is important that the governance arrangements are robust and flexible enough to manage change effectively, and positively support our aims and objectives.

It is recognised that the governance framework cannot eliminate all risk and therefore only provides reasonable and not absolute assurance of effectiveness.

How Tower Hamlets works

The Council comprises of a directly elected Mayor and 45 Councillors who are elected on a four year term. Councillors are elected to represent the 20 wards across the Borough with between one to three Councillors in each ward.

The Executive Mayor is Mayor John Biggs. The composition of the Council is:

Labour (42 seats)

Conservative (2 seats)

Aspire (1 seat)

Liberal Democrats (1 seat)

Councillors are democratically accountable to the residents of their Wards. The overriding duty of Councillors is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

Full Council consists of the Mayor and all Councillors. It meets to make major decisions including setting Council Policy, the Budget and Council Tax and considering any recommendations outside of the budget and policy framework. The Council appoints a number of Committees to carry out specific functions. These include: the Regulatory Committees, the Pensions Committee and a Standards (Advisory) Committee.

The Mayor appoints and is supported by a Cabinet. The Mayor in Cabinet is responsible for most regular decisions of the Council. This includes approving the budget and plans for the Council to consider, approving and monitoring other major decisions. The Mayor in Cabinet has to take decisions in line with Budget and Policy Framework set by Full Council. Any proposals outside this must be referred to Full Council to decide.

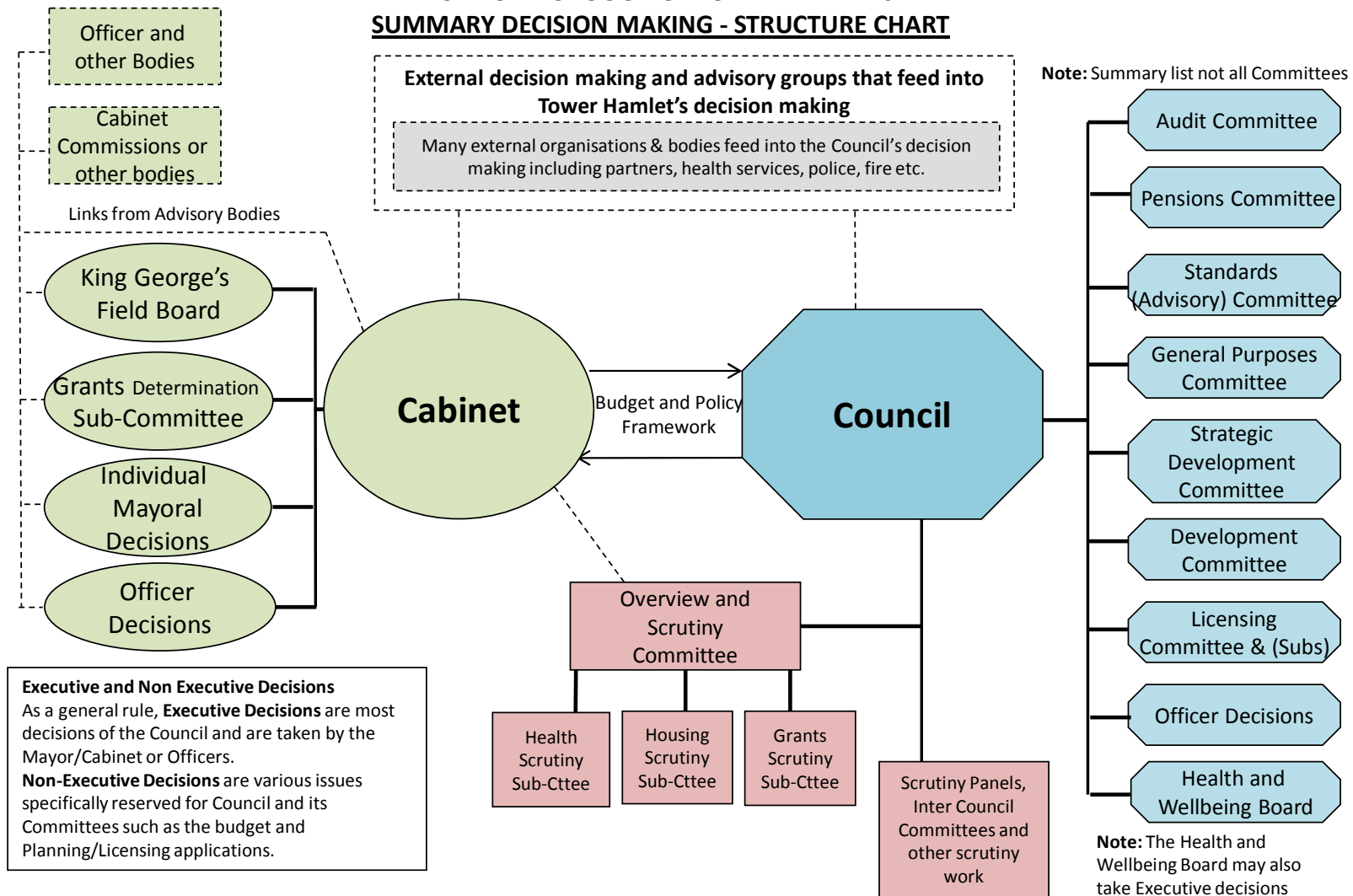
The public has wide access to Council meetings through attendance, submission of deputations, questions and opportunity to contribute to debates. The Council's website gives dates and times of meetings and access to documents.

The Council & Democracy page of the Council's main website provides a wide range of information in respect of how democracy works within the Council. This includes details of:

- Dates and times of all meetings;
- Full committee meeting papers;
- Contact details for each elected representative;
- Decision making process including the Forward Plan of Decisions to be taken by the Mayor in Cabinet, and Officer Decisions under delegation.

LONDON BOROUGH OF TOWER HAMLETS

SUMMARY DECISION MAKING - STRUCTURE CHART



Note: Some bodies omitted for clarity

KEY:

Non-Executive Decision Making

Executive Decision Making

Scrutiny Bodies

Advisory Bodies

Constitution

The constitution is available via www.towerhamlets.gov.uk and this sets out how TH operates, how decisions are made and the processes that are followed to ensure that decision making is efficient, transparent and accountable to local people. A number of the codes of practice and procedures within the constitution are required by law, whilst some are chosen to reflect best practice arrangements.

The constitution further sets out the role of key governance officers, including the statutory posts, and explains the role of these officers for ensuring that processes are in place to ensure that TH meets its statutory obligations and also for the provision of advice to councillors, officers and committees on staff management, financial, legal and ethical governance issues. The statutory posts / are:

Statutory Roles:	Allocated to:
Head of Paid Service	Chief Executive
Chief Finance Officer (Section 151)	Corporate Director Resources
Monitoring Officer	Corporate Director Governance and Monitoring Officer
Director of Social Services (Adult Services Only)	Corporate Director Health, Adults and Community
Director of Children's Services	Corporate Director Children and Culture
Chief Education Officer	Corporate Director Children and Culture
Director of Public Health	Director of Public Health

The senior management structure within the Council has seen some personnel changes but has been largely stable throughout 2018/19. Following the departure of the previous postholder a new Corporate Director for Resources (S151 Officer) was appointed. The Corporate Director of Place was also appointed to during the year; in both cases acting arrangements were confirmed providing stability and continuity in respect of those postholders. The key governance officers have been involved in the preparation of this statement and are satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted.

Structure

Scrutiny committees

Scrutiny is a key part of the democratic process, monitoring Cabinet policy decisions and with a key role in advising on the development of policy. Scrutiny also has a broader remit to examine issues affecting TH.

Within its terms of reference, the **Overview and Scrutiny Committee** shall:

- Review or scrutinise decisions made, or other actions taken in connection with the discharge of any functions which are the responsibility of the Executive;
- Advise the Mayor or the Executive of key issues / questions arising in relation to reports due to be considered by the Mayor or the Executive;
- Make reports or recommendations to Council and / or the Mayor or the Executive in connection with the discharge of any functions which are the responsibility of the Executive; and
- Review or scrutinise the decisions made or other actions taken in connection with the discharge of any functions which are not the responsibility of the Executive.

There are three Scrutiny Sub-Committees which support the work of the Mayor / Cabinet and TH as a whole. These relate to three specific themes, which are:

- **Grants Scrutiny Sub-Committee** established to support an objective, fair, transparent and co-ordinated approach to grant funding across the council. This committee meets on a bi-monthly basis with 6 meetings being held during 2018/19.
- **Health Scrutiny Sub-Committee** which has the role to scrutinise local health services in accordance with the Health and Social Care Act 2001. The committee meets on a quarterly basis with 4 meetings being held during 2018/19.
- **Housing Scrutiny Sub-Committee** undertakes the overview and scrutiny pertaining to housing matters including reviewing and / or scrutinise decisions made or actions taken in connection with the discharge of the Councils housing functions. The Committee met on 5 occasions during 2018/19.

In addition to the above, the **Inner North East London Joint Health and Overview & Scrutiny Committee** was established in 2018/19. This committee comprises of the London Boroughs: Hackney, Newham, Tower Hamlets and City of London Corporation. The Committees remit is to consider London wide and local NHS services developments and changes that impact all the authorities mentioned above. The Committee meets as required and has been established in accordance with Section 245 of the NHS Act 2006 and the Local Authority (Overview and Scrutiny Committees Health Scrutiny Function) Regulations 2002. The first meeting of the committee was held in February 2019.

Best Value Improvement Board (BVIB)

As part of the final representation to the Secretary of State for MHCLG, the council submitted a Best Value Improvement Plan 2017/18, which proposed the creation of a Best Value Improvement Board (BVIB) to drive sustainable improvement across the organisation by providing oversight, support and challenge. The Board is chaired by the Mayor with both cross party and external representation to provide suitable challenge to improve all council activities.

In 2018/19, the BVIB continued to provide a council wide approach to setting, reviewing and implementing improvement activity. The BVIB met in public every quarter to ensure transparency and accountability in relation to progress being made, and ensure there was sustainable improvements across the council. The BVIB held cabinet members and officers to account, and provided focus, advice and challenge as a “critical friend” on the adequacy of the Council’s Improvement Plans, monitoring the pace and impact. Additionally, the BVIB submitted a quarterly progress report to the Ministry of Housing, Communities and Local Government.

In June 2018, the BVIB oversaw an LGA Corporate Peer Challenge. This was an agreed action coming out of the March 2017 Directions and represented a significant milestone in the Council’s improvement journey. It provided fresh insight into the opportunities for improvement and the organisations capacity and ability to deliver. Following the Corporate Peer Challenge, the Directions were lifted and the BVIB disbanded. A Transformation & Improvement Board (TIB) has been set up to ensure that the improvement journey the Council has undertaken in previous years is sustained in the long term. The TIB aims to support the council to be a modern and efficient organisation by delivering transformation and improvement that improves services and outcomes for local residents. It will also ensure the recommendations made by the LGA Corporate Peer Challenge are delivered.

Audit Committee

This committee undertakes the core functions, and complies with best practice as detailed within the CIPFA 2018: Audit Committees – Practical Guidance for Local Authorities and Police and has oversight of the delivery (as the ‘Board’) of Internal Audit standards in accordance with the Public Sector Internal Audit Standards (PSIAS). As a consequence of the local elections held in May 2018, membership of the committee was formed largely by new Councillors both to the Council and to the Committee. This includes the Chair and Vice Chair of the committee. In order to support the effectiveness of the committee, all members received training in respect of Governance, Internal Control and Counter Fraud practice s as part of the induction process. In addition, specific training was provided in respect of the CIPFA Guidance.

The committee takes a positive and proactive approach to governance and reviews progress on the AGS action plan, internal audit annual audit plan, anti-fraud arrangements including whistleblowing and risk management. Although not previously completed, the chair of the committee going forwards will provide an annual report to full Council which outlines the work and effectiveness of the committee during the year.

Corporate Parenting Board (CPB)

The joint Member / Officer CPB will advise the Mayor in Cabinet to ensure that the services the Council provides to the children in its care are of the highest standard and that those services meet national and local government objectives for children and young people in public care.

Specifically the CPB will:

- Oversee the delivery of Tower Hamlets Children Looked After Strategy and ensure it is updated to reflect new policy, priorities and practice changes.
- Offers high level support and challenge to the implementation of the Council's improvement plan in relation to looked after children and care leavers.
- Acts as a monitor of performance by officers of the council by receiving and reviewing regular performance reports
- Keeps abreast of new policy and legislation that affects looked after children and care leavers to ensure the council's offer is aligned with best practice and expected standards.
- Provides a forum for identifying and supporting the priorities of children looked after and care leavers Members, Officers and the council more widely.
- Provides a forum for communication and purposeful engagement between children looked after, care leavers, Members and Officers
- Seeks to influence policy and practice for the benefit of children and young people looked after and leaving care.
- Steer and advise the wider Council and partners on its role as a Corporate Parent.
- Ensure that the wider council and partners contribute effectively in providing the best offer for children looked after and care leavers.

Council Owned Companies / Partnerships

Tower Hamlets Homes

The Council has in place a well-established Arm's Length Management Organisation - Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage the Council's housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and

delegated budgets through the Company Board. Performance is monitored through a formal review process with Senior Council officers and elected members. The company operates its own risk management strategy and is subject to internal and external audit and inspection activities in compliance with the Companies Act.

During 2018/19, the Council commissioned Altair to support it in exploring options for the delivery of its housing management services beyond the end of the current management agreement. The review was undertaken in two stages; consisting of a baseline assessment and an options review. The purpose of the baseline Assessment stage of the project was to review the current strategic, operational and financial context of LBTH, and to assess the effectiveness of THH as a housing manager, considering its strengths and challenges.

Overall, Altair assessed that THH is a generally well-performing housing manager in terms of both housing management performance and cost. There is room for improvement in some key areas of service delivery, but evidence of performance improvements over recent years and an extensive transformation programme currently being delivered are positive.

The review further found no performance or financial imperative to significantly change the housing management arrangements for the LBTH stock currently managed by THH

Seahorse Homes Limited

Seahorse Homes Limited is a wholly owned company limited by shares established in 2017, to provide market rented homes and deliver a return on investment, both to cross-subsidise affordable housing and to fund wider General Fund services. The agreed business plan sets out its intention to acquire homes and then to develop homes. The Council holds 100% of the shares in this company and has initially committed £6m in equity. The company has yet to start trading. The Board of Directors is comprised of three Council officers. Following staffing changes within the Council the composition of the Board is being reviewed to minimise potential conflict of interests.

Mulberry Housing Society

Mulberry Housing Society is a not-for-profit charitable Community Benefit Society (CBS) established in 2017. The Council funds the CBS and holds two of five seats of the Board, the others being held by independent people initially appointed by the Council. The Board of Directors is comprised of two Council officers and three Independent members. The society is seeking to acquire homes which will be let at sub-market rent levels in order to meet housing needs. There were no financial transactions through the CBS in

2018/19. As an independent CBS, the Council does not have any equity shareholding in the company but intends to fund activities through retained right to buy receipts and loan finance.

PLACE Ltd (Pan-London modular TA)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 is a collaborative enterprise between a group of London Boroughs. The company will purchase modular homes that can be delivered to 'meanwhile' sites across the capital and relocated several times over a minimum 40 year lifespan. The pilot site is likely to be in Tower Hamlets. The company has secured capital grant from the Greater London Authority, which will be administered by the Council. In addition, the Council is considering providing a capital loan facility to the company. As a CLG, the Council does not have an equity shareholding in the company.

Capital Letters (London) Ltd (Pan-London TA procurement hub)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 and is a collaborative enterprise between a group of London Boroughs. The company will lease private properties for use as temporary accommodation and tenancies to prevent homelessness. The company has secured revenue grant funding from MHCLG which will initially be administered by the Council; a Chief Executive and Chief Finance Officer have been appointed in 2019 and they will be adopting their own processes and procedures including for the payment of salaries and maintenance of accounting systems. The Council may provide a loan facility to the company to support positive cash flow. As a CLG, the Council does not have an equity shareholding in this company.

Tower Hamlets Strategic Plan 2019 – 2022

The rolling three-year Strategic Plan reflects on the progress made during 2018/19 and reflects the promises made in the Mayor's Manifesto to make the borough a cleaner, safer and fairer place to live.

Since the May 2018 election, the council has focused on realising the ambitions with new initiatives to make Tower Hamlets safer, support and protect our young people, tackle the housing crisis, reduce poverty and inequality, improve health outcomes, clean up our streets and improve air quality in the borough.

The plan reaffirms the Council's commitment to delivering on the manifesto promises made, and sets out the wider vision for Tower Hamlets.

The Strategic Plan remains in an important precursor to the Council's Performance Management and Accountability Framework and is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measure that will help us determine whether we are achieving the outcomes.

The Council is therefore looking to deliver the following priorities over the next three years:

Priority 1 – People are aspirational, independent and have equal access to opportunities;

Priority 2 – A borough that our residents are proud of and love to live in; and

Priority 3 – A dynamic, outcome-based Council using digital innovation and partnership working to respond to the changing needs of our borough.

Review of Effectiveness

Tower Hamlets has a responsibility to conduct an annual review of the effectiveness of its governance framework, including the system of internal control.

This is informed by:

- Annual assurance opinion of the Chief Internal Auditor;
- Performance against targets;
- Annual director assurance statements;
- A review of the progress made with regards to the implementation of the previous year's AGS action plan.

The review of effectiveness of our governance framework is informed by the work of the Corporate Leadership Team who have responsibility for the development and maintenance of the governance environment, Chief Internal Auditors' Annual Report, and also by comments made by the external auditors and other agencies and inspectorates. The Statutory Officers Group considers the draft Annual Governance Statement, prior to formal review of the AGS by the Audit Committee.

Planning

The Council's Performance Management and Accountability Framework (PMAF) ensures that the vision and priorities are translated into clear plans and measurable outcomes which are appropriately monitored and delivered

by officers and elected members. The PMAF sets out corporate expectations for managing performance, and informs the design and operation of performance management processes within individual Directorates and services.

Evidence and analysis have been used to identify our priorities and outcomes for local people, and these are outlined in our Strategic Plan, along with the actions we will take to make these happen, and the performance measures we will monitor in order to review and challenge whether what we are doing is achieving the desired results.

Strategic performance monitoring is undertaken publically on a quarterly basis at Cabinet. The Council takes an outcomes based approach to performance management: identifying the outcomes we want to achieve for local people and taking actions which will support the delivery of these outcomes. Our strategic performance measures enable us to understand the impact of our actions.

Members and officers are supported in their work to improve performance through Dashboard reporting. This allows a greater breadth of data to be provided within reports, and tailored to individual audiences. Mayor and Cabinet Member Dashboards are designed to encourage dialogue between Members and Directors regarding performance, challenges, associated risks and improvement plans, and support accountability. Senior managers receive performance and organisational health dashboards which report by exception and focus on areas of under-performance, high risk and high cost.

The Council has formal procedures in place to challenge where there are identified performance concerns: taking a trouble-shooting approach to improving performance, acting as a 'critical friend', and making decisions about where to focus improvement work. Therefore, areas of identified concern are referred to our Performance Improvement Board for further examination. Areas of under-performance may also be referred to the Council's Overview and Scrutiny Committee for further review.

Delivery of Projects

LBTH has developed a Smarter Together portfolio which brings together the various programmes and projects with the council. The management of these projects complies with recognised industry best practice within the public sector.

The portfolio has been set up in accordance with Management of Portfolios (MoP) best practice guidance to ensure the optimisation of investment. A programme and project methodology has also been established - based on Managing Successful Programmes (MSP), Management of Risk (MoR) and Management of Benefits (MoB) - to apply best practice principles throughout the delivery lifecycle. There are clearly defined roles and responsibilities for all

decision-making forums set out in agreed Terms of Reference, supported by discussion/decision logs, actions lists and a suite of registers to ensure effective management of risks, issues, assumptions and dependencies.

An internal gateway process has been put in place to ensure sufficient rigour is applied before new change initiatives are commissioned. This includes assessing (against agreed criteria) whether the change initiative is suitable for investment before production of a business case. Business cases are developed using HMT's business case guidance to make sure information allows reliable and evidence-based decision making wherever possible. During the programme and project lifecycles, go/no go decision points have been built into plans to validate benefits before commencing key stages, such as design, procurement, build, development and implementation as appropriate.

A high level PMO technical competency framework has been developed and a learning and development programme is being delivered to ensure PMO staff are trained and qualified in key areas of expertise.

The Audit Committee

A well-established Audit Committee provides independent, effective assurance on the adequacy of the governance arrangements within TH. All major political parties are represented on the committee.

The Audit Committee has formally defined terms of reference as outlined within Part A3 – Responsibility for Functions of the Constitution. The remit of the Committee includes:

- To consider the Internal Audit plan and review the performance of Internal Audit against this target;
- To review internal audit findings and the annual report of the Head of Internal Audit and seek assurance that action has been taken where necessary;
- To act as a forum for the external auditors to bring issues to Members' attention including both specific reports and general items as the Annual Audit Letter and the Annual Governance Report;
- 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;
- To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption;
- 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
- To meet the obligations of the Accounts & Audit (England) Regulations 2015, 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)

The Audit Committee met regularly throughout 2018/19 and considered all reports consistent with those outlined within its terms of reference. This specifically included reports of the External Auditor, and the Annual Internal Audit Report of the Chief Internal Auditor.

In line with Practical Guidance for Audit Committees published by CIPFA and to aid the promotion of effective public reporting, the Chair of the Audit Committee will publish an annual report from the committee.

Management

Each Corporate Director has provided a self-assurance statement in respect of 2018/19, supported by assurance received from their direct reports, that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of TH which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of THs' key priorities; and
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.

All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority's policies are implemented in practice. The Monitoring Officer and the Legal Services Team monitor compliance with, and awareness of, key laws and regulations. Corporate directors, divisional directors and service heads are responsible for monitoring implementation of the council's policies.

One of the key elements in obtaining the required internal control assurance for the Annual Governance Statement is the completion of the Annual Positive Assurance Statement by senior officers. Corporate directors were asked to compile their statements after taking assurance from their senior / departmental management teams.

Internal Audit

TH takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of THs' activities. It is the duty of the Chief Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control within TH. This opinion has been used to inform the AGS.

The Internal Audit Service has been managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

One of the key assurance statements TH receives is the annual report and opinion of the Chief Internal Auditor. As outlined within annual report of the Chief Internal Auditor, the following assurance opinion was provided, 'On the basis of the audit and counter fraud work undertaken during 2018/19 financial year, it is my opinion that I can provided **reasonable assurance** that the authority has adequate systems of internal control and that this has been operating effectively during 2018/19. The internal control environment (including the key financial systems, risk and governance) is in the main well established and operating effectively in practice.

The assurance opinion is considered consistent with the ongoing transformation activities and the continued implementation of the Best Value Improvement Plan actions.

However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give this assurance.

External Audit & Inspections

Deloitte LLP was appointed as the Council's external auditor from 1 September 2018, following the decision of the council to opt in to the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the council for a period of five years (2018/19 to 2022/23).

KPMG, the previous external auditor, completed their audit of the 2017/18 financial statements. Within the Annual Audit Letter 2017/18, the auditor issued an unqualified opinion in relation to the council's 2017/18 statutory financial statements. This means that KPMG concluded that the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

However, the 2017/18 value for money (VFM) work, KPMG issued a qualified conclusion on the Authority's arrangements to secure value for money for 2017/18. KPMG specifically concluded that "the authority had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. KPMG remained satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource development' criterion. KPMG therefore issued a qualified VFM conclusion on an 'except for' basis, which is consistent with the VFM opinion given in 2016/17.

During 2018/19 external inspectors from Ofsted and the Local Government Association have completed a number of inspections and reviews, summary details are as follows.

Ofsted

As a follow up to the April 2017 report published by Ofsted in respect of Tower Hamlets' Single Inspection of Children in need of help and protection, children looked after and care leavers and the Local Safeguarding Children Board, all of the scheduled Ofsted monitoring visits have now been completed. We are expecting the full inspection of the service to be completed during June or July 2019. Therefore we are now in the final stages of preparation. The majority of our monitoring reports have highlighted areas of improvement across Children's Social Care. They have also helpfully pointed out areas where further work is required, and we have focused much activity on strengthening these aspects of practice in order that we can present a strong and positive account of practice throughout the upcoming inspection.

Local Government Association (LGA) – Corporate Peer Challenge

During June 2018, the council took part in a four day Local Government Association led Corporate Peer Challenge. The LGA Peer Challenge team were asked to review the following:

1. How the Council adequately addressed the directions issued by MHCLG and the expectations of the departed commissioners;
2. Whether the Council is addressing its chosen priorities and delivery continued improvements to local residents and businesses: and
3. Whether the Council is identifying key challenges and setting realistic and ambitious targets for the future.

The final feedback report issued to the Mayor and the Chief Executive concluded that:

1. The directions of MHCLG and the expectations of the departed Commissioners were to consider to improvements in the areas of: Grants; Procurement; Property; Election and Communication and Culture. In summary the peer team believes that there have been significant improvements in all of the areas identified;
2. The Council set priorities were adopted from the Mayor's Manifesto. These priorities are now being incorporated in a refreshed Strategic Plan.

3. The Council clearly understands its population, their needs and the challenges in addressing these needs. These are reflected in the revised Strategic Plan and its improvement work.

As a result of the feedback received improvement actions were developed with the delivery of these monitored by the Transformation & Improvement Board.

Risk Management

All councillors and managers are responsible for ensuring threats and opportunities are considered in the decisions they take. TH has in place a formally approved risk management strategy which is subject to annual review. That strategy sets out a corporate risk appetite that is not risk averse but seeks to support decision making that consider threats, identifies mitigations etc. in order to ensure opportunities are seized and delivered.

In support of the delivery of effective risk management arrangements, a corporate risk management system 'JCAD' is used to capture all relevant corporate / directorate and project related risks. In addition, directorate Risk Champions oversee the continued development and review of the council's approach to risk management, acting as risk specialists to continually review existing risk and to consider emerging risk matters.

Information Governance

Two formal groups oversee information governance risks to ensure that robust governance arrangements are in place and are maintained across the council. An Information Governance Group meets six weekly. In addition, the established Information Governance Strategy Board is chaired by the Head of Legal Services and is represented by Divisional Directors from each directorate.

Update on the 2017/18 Significant Governance Issues

The 2017/18 AGS included three significant governance issues which were to be implemented and addressed during 2017/18. Action 1 is complete and closed. The implementation of actions 2 and 3 has progressed significantly with elements remain on-going.

Action 1 – To continue to effectively deliver the commitments outlined and defined within the Best Value Improvement Plan as a response to the findings of the Commissioners.

Outcome: This outcome has been delivered with the improvement plan outcomes being delivered.

Action 2 – To continue to deliver improvements in Children's Services that respond to the Ofsted findings.

Outcome: This outcome remains ongoing however significant progress has been and continues to be made as outlined within the earlier relevant text within this document. The required improvements are continuing to be delivered across both years.

Action 3 – The 2017/18 Internal Audit of the Leaving Care Service governance and control arrangements received a Nil assurance rating to this audit and which recommended that a full service review is undertaken.

Outcomes: This action has largely been delivered however work remains ongoing which is the subject of ongoing input from the Internal Audit team.

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Significant Governance Issues

2018/19

Based on THs' established risk management, the issues detailed in the following action plan have been assessed as being significant for the purpose of the 2018/19 AGS.

It is proposed over the coming year that steps will be taken to address the issues identified to further enhance THs' governance arrangements.

No.	Issue	Action	Outcome	Lead Officer	Completion Date
1	Lack of robust budget management leading to large budget overspends being reported at the year-end / Period 11.	<p>To undertake a review of the current budget management process with the aim of introducing a new protocol and revised process which clearly identifies accountability.</p> <p>Improvements to Agresso, as part of the latest upgrade due in 2019, to make the budget management process more user-friendly, which will promote greater uptake, as the Council</p>	Improved budget management	Corporate Director of Resources	31 March 2020

		rolls out 'self-service'.			
2	Indications that role based access has not been fully implemented, particularly amongst staff who have moved within the Council.	Immediate review of existing arrangements to implement and recommended short term remediation. This will include future migration to Office 365 to improve the control of data sharing and provide data owners with the ability to manage access to shared resources.	Improved Data Governance / Compliance arrangements.	Divisional Director of IT.	31 March 2020

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 2016.

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 (PWLB) 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 2018 the Council keeps 64% and gives the GLA 36%. A safety net system also operates between London Boroughs where a system of Tariffs and Top-ups as well as a Safety Net scheme operate within the Council's General Fund to adjust the amount of business rates the Council ultimately retains.

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
CCG	- Clinical Commissioning Group
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
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>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Tuesday, 23 July 2019</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Asmat Hussain - Corporate Director, Governance and Monitoring Officer</p>	<p>Classification: Open (Unrestricted)</p>
<p>Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings 2019/20</p>	

Originating Officer(s)	Farhana Zia
Wards affected	All Wards

Executive Summary

This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year of 2019/20 for the information of members of the Audit Committee.

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.

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 THE 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.

Audit Committee Arrangements

- 3.2 At the Annual General Meeting of the full Council held on 15th May 2019, 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 2019/20 was among the committees' memberships approved and these details are set out at Appendix 2 to the report.
- 3.3 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.
- 3.4 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.
- 3.5 Meetings are scheduled to take place at 6:30 p.m. except where the meeting falls within the month of Ramadan where they will aim to take place at 5:30 p.m. The Committee may wish to discuss an appropriate start time that suits it's Members at the first meeting of the Committee.
- 3.6 It may be necessary to convene additional meetings of the Committee should urgent business arise. Officers will consult with the Chair and Members as appropriate.

4. EQUALITIES IMPLICATIONS

- 4.1 When drawing up the schedule of dates, consideration was given to avoiding school holiday dates and known dates of religious holidays and other important dates where at all possible.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,

- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 Not applicable to this report.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This report recommends that the Audit Committee note its Terms of Reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1 – 3. There are no direct financial implications arising from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 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 terms of reference, quorum, membership and dates of meetings are consistent with the legal framework and Part 3.3.6 of the Council's Constitution.

Linked Reports, Appendices and Background Documents

Linked Report

- 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

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1. Audit Committee

Summary Description: <ol style="list-style-type: none"> 1. The Audit Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. 2. The purpose of the Audit Committee is to provide independent assurance to the Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place. 	
Membership: 8 Councillors. The Audit Committee shall not be chaired by a Member of the Executive.	
Functions	Delegation of Functions
<u>Governance, Risk and Control</u> <ol style="list-style-type: none"> 1. To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance. 	None
<ol style="list-style-type: none"> 2. To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. 	None
<ol style="list-style-type: none"> 3. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements. 	None
<ol style="list-style-type: none"> 4. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council. 	None
<ol style="list-style-type: none"> 5. To monitor the effective development and operation of risk management in the Council. 	None
<ol style="list-style-type: none"> 6. To monitor progress in addressing risk-related issues reported to the committee. 	None
<ol style="list-style-type: none"> 7. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions. 	None
<ol style="list-style-type: none"> 8. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption. 	None
<ol style="list-style-type: none"> 9. To monitor the counter-fraud strategy, actions and resources. 	None
<ol style="list-style-type: none"> 10. To review the governance and assurance arrangements for significant partnerships or collaborations. 	None

<u>Internal audit</u>	None
11. To approve the internal audit charter.	
12. To review proposals made in relation to the appointment of external providers of internal audit services.	None
13. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.	None
14. To approve significant interim changes to the risk-based internal audit plan and resource requirements.	None
15. To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.	None
16. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.	None
<p>17. To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:</p> <ul style="list-style-type: none"> a. Updates on the work of internal audit including key findings, issues of concern and management actions as a result of internal audit work. b. Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP). c. Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) considering whether the non-conformance is significant enough that it must be included in the AGS. 	None
<p>18. To consider the Head of Internal Audit's annual report, including:</p> <ul style="list-style-type: none"> a. The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement. b. The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the 	None

committee in reviewing the AGS.	
19.To consider summaries of specific internal audit reports as requested.	None
20.To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.	None
21.To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.	None
22.To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations.	None
23.To provide free and unfettered access to the Audit Committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the committee.	None
24.To commission work from internal audit.	None
<u>External audit</u>	None
25.To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA) or the authority's auditor panel as appropriate.	
26.To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.	None
27.To consider specific reports as agreed with the external auditor.	None
28.To comment on the scope and depth of external audit work and to ensure it gives value for money.	None
29.To commission work from external audit.	None
30.To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	None
<u>Financial reporting</u>	None
31.To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.	
32.To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	None
<u>Accountability arrangements</u>	None
33.To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control	

frameworks, financial reporting arrangements, and internal and external audit functions.	
34. To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.	None
35. To publish an annual report on the work of the committee.	None
Quorum: 3 Members of the Committee	

LONDON BOROUGH OF TOWER HAMLETS

COMMITTEE MEMBERSHIPS 2019- 2020

NOMINATIONS SUBMITTED TO THE ANNUAL COUNCIL MEETING ON 15th May 2019

AUDIT COMMITTEE (Seven members of the Council)		
<i>Labour Group (7)</i>	<i>Conservative Group (1)</i>	<i>Ungrouped (0)</i>
Councillor Abdal Ullah Councillor Ayas Miah Councillor Ehtasham Haque Councillor Kyrsten Perry Councillor Marc Francis Councillor Mufeedah Bustin Councillor Val Whitehead Substitutes:- Councillor Mohammed Ahbab Hossain Councillor Bex White Councillor Gabriela Salva Macallan	Councillor Andrew Wood Substitutes:- Councillor Peter Golds	N/A

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AUDIT COMMITTEE

SCHEDULE OF MEETING DATES 2019-20

Tuesday, 23rd July 2019

Thursday, 14th November 2019


Thursday, 30th January 2020

Thursday, 9th April 2020

Note

All meetings will start at 6:30 p.m. unless otherwise determined by the Chair.

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Tuesday, 23 July 2019</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted)</p>
<p>NFI Progress Report</p>	

<p>Originating Officer(s)</p>	<p>Sue Oakley / Paul Rock</p>
<p>Wards affected</p>	<p>(All Wards)</p>

Executive Summary

This report provides details of the background and evolution of the National Fraud Initiative and the National Fraud Initiative (NFI) 2018 exercise. This is a biennial data matching exercise whereby all Local Authorities and some government agencies match their data to prevent and detect fraud and error in their systems.

Recommendations:

The Audit Committee is recommended to:

1. Note the progress made against the National Fraud Initiative Exercise for 2018/19.

1. REASONS FOR THE DECISIONS

- 1.1 To update the Audit Committee in relation to progress against the National Fraud Initiative and support its role in oversight of counter fraud activity.

2. ALTERNATIVE OPTIONS

- 2.1 None

3. DETAILS OF THE REPORT

Background

- 3.1 The NFI compares different sets of data, for example payroll and benefit records against other records held by the same or another organisation, bringing to light potentially fraudulent claims and payments. Where a match is found it may mean that further investigation is required.

- 3.2 The NFI has been running since 1994, and was originally managed by the Audit Commission. The Commission processed the NFI data under its statutory powers under part 2A of the Audit Commission Act (1998) these powers put the matching on a statutory footing for local government and NHS bodies.
- 3.3 The Serious Crime Act 2007 (SCA) gave the Commission new powers to enable the benefit of NFI to be extended to Central Government and the private sector. The SCA inserted a new paragraph into the 1998 Audit Commission Act.
- 3.4 The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the exercise must by law, have regard to a statutory Code of Data Matching Practice.
- 3.5 Over time the exercise has evolved to extend its partners to all Local Authorities in England, Wales, Scotland and Northern Ireland, and now includes pension details from the Police, Health Service and Fire Service. To date over £1.69bn has been identified in fraud and overpayments over the various exercises across the country.
- 3.6 The exercise is now managed by the Cabinet Office following the dissolution of the Audit Commission in 2015.

The 2018/19 Exercise

- 3.7. The current exercise commenced in late 2018 when data was supplied for matching purposes by all relevant parties, including ourselves. The matched output began to be released at the end of January this year.
- 3.8. The list of data sets provided by this authority for matching purposes included:

LBTH Pensions	Supported Care Home Residents
LBTH Payroll	Housing Waiting List applicants
Council Tax Reduction recipients	Right to Buy Applicants
Housing Tenants (THH)	Personal Budget Holders
Alcohol Licence Holders	Creditors (address book)
Market Traders	Creditors (payments)
Resident Parking Permits	

- 3.9. Other data such as Housing Benefits, Blue Badges and concessionary passes is supplied directly to the NFI by other government departments or suppliers.
- 3.10. The matched data is contained on a secure website and access is granted to selected officers from each relevant service so that they can examine their own particular output and evaluate each match for the likelihood of fraud or error. However many of the matches are dealt with by the Corporate Anti-Fraud Team within the Internal Audit, Fraud and Risk Management service

where specialist investigative knowledge can be applied, for instance, the tenancy related matches are reviewed by the Social Housing Fraud Team.

- 3.11. The NFI system has its own inbuilt risk assessment system and this is used as a guideline to prioritise those matches which need attention, together with the local knowledge of the Council's data systems.
- 3.12. Each report type is subjected to a preliminary assessment by the Corporate Anti-Fraud Team and the high rated risk matches are reviewed first. There are extremely large volumes of matches received and consequently the risk rating allocated by the NFI is essential in helping prioritise the workload.
- 3.13. The table below focuses on material risks emerging from the examination to date.

Match type	Total number of matches	number of which are deemed <u>high</u> risk	number of which deemed <u>medium</u> risk
Creditors	14,324	0	0
Housing Benefit	2,994	16	218
Council Tax Reduction	1,513	64	23
Housing Waiting List	867	75	700
Housing Tenants	708	309	130
Right to Buy	187	100	46
LBTH Pensions	201	110	29
Blue Badge	210	176	34
Procurement/Payroll & Companies House	64	0	0
LBTH Payroll	153	3	20
Resident Parking Permit	62	35	24
Personal Budgets	27	7	5
Private Residential Care Homes	18	6	12
Personal Alcohol Licence	1	0	0
Market Traders	1	0	0
Matches total	7,006 (creditor matches disregarded*)	901	1241

*creditor matches not deemed as high risk

Progress on the exercise

3.14. The chart below gives details of the numbers of matches processed to date by services across the council. Progress is dependent on priority and available resources:

Match type	Total number of high and medium risk matches	Progress to date:
Creditors	0	0
Housing Benefit	234	1,242
Council Tax Reduction	87	438
Housing Waiting List	775	56*
Housing Tenants	439	4*
Right to Buy	146	46*
LBTH Pensions	139	77
Blue Badge	210	175
Procurement/Payroll & Companies House	0	64
LBTH Payroll	23	86
Resident Parking Permit	59	52
Personal Budgets	12	8
Private Residential Care Homes	18	17
Personal Alcohol Licence	1	0
Market Traders	1	0
Totals	2,144	2,213

* Cases to be prioritised within existing resources in second quarter.

Monetary values and outcomes to date

3.15. The NFI system requires the users to record outcomes from the matches and place a monetary value where possible to reflect any overpayment or savings arising from the correction of the records. Sometimes this is an actual monetary saving, for instance where a housing benefit overpayment is calculated, and sometimes this can be an estimated saving for instance where a person is removed from the housing waiting list.

3.16. Below are the actual and estimated outcomes for the 2018 exercise so far.

- £4,681 in housing benefit overpayments identified.
- Fourteen Housing Benefit cases have been referred to the Department for Work and Pensions for fraud investigation. These are cases where student status appears not to have been declared on the benefit claims.
- £11,341 has been identified as overpaid LBTH pensions, recovery is being pursued. These cases have occurred where pensioners have died

and the authority has not been notified and an overpayment of the pension has occurred.

- 130 blue badges have been recovered or are in the process of being recovered as a result of the exercise. These are cases where the blue badge recipient has died and the badges are still in circulation. They have a 'notional value' of £8,000 per badge resulting in an estimated £1.4m in potential future parking income.
- Fifty people have been removed from the housing waiting list with an estimated notional total value, as prescribed by the NFI, of £162,000. These are cases where the waiting list applicant has died and the authority has not been notified.

Timescales

- 3.17 The 2018 exercise has a two year life span and so work will continue to be carried out until all the matches that are likely to identify any real risk have been processed.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific equalities implications.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 The Council is required to participate in the National Fraud Exercise by the Cabinet Office which conducts the data matching exercises utilising statutory powers in the Local Audit and Accountability Act 2014.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The Accounts and Audit Regulations 2015 require relevant authorities to have a sound system of internal control and the responsible financial officer to determine appropriate measures that enable the prevention and detection of inaccuracies and fraud. Participation in the NFI supports this requirement and safeguards the financial position.
- 6.2 There are no other significant financial implications.

7. COMMENTS OF LEGAL SERVICES

- 7.1. Since closure of the Audit Commission, the Cabinet Office has held statutory powers to conduct data matching exercises under the Local Audit and Accountability Act 2014 ('the 2014 Act'), known as the National Fraud Initiative (NFI).
- 7.2. Statutory Guidance pursuant to Schedule 9 of the 2014 Act "The Code of Data Matching Practice" was most recently updated in September 2018 following the introduction of the General Data Protection Regulation (GDPR) and Data

Protection Act 2018 (DPA). The purpose of this code is to help ensure that the NFI and everyone involved in NFI data matching exercises comply with the law, especially the provisions of the GDPR and DPA. It also promotes good practice in data matching.

- 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. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.
-

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- None

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:

Sue Oakley

Corporate Anti-Fraud Team Leader

0207 364 7423

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Tuesday, 23 July 2019</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted)</p>
<p>Internal Audit and Counter Fraud Progress Report</p>	

<p>Originating Officer(s)</p>	<p>Paul Rock</p>
<p>Wards affected</p>	<p>(All Wards);</p>

Executive Summary

This report provides an update on progress against the delivery of the 2019/20 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in April 2019.

The report also provides an update with regards to the current counter fraud performance and to highlight any new significant fraud related issues since the last report.

Appendix 1 lists all the audits finalised in the period April to June 2019 followed by summaries of the reports.

Recommendations:

The Audit Committee is recommended to:

1. Note the contents of this report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.

1. REASONS FOR THE DECISIONS

1.1 The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

- 1.2 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and internal control and this report assists the Committee in discharging its responsibilities.

2. **ALTERNATIVE OPTIONS**

- 2.1 None.

3. **DETAILS OF THE REPORT**

Background

- 3.1 Currently we assign each audit review one of four ratings, depending upon the level of our findings. The ratings we use are:

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied.
Substantial	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk.
Nil	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.2 In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is based on the following factors:

Significance	Definition
Extensive	High risk, high impact area including fundamental financial systems, major service activity, scale of service in excess of £5m.
Moderate	Medium impact, key systems and / or scale of service £1m - £5m.
Low	Low impact service area, scale of service below £1m.

Overview of finalised audits

3.3 Since the last report that was presented to the Audit Committee in April 2019, eight final reports from the 2018/19 internal audit plan have been issued. The findings of these audits are presented as follows:

- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
- Appendix 1 provides a list of the audits organised by assurance rating and significance and summaries of the audit reports.

3.4 The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will support Internal Audit's overall assessment of the adequacy of governance, risk and internal control arrangements that are required as part of the Accounts and Audit Regulations 2015 and the 2017 Public Sector Internal Audit Standards.

Chart 1: Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	3	3	-	6
	Moderate	-	1	1	-	2
	Low	-	-	-	-	-
Total Numbers		-	4	4	-	8
Total %		-	50%	50%	-	100%

3.5 In summary, of the six finalised audits which focused on high risk or high value areas (Extensive Significance) three were assigned substantial assurance and three were assigned limited assurance. Of the two finalised

audits which focused on medium risk or medium value areas (Moderate Significance) one was assigned substantial assurance and the other received limited assurance.

- 3.6 Overall, 50% of audits resulted in substantial assurance. The remaining 50% of audits have a limited assurance rating.
- 3.7 Internal Audit has a performance target of 95% of audit plan to be completed to at least draft report stage by 31 March 2020. For 2019/20 financial year, the current Internal Audit plan has 69 planned systems audits. As at 30 June 2019, 3 of these audits have been deferred due to management requests. Of the 66 audits currently on the plan, 14 of these audits are being progressed as detailed below:

Stage of Audit	Number of Audits
Planning	8
Fieldwork	6
Draft report	0
Final report	0

2019/20 Internal Audit Plan

- 3.8 At present, Internal Audit is effectively carrying three vacancies and there is no third-party audit provider in place to supplement delivery. As a result, the Internal Audit team is under significant pressure and working extremely hard to meet its delivery targets, but there is a risk that the annual internal audit plan will not be delivered. As a matter of urgency we will be recruiting to the vacant posts and beginning procurement for a strategic audit partner to provide both specialist IT audit services and supplement the main internal audit plan. As a short-term measure will be exploring a one-off purchase from existing audit service frameworks available to London local authorities. Any significant amendments to the internal audit plan will be reported to management and the Audit Committee.

Independence of the Head of Internal Audit

- 3.9 The Public Sector Internal Audit Standards and the Local Government Application Note issued by the Chartered Institute of Public Finance and Accountancy requires the Head of Internal Audit to report any actual, potential or perceived impairments to organisational independence. Any such impairments must have additional safeguards in place.
- 3.10 The Audit Committee is aware that the Head of Internal Audit is also responsible for the risk management, anti-fraud and insurance functions. As this creates at least a potential impairment to organisational independence additional safeguards will be put in place.
- 3.11 To safeguard independence the Head of Internal Audit will seek alternative arrangements for assurance. During 2019/20 these functions will be audited independently by either a peer or external provider. The audits will be

sponsored by the Divisional Director for Finance, Procurement and Audit and both the Divisional Director and the Audit Committee will receive the reports. This arrangement will support the Audit Committee in discharging its responsibility for oversight of Internal Audit and in particular its organisational independence.

Appointment of Independent Expert / Member

- 3.12 In April 2019, the Audit Committee decided that the appointment of an independent expert/member to the audit committee should be pursued. On appointment, the new Head of Internal Audit has been tasked with progressing this appointment and a job description and person specification is being developed. The appointment process will be discussed and agreed with the Chair of the Audit Committee and it is anticipated that the expert will join the Committee before the next formal meeting.

Counter Fraud

- 3.13 The Corporate Anti-Fraud Team consists of the following sub teams:

- Intelligence
- Social Housing
- Corporate Investigations
- Blue Badge

- 3.14 There is also an investigator in the Insurance Service who examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims.

- 3.15 In addition to investigating referred cases, the Corporate Anti-Fraud Team also undertakes various proactive exercises and coordinates the Council's participation in the National Fraud Initiative, a biennial proactive data matching exercise run by the Cabinet Office in which each local authority must participate.

Summary of Caseload / Referrals

- 3.16 Current caseloads and outcomes for the period between April and June 2019 are as summarised below:

Social Housing Fraud Investigations

Referrals Received	Referrals Investigated	Properties Recovered	Right to Buy Applications Stopped	Other Outcomes Achieved*
85	64	5	1	4*

Corporate Investigations

Referrals Received	Referrals Investigated	Number of Investigations Concluded	Investigations Ongoing
7	4	1	2

Blue Badge and Parking Investigations

Parking Control Notices Issued	11
Badges Inspected	49
Badges Seized	71
Cautions Given	2
Verbal Warnings Issued	20
Resident Permits Cancelled	1
Vehicles Removed	5

Insurance Team Caseload

Claims Received	60
Total Value of Claims	£546,367
Claims Repudiated	22
Claims Withdrawn	0

Proactive Counter Fraud Activities

- 3.17 In addition to the reactive investigatory activities outlined above, a number of proactive counter fraud initiatives have also been conducted to promote the counter fraud culture within the Council
- 3.18 The Social Housing Investigations Team continue to work jointly with the THH Caretaking Teams which facilitates speedy referral of suspected sublet cases.
- 3.19 To assist with the embedding the counter fraud culture, the team has developed, in partnership with a leading training provider, a bespoke e-learning product which will develop and enhance awareness of fraud risk across the Council.
- 3.20 The fraud team has begun planning a pro-active exercise examining cases of No Recourse to Public Funds (NRPF). NRPF fraud has been regularly reported an area of significant risk for all local authorities. The team will be reviewing the processes for assessing applications and commenting on risk exposure as well as the effectiveness of controls.
- 3.21 By September 2019 the team will be launching a 'Key Amnesty'. The amnesty will be targeted at reducing social housing fraud and include a publicity programme to raise awareness of how the Council has been successful in investigating and where appropriate prosecuting fraud cases. It will provide an ideal opportunity for increased engagement with Tower Hamlets Homes, the

borough's Registered Providers and the community. The results of the amnesty will be reported to a future audit committee.

- 3.22 The Council has engaged with a CIPFA sponsored anti-fraud initiative known as the London Counter Fraud Hub. The Hub seeks to examine and match data across a wide range of areas and authorities to identify fraud and error. This Hub is likely to yield rewards based on pilot studies and will consider Housing, Council Tax and National Non Domestic Rating initially, but will extend into other areas of Local Authority activity following risk assessments and agreed working approaches.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific statutory implications.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 There are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 Other than the requirements on the authority and responsible financial officer set out in the Accounts and Audit Regulations 2015, there are no significant financial implications.

7. COMMENTS OF LEGAL SERVICES

- 7.1 This report is compliant with the Council's legal duties in respect of risk and auditing. It also demonstrates compliance with the Corporate Director Resources' statutory duties under s.151 of the Local Government Act 1972

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix 1 – summary of finalised internal audit reports.

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:

Paul Rock, Head of Internal Audit, Fraud and Risk
paul.rock@towerhamlets.gov.uk

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Place	Management and Control of Markets
	Extensive	Adults, Health and Community	Management of Deprivation of Liberty Safeguards (DoLS)
	Extensive	Adults, Health and Community	Rapid Response Team – Service Review
	Moderate	Place	Management and Control of Handy Person's Service
SUBSTANTIAL	Extensive	Resources	Creditors Systems
	Extensive	Resources	HR and Payroll Systems
	Extensive	Adults, Health and Community	Care Plans – Follow Up Audit
	Moderate	Children and Culture	Elective Home Education

Limited Assurance Audits

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Markets	May 2019	<p>This audit reviewed systems for planning, managing and carrying out enforcement of the Council's markets. There are 10 markets in the borough, cumulatively open for 364 days each year. These include iconic markets such as Brick Lane, Columbia Road and Petticoat Lane. The Market Service operates a Street Trading Account, with reserves of £164,024 for 2018/19, with budgeted expenditure of £1,452,680 and budgeted income of £1,402,280.</p> <p>Our review showed that there were documented procedures for management of operational aspects. Systems were in place to ensure that temporary and additional pitches were paid for in advance by traders. There were adequate arrangements for collection of income and identification and recovery of outstanding income. However, the audit identified the following issues:</p> <ul style="list-style-type: none"> • The Cabinet approved "The High Streets & Town Centre's Strategy (2017 – 2022)" on 31/10/2018, with one key priority viz. to improve the management of street markets. Although, an action plan was drafted, it needed to be finalised and implemented. • There were no documented procedures for Management to provide oversight and monitor compliance with Markets Enforcement requirements. We have therefore recommended that procedures should document the various levels of management together with their roles and responsibilities in overseeing enforcement of the markets. • The Markets Service has its own Audit process, but there were no clear standards, written procedures or documented methodology supporting the audit process. We have recommended that the audit process should be made more effective and that the Market Service should undertake more proactive joined up working with Internal Audit and the Council's Anti-Fraud Team. 	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Markets	May 2019	<ul style="list-style-type: none"> Audit observations of Roman Road and Whitechapel markets showed that enforcement control exercised by the Market Inspection function was not effective and needed to be improved to ensure that Traders comply with the required conditions of their trading licences. We found that a number of pitches marked off as vacant were occupied; traders not displaying their names and up to date registration licence number or Identification; and pitches were oversized. Therefore, we could not give any assurance over the effectiveness of market enforcement undertaken by Inspectors. No outcome measures or targets have been set in order to reduce the levels of illegal trading. Audit testing and analysis showed a number of Market officers had very little enforcement activity recorded during the period. We were not clear what management action has been taken to address this. We have, therefore, recommended that clear performance measures and targets should be introduced in respect of the reduction of illegal trading which should be regularly monitored and reported on to higher level of management <p>All findings and recommendations were agreed with the Interim Head of Communities & Enforcement and Divisional Director, Public realm. Final report was issued to the Corporate Director of Place.</p>		


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control for Deprivation of Liberty Safeguards (DoLS)	April 2019	<p>This audit reviewed the controls for processing applications from managing authorities (hospitals and care homes) for authorisation to lawfully deprive somebody of their liberty. The Council is the supervisory body for the Deprivation of Liberty Safeguard (DoLS) process and has statutory responsibility for considering a deprivation of liberty request received from a managing body, commissioning the statutory assessments and, where all the assessments agree, authorising deprivation of liberty to take place.</p> <p>From our review, we can provide Limited Assurance for systems design as key elements of systems and controls needed to be clearly designed and documented to monitor compliance. However, in view of high volume of work and limited staffing resources, we have provided Substantial Assurance over control effectiveness for urgent cases, which is a priority for the service.. The key issues and risks identified in the report are summarised below:</p> <ul style="list-style-type: none"> • There were no written procedures for the allocation of assessments. The method for allocating assessments to mental health and best interest assessors in respect of non-urgent cases was not clear and the waiting time was not tracked. As at November 2018, of 158 cases waiting to be assessed, 48 had been waiting for over one year. • The annual government return had not been prepared in accordance with collection criteria set out by NHS Digital. Applications made in the previous year, but still awaiting sign off in the current year had not been included in the return. There was no management review prior to submission. • The procedures for the DOLS team were not complete and up-to-date. Many internal processes, such as allocation of assessments to Mental Health and Best Interest assessors, were not covered. In addition, there was little documentary evidence to support the suitability of external assessors , e.g. their training, qualification, professional indemnity insurance and DBS checks. 	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control for Deprivation of Liberty Safeguards (DoLS)	April 2019	<ul style="list-style-type: none"> • In our sample testing 6 cases which were approved for deprivation of liberties, there was no evidence that a Relevant Person's Representative had been appointed in 2 cases. The Council as the supervisory body may not discharge its duty under the Mental Care Act if a Relevant Person's Representative is not appointed as soon as an application has been authorised. • We noted that Emails with attachments containing sensitive personal data were being received from third parties (hospitals, care homes, and external assessors). There was no procedure/protocol to guide third parties in ensuring that personal data was protected. • As conditions attached to authorisations were not being tracked, there was no assurance for the council as the supervisory body, that conditions of deprivation of liberty, were being monitored and met. • There was no formal performance management system for the DoLS process. <p>All findings and recommendations were agreed with the Interim Divisional Director, Adult Social Care. The final report was issued to the Corporate Director of Health, Adults and Community.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Rapid Response Team – Service Review	April 2019	<p>The objective of this audit was to provide assurance that controls for the efficient and effective management of the Rapid Response Team (RRT) were sound and secure. The RRT delivers critical incident response, community reassurance activity and targeted outreach to young people and young adults who are not engaged with mainstream services, and are at risk of involvement with gangs and crime. The budget for RRT was £766,950 for the financial year 2018/19. From our testing of controls, we identified the following issues:</p> <ul style="list-style-type: none"> • We noted that a disclosure pathway mechanism was in place to assist officers in carrying out their duties in the event of an incident in the borough. However, the rationale for carrying out RRT activities was not in place and could not be evidenced clearly to measure the effectiveness of the service through monitoring and reporting of activities against work plans. • A complete database was not in place to record details of referrals and incidents, including the nature of the incident, location of the incident, the type of incident and other key details. Consequently, there was no clear basis to manage and monitor resources deployed to deal with the referrals and incidents. In addition, a clear process for monitoring RRT activities was not in place to ensure service objectives and outcomes were met. • A set of agreed KPIs with set targets in line with the THH Community Safety Partnership or the Council's strategic priorities was not in place to measure the performance of the rapid response team and report upon it. • There was no system for producing management reports on RRT activities, their impact and the related outcomes. Therefore management was unaware of the effectiveness of the service and whether they were required to instigate any remedial actions. <p>All findings and recommendations were agreed with the Community Safety Manager and the Divisional Director, Community Safety. Final report was issued to the Corporate Director of Health, Adults and Community.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Handy Person's Service	May 2019	<p>The purpose of the audit was to confirm whether the Handy Person's Service planned, managed and controlled the reactive, planned maintenance work and project work to various Administrative and Direct Service Buildings in accordance with agreed policy and procedures. The core Handy Person's work at the time of this audit was around planned maintenance work such as PAT Testing, Asbestos Surveys and Fire Extinguisher Inspections. The reactive maintenance works were being referred to the external contractors since September 2018. From our audit , we highlighted the following issues:-</p> <ul style="list-style-type: none"> • A clear methodology was required to be developed for planning staffing resources across various activities to ensure that staff were deployed optimally and efficiently to ensure that their work was planned, scheduled and controlled for the whole year so that any spare capacity was identified and managed. • Testing of a sample of 10 reactive jobs showed that job priorities were assigned to work requests. However, there was no evidence of any post inspection carried out by a senior officer to assess the quality of work or to assess customer satisfaction. • Our review of the database of the work programme showed that in the main, PAT testing and Asbestos Surveys were being undertaken on time. However, with regards to Fire equipment checks, we noted that some of these were not carried out on due dates and there were delays in some inspections. This was due to additional fire equipment checks being carried out by the in-house team which were previously allocated to outside contractors. • With regards to annual Asbestos Inspections, we noted that procedures around the Asbestos Management Surveys (Issue 4, October 2018) did not include details of processes to be followed by the in-house team during the inspection process. 	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
		<ul style="list-style-type: none"> • A charging policy for project work needed to be developed and approved in accordance with the Council's Financial Regulations and procedures. This policy should cover issues such as whether full costs, on-costs, profits etc. are to be recovered. We recommended that the Service should liaise with the Finance Business Partner to develop the charging policy and procedures. • We reported that although stocks of materials and equipment were being held in stock rooms, there were no formal records of stocks held in these rooms. This has resulted in non-compliance of the Council's Financial Regulations in relation to stock control. <p>AI findings and recommendations were agreed with the Acting Head of Facilities Management and final report was issued to the Corporate Director of Place.</p>		

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>23 July 2019</p>	
<p>Report of: Neville Murton- Corporate Director</p>	<p>Classification: [Unrestricted or Exempt]</p>
<p>Q1 Risk Management Update 2019/20</p>	

Originating Officer(s)	Paul Rock – Head of Internal Audit, Fraud and Risk
Wards affected	All wards

Executive Summary

The report and appendices provide the Audit Committee with an update on risks on the Corporate Risk Register.

There are currently 13 corporate risks on the corporate risk register, of which four are red, five, are amber, three are yellow and one green. A reduction from 14 reported in April 2019.

One new risk has been added – ASD0032 which is around Business Continuity and Risk Reference LPGEL0004 which was in relation to the European Parliamentary elections has been withdrawn having been successfully concluded. Also risk reference CSDSC0005 has been withdrawn as payments by results are now largely on target.

The report enables the Audit Committee to fulfil part of its functions as set out in the Committee's current terms of reference item no. 8 – to review the Risk Management arrangements of the authority.

The committee is also asked to satisfy itself that the risk register is up to date, risks are being adequately controlled and if there are any risk controls they would require further assurance on.

Recommendations:

The Audit Committee is recommended to:

1. Note the corporate risks and recommend changes and updates as necessary.
2. Request risk owner(s) with risks that the Committee believes require further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at its next meeting.

3. Ensure that an effective risk management framework is in place within the council and leading the council to be a risk mature, dynamic risk organisation.

1. REASONS FOR THE DECISIONS

- 1.1 Risk Management reports are brought annually and quarterly to provide the Committee with an oversight of the authority's processes to facilitate the identification and management of its significant business risks.

2. ALTERNATIVE OPTIONS

- 2.1 None.

3. DETAILS OF THE REPORT

3.1 What is Risk Management?

Risk is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is “.....the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it”.

How we manage risks	All organisations face risks in everything that they do but by the proper management of its risks (threats and opportunities), organisations can benefit by reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, “Delivering Good Governance in Local Government”, which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control.
Risk management framework	The Council has developed a formal Risk Management framework and processes which are supported by the Risk Management and Audit team. This is part of the Council's corporate governance process and contributes to its compliance with Financial Regulations and Procedures as well as the Accounts and Audit Regulations 2015. It is also a key part of the Council's Annual Governance Statement which is approved by the Audit Committee in June each year.

Aims	<p>To give members and senior officers an understanding of the key risks facing the Council and its community, and to show how these risks are being responded to;</p> <p>Implement and maintain a fluid process for the everyday management of risks relevant to our objective's, outcomes, services and assets;</p> <p>Improve the Council's risk management culture and transparent ownership of risks and issues; and</p> <p>Continue to meet the requirements of our external auditor and compliance providers.</p>
How are risk assessed	Assessment is made in terms of how likely a risk is to occur and what the consequences would be if they did.
Risk Classification	<p>Red (Severe) indicates that the risk is very significant and requires immediate and comprehensive management attention;</p> <p>Amber (Significant) indicates that the consequences of a risk materialising would be significant, but not disastrous. Some immediate action (but not as time critical) is required plus the development of a comprehensive action plan;</p> <p>Yellow (Material) indicates that the consequences of the risk are of concern although treating the risk will be through contingency planning;</p> <p>Green (Low) indicates the likelihood and impact of the risk relatively unimportant.</p>
How we Manage Key risks	The Council's risk management process is implemented across Directorates, Business Units and Projects. On a quarterly basis each Directorate reviews and updates the risks captured on their risk registers and add any new or emerging risks.
Process	<p>Each risk has been reviewed (and where appropriate risk descriptions revised) by the responsible risk owner. New risks and key changes to current risks are discussed and challenged at Directorate and Corporate Leadership Team meetings. Annually each Directorate is encouraged to undertake a full risk review in line with service and financial planning processes.</p> <p>Corporate risks are included within relevant Directorate and Divisional business plans and are also reported to Audit Committee. This reporting format ensures that the Council's risk management framework remains embedded and that reporting remains "live" across the organisation.</p>

	Further information on risk reporting can be found in the Council's risk management strategy.
Risk Champions group activities	The risk champions group at their monthly meetings examine and challenge risks on Corporate and Directorate risk registers. New and emerging risks are also considered.
	At the 28th June 2019 there are 478 identified active risks on the Council's risk register. They are 837 mitigating actions to treat the identified risks.

The table below is a breakdown of the number of corporate risks by directorate for quarter 1, 2019/20.

Directorate	Grand Total	4	8	9	12	15	16	20	25
		Manageable	Material	Material	Significant	Significant	Severe	Severe	Severe
HAC	3	1	0	1	0	1	0	0	0
CCD	2	0	0	0	0	0	0	0	2
PD	3	0	0	1	0	2	0	0	0
GD	0	0	0	0	0	0	0	0	0
Resources	5	0	0	1	1	1	2	0	0
Total	13	1	0	3	1	4	2	0	2

Table1. The number of risks within each directorate by risk score.

Key: **HAC** – Health, Adults and Community directorate
CCD – Children's and Culture directorate
PD – Place Directorate
GD – Governance directorate
Resources – Resources directorate

Number of Risks associated with corporate Priorities	
People are aspirational, independent and have equal access to opportunities.	2
A borough that our residents are proud of and love to live in.	2
A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.	9
Total	13

Table 2. The number of risks against corporate priorities.

4. EQUALITIES IMPLICATIONS

The primary objective of Equality Impact Assessments (EIAs) is to determine the differential impact of a proposed policy, service or business activity and obtain a profile of how it affects different community groups.

Identifying risks and measures that might be employed to mitigate adverse impact is a crucial part of the EIA process.

In order to facilitate mainstreaming of the monitoring and control of identified EIA risks as best practice, departments should include the identified risks and controls measures in the Corporate Risk Register.

Risk owners should be aware of equality implications when delivering the control measures.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 An ineffective audit committee could result in inadequate governance, risk and control arrangements remaining unchallenged, resulting in increased risks of fraud, waste or error and the potential for adverse criticism from the external auditor or other agencies. Full management of the Council's top risks (corporate risks) will allow for effective decisions to be made across the Council's business.

Risk management plays a key role in the civil contingencies bill. The Council has a responsibility to ensure it manages its risk effectively to reduce the risk of incidents affecting the safety of the community.

Environmental issues are at the forefront of decision making, this means that risk owners should only be agreeing to control measures that are environmentally friendly.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

There are no specific financial implications arising from the recommendations within this report. General comments with regards the importance of effective risk management and the consequences of failure to monitor and manage organisational risks are contained within the body of the report.

7. COMMENTS OF LEGAL SERVICES

The management of risk has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy efficiency and effectiveness. Therefore, the consideration of this report demonstrates the Council's compliance with its Best Value Duty.

The Council is also legally required to ensure that it has a sound system of internal control facilitating the effective exercise of the Council's functions. This includes arrangements for the management of risk and an effective

system of internal audit. This report also demonstrates compliance with these legal duties also.

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports

NONE

Appendices

Appendix 1 – Corporate Risk Register

Appendix 2 – Corporate Risks detailed summary update

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

NONE

Officer contact details for documents:

A.Sotande-Peters Ext: 4051

Appendix 1- Corporate Risk Register

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
CSD0016	<p>Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.</p> <p>There was an Ofsted Inspection Jan-Feb 2017 which found CSC services to be overall inadequate. The report stated that children and young people are being left in situations of harm and the DFE have issued directions to the borough. A Department for Education improvement advisor will also be identified to work with the Council to support the necessary improvement.</p>	<p>Ofsted report indicated shortfalls in following areas across the service:</p> <ul style="list-style-type: none">• Overall management oversight was weak.• Non-compliance in core statutory and local requirements• Absence of child care centred practice• Key threshold decisions• Risk assessment and Risk Management• Children's plans and reviews• Achieving permanence• Drift, delay and escalation• Supervision• Staff development and competence• Quality assurance and Performance Management	<p>Harm to an individuals</p> <p>Children and young people being left in situations of risk and or unassisted harm.</p> <p>Poorer than expected outcomes for a child.</p> <p>Poor audit/review findings</p> <p>Reputational damage to the council.</p> <p>Loss of experienced professional staff.</p> <p>Potential for legal proceedings against the council leading to financial loss</p> <p>Loss of confidence in safeguarding capability across the council, partnership and wider.</p>	<p>Adherence to statutory government guidance, policies and procedures laid down by the council and LSCB / SAB Local Safeguarding Children's Board</p> <p>Statutory government guidance, policies and procedures in place. Management oversight including supervision is in place. Quality Assurance framework to check and audit various areas is in place.</p> <p>All the above are being revised as part of LBTH improvement plan</p> <p>Quality assurance systems including case audits, LSCB and SAB sub-groups.</p> <p>There is a new approach being taken to multiagency audits via the LSCB sub group and CSC are reviewing their QA framework with a view to achieve less process, more assurance and better feedback.</p> <p>There is an active internal audit programme that does pick up key areas of risk and challenge within safeguarding. The effectiveness of this system is a work in progress.</p> <p>CSC have an improvement plan which is being implemented which is being overseen by the Children Services Improvement Board and Operational Group.</p> <p>Effective working relations and swift communication across</p>	5	5	25	<p>Overview of level of violence and risk in families in Tower Hamlets</p> <p>Given the number of critical incidents involving children and young people in Tower Hamlets over the last 12 months, it is proposed via the CMT Safeguarding Board that we update the JSNA on domestic violence and abuse as part of the annual assessment on community safety. The links between gang violence and violence in families will be explored as part of this analysis. The purpose will be to test the feasibility of a public health type specific reducing violence strategy across the borough. It will also enable CMT to consider the integration of the many pieces of work going on within the council and across the wider partnership aiming to increase safety and wellbeing of c/yp within a measurable framework.</p> <p>Richard Baldwin</p> <p><u>Required Control Measure Target Date:</u></p> <p>30/09/2019</p>	4	4	16	Richard Baldwin	People Are Aspirational, Independent And Have Equal Access To Opportunities

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
				<p>partnership agencies.... Effective working relations and swift communication across partnership agencies that is held at different levels of Children's services. LSCB has an executive board for Directors and Chief Executive Officer level across the partnership.</p> <p>Continue to implement Signs of Safety as overarching practice framework A new relational approach is being implemented in Children's Social Care which evidence of effectiveness. This approach will now form part of a wider practice model. Training and development work in the new approach will form part of the CSC workforce development strategy.</p> <p>LSCB and CSC has Quality Assurance systems in place. This should provide evidence and assurance to safeguarding board and partners that service is being delivered to expected standards, there are clear (proxy) indicators and where it is not so remedial action can be taken.</p> <p>As part of the response to the Ofsted inspection and subsequent improvement plan, the QA framework has been revised. The LSCB is reviewing its priorities and audit programme.</p> <p>Serious case review/learning process in place There has been a refreshed case alert process disseminated within Children Social Care, which feeds into the LSCB case review group.</p>											

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
				<p>Any ongoing SCR work is held at service head level and a communication flow is done to the CMT Corporate Safeguarding Group, chaired by Chief Executive Officer.</p> <p>Safeguarding training programme in place covering induction and workforce development programme</p> <p>A back to basics training course is being developed and will be rolled out to all CSC staff in 2017 as part of the LBTH improvement plan.</p> <p>Staff complete the Health and Care professions Council (HPC) re-registration process every 3 years There is a process to pick up delays/failures in registration so action can be taken by managers.</p> <p>Improvement Arrangements to respond to the Ofsted Report A Children's Services Improvement Board (CSIB) has been established to take forward the improvement work. This will meet every six weeks and will be chaired by an independent advisor appointed by the Dfe.</p> <p>An improvement plan has been drafted to reflect the recommendations detailed in the report and will be reviewed by Ofsted to ensure this is the case. The improvement plan is developing under four main headings which are:</p> <ul style="list-style-type: none"> • A robust model of social work practice • A sufficient and skilled workforce • Quality assurance and audit 											

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
				<ul style="list-style-type: none"> Leadership, management and governance <p>The improvement plan is being implemented with robust oversight from the Children's Services Operational Group. reporting to the CSIB.</p> <p>Review arrangements of looked after children and child protection is led by the child protection review service. This is a critical challenge role to children's social workers. There is on-going work to improve the oversight and authoritative advice role.</p> <p>A new resolution process has been introduced and there is regular reporting of QA activities to CSC management team.</p> <p>Ensure that CMT have a view of the activities within the service..... Ensure that CMT have a view of the activities within the service and develop some assurance using the corporate accountability framework, risk register, management oversight, audit framework and Forward Plan. CMT safeguarding board is active. The Ofsted SEF document have been through DMT and to lead member. A new Inspection and Improvement Board has been set up.</p> <p>Robust commissioning that includes safeguarding checks of providers This is in place including CSC joint monitoring visits. A new joint commissioning exec is in place to address an integrated commissioning partnership at the most senior level.</p>											

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
CSDSC0014	<p>Failure to ensure findings and recommendations are implemented.</p> <p>The inspection process produced evidence to show that in the judgement areas of help and protection, in leadership and management and governance and in relation to the LSCB the restorative action that has been taken has been neither sufficiently effective nor timely.</p> <p>The Ofsted inspectors highlighted the need for some urgent and rapid improvement across children's social care.</p>	<p>The SIF inspection in Tower Hamlets found a number of failings in professional practice in relation to expected standards. Of particular significance were the findings and provisional judgements in the areas of:</p> <ul style="list-style-type: none">• Help and Protection• Leadership, Management and Governance• The Local Safeguarding Children Board*	<p>The report indicates that the service is not working to expected statutory standards, leaving children at risk of significant harm.</p> <p>The Report will result in the DfE issuing a notice to improve the appointment of a DfE project advisor as well as a practice improvement partner.</p> <p>Reputational –The Ofsted report will cause damage to our external reputation with residents, partners and others.</p> <p>A high level communication and media strategy is being formulated with the key stakeholders briefed or being briefed.</p> <p>Staff impact – due to the findings there will naturally be an impact on the morale and staff working in the service. This includes the partners who are involved in the services. In addition this could have a negative impact on retention and recruitment to the service.</p> <p>Complaints – there is a concern that the findings could raise potential complaints from members, families and</p>	<p>Children Services Improvement Board and Improvement Plan being developed in response to the Ofsted Report/ DFE notice.</p> <p>The CS Improvement Board will have an independent chair and will oversee the improvement work in LBTH. The delivery of the improvement plan will be the responsibility of the Children Services Improvement Board Operations group.</p>	5525	<p>Urgent remedial work in progress</p> <p>Ofsted referred a number of cases and cohorts of c/yp that in their view the Local Authority had to review to assure themselves that c/yp are safe.</p> <p>LBTH CSCMT took action as requested and are reviewing that action has been taken. The Inspection and Improvement Board is overseeing this.</p> <p>Richard Baldwin</p> <p><u>Required Control Measure Target Date:</u></p> <p>30/09/2019</p>	4416	Richard Baldwin	People Are Aspirational, Independent And Have Equal Access To Opportunities.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
			young people around the support provided by the LA.						
THB0001	<p>Failure to properly undertake the necessary European Union (EU) exit impact assessments, relevant planning and preparing appropriate mitigation particularly in the following areas;</p> <ul style="list-style-type: none"> - All the statutory services for which the council is responsible. - All regulatory services for which the council is responsible. - Impact on supply chains including those managed directly by the council and those indirect contracts managed through commissioned services. - Data handling including data handling for any outsourced services. - Local partnership working with key statutory and strategic partners. - Appropriate plans and activity to provide community assurance and provision of timely information. 	Leaving the European Union on the 31st October 2019 without a negotiated withdrawal agreement.	<p>Council services could be disrupted as supply chains and contracts are reassessed, potentially increasing costs and reprioritisation of resources. Uncertainty over grants may undermine the Council's ability to deliver or commit to services.</p> <p>The Council may be unable to access the specialist talent, resources and supply chains it needs to deliver its services.</p>	<p>Business Continuity planning and assurance assessments of key contract resilience.</p> <p>The Head of Procurement has initiated a supply chain risk assessment with survey been sent to 2,400 suppliers and providers to understand potential impact of Brexit on Council contractors as well as steps taken to mitigate against potential risks.</p> <p>Deadline date for completion of survey is set for 15th February 2019. Areas covered, include the following:</p> <ul style="list-style-type: none"> - Whether the business import/export services and/or goods to/from EU - Percentage of materials/services purchased from the EU - Envisage any border delays importing materials into the UK - Any impact on current workforce as a result of Brexit - Provision of support to existing staff that may be impacted by Brexit - Whether Brexit will impact the base cost/prices of core business <p>Supplier and Provider mapping exercise of Tier 1, 2 and 3 contractors has been initiated to help identify those that are part of a multinational firm and with operations outside the UK.</p> <p>Outcome of initial findings and next steps will be discussed at Strategic Procurement Board on 07/02/2019.</p>	<p>4 4 16</p>	<p>Business continuity planning and assurance assessments of key contracts.</p> <p>HR resource planning and resilience.</p> <p>Financial modelling / Strategy reviews.</p> <p>A BCP / staff composition survey has been sent to all Heads of Service.</p> <p>The survey asks for information on the number of EU nationals within each team, what contracts depend on EU imports / services and what civil disorder plans / backups are in place within relevant teams.</p> <p>The information will be used to plan impacts on services.</p> <p>Amanda Marcus <u>Required Control Measure Target Date:</u> 31/10/2019</p>	<p>3 4 12</p>	Neville Murton	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	There is a failure of one or more of the controls which fails to identify the degree of risk to a vulnerable adult. Poor practice and inadequate management oversight. Failure of quality control systems. Service user fails to work to agreed partnership / agency arrangements. Poor communication and partnership work. Poor resourcing of service areas against increased demand. Local authority contracted out service do not have sufficiently robust safeguarding arrangements.	Harm to an individual. Reputational damage to the Council. Potential for legal proceedings against the council leading to financial loss. Loss of confidence in safeguarding capability.	Revised safeguarding procedures introduced from care act implemented. Robust safeguarding procedures in place. Oversight through management reporting Social workers have 1:1 supervision monthly on their casework including safeguarding cases. The PSMT meet monthly to review and monitor Adult Safeguarding casework, particularly serious cases and develop and implement action plans and lessons learnt. Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board A sub group of the Safeboarding board leads on publicity and promotion of safeguarding 4 year (2015 – 2019) adults board strategy The actions within the SAB strategy aim to mitigate the risks associated with safeguarding. Safeguarding issues as part of contract management procedures . Target operating module as part of the care act implemented. This includes key worker role assigned. Signs of safety framework implemented. This framework helps identify the risks in a strategic manner. CQC care commission embargo list used. This list is available from the CQC highlighting all providers where the CQC has raised concerns.	3	5	15	<u>Required Control Measure Target Date:</u>			2	5	10	Claudia Brown	People Are Aspirational, Independent And Have Equal Access To Opportunities.

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
				<p>Failed visit policy and procedures in place.</p> <p>Introduction of safeguarding Star Chamber for front line teams</p> <p>discharge policy in consultation with Bart's</p>					
PLC0013	Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.	<p>Accountability for fire safety is not correctly designated, communicated and understood</p> <p>Fire Risk Assessments:</p> <ul style="list-style-type: none"> * are incomplete, inadequate or not carried out in accordance with the latest advice from DCLG and fire and rescue services * are not published in accordance with the Mayor's commitment * do not include the time limits on recommendations <p>Fire Risk Assessment Action Plans: are not produced and/or delivered within appropriate timescales</p> <p>Limited current contractor supplier chain for scale of identified fire safety works</p> <p>Constrained and limited ability for Tower Hamlets Homes to complete all the Fire Risk Assessment work identified in the new round of comprehensive Fire Risk Assessments</p> <p>Unable to justify block prioritisation policy for</p>	<p>Loss of life</p> <p>Loss of housing stock</p> <p>Lobbying and/or protesting</p> <p>The council and local housing management organisations loose the trust of residents</p> <p>Individual prosecution under a number of Acts of Parliament and common law offences with potential penalties including unlimited fines and a maximum of life imprisonment</p> <p>Corporate prosecution with potential penalties of unlimited fines, remedial orders and publicity orders</p> <p>Adverse national media coverage</p> <p>Uninsured financial loss</p> <p>Council perceived as not having fulfilled statutory duty to keep local housing conditions under review</p>	<p>Tower Hamlets Homes (THH) Fire Safety Programme progress reported to and monitored by THH and Council</p> <p>Bi-Monthly Operational Meeting - Standing Agenda Item</p> <p>Quarterly Strategic Meeting - Standing Agenda Item</p> <p>Quarterly Mayoral Meeting - Standing Agenda Item</p> <p>Capital Programme Board</p> <p>Council client team to review and agree timetable for publishing remaining Fire Risks Assessments</p> <p>Ensure Fire Risk Assessments are carried out annually or (after works) on ALL council owned housing blocks</p> <p>Capital Programme Board - This is specifically to include blocks who have not yet had programmed work completed</p>	<div>3</div> <div>5</div> <div>15</div>	<p>Work with DCLG to ensure owners of private residential tower blocks are taking measures to ensure their residents safety</p> <p>Mark Baigent</p> <p><u>Required Control Measure Target Date:</u></p> <p>28/10/2019</p>	<div>1</div> <div>5</div> <div>5</div>	Mark Baigent	A Borough That Our Residents Are Proud Of And Love To Live In.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
		programmes of Fire Risk Assessment works Leaseholders do not fit fire rated flat entry doors (ALL flat entrance doors in a block will need to be compliant to achieve good fire compartmentalisation and a 'Tolerable' fire safety standard) Fire safety measures are uncoordinated													
WSPP0015	Increased demands on corporate services The management of a service that will have a budget c£20M, employ c300 officers and be implementing change that will impact on the majority of the boroughs residents, will require significant support from corporate services such as HR, Finance, Policy, Commercialisation and Communications.	Transfer of 300+ staff from Veolia to LBTH on 1st April 2020	Additional pressures on corporate services Reputational		5	3	15	Element of decided HR and Administration support will be built into the services structure. During mobilisation the impact of these corporate services will be assessed. Dan Jones <u>Required Control Measure Target Date:</u> 26/09/2019 Recruitment of temporary HR and Comms support staff Comms staff recruited and in place. HR in process of recruitment Dan Jones <u>Required Control Measure Target Date:</u> 31/08/2019			3	3	9	Dan Jones	A Borough That Our Residents Are Proud Of And Love To Live In.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
ICT0071	<p>Failure to ensure ICT risks are within the scope of council-wide risk management and internal control frameworks in the following areas;</p> <ul style="list-style-type: none"> •ICT availability and continuity risk •ICT security risk •ICT change risk •ICT data integrity risk •ICT outsourcing risk <p>Ensuring the following are kept under review:</p> <ul style="list-style-type: none"> •ICT risk management policy, processes and risk tolerance thresholds •Organizational management and oversight framework •Internal audit coverage and findings; and •ICT risk controls that are specific for the identified material ICT risk. 	Changes to technology and interdependent software on various applications used within the Council.	Loss of revenue. Reputational damage. Disruption to services.	<p>Risk(s) currently managed as detailed below.</p> <p>IT availability and continuity risk – managed through the Corporate Business Continuity Forum.</p> <p>IT are standing members, with both LBTH IT and our strategic partners Agilisys represented. (</p> <p>IT security risk – managed through Information Governance Group and Strategic Information Governance Group, IT are standing members.</p> <p>IT change risk – managed through weekly change advisory board and through monthly technical design authority.</p> <p>IT data integrity risk – I am not aware of any specific board for this. In the classic security model information security covers confidentiality, integrity and availability, so I'd say this is covered as part of IT security risk.</p> <p>IT outsourcing risk – managed through monthly operations meeting and quarterly strategic partnership boards.</p>	3	4	12	<p><u>Required Control Measure Target Date:</u></p>			2	4	8	Adrian Gorst	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
THB0002	<p>Impact of Brexit on the recruitment and retention of LBTH staff (People & Skills).</p> <ul style="list-style-type: none"> - Number that are EU residents - Specific service pressures e.g. social care - Professional qualifications from EU nations - Vacancies - Skills shortages - Increasing costs for agency staff or attracting workers for low skilled jobs 	Leaving the European Union on the 29th March 2019 without a negotiated withdrawal agreement.	The Council may be unable to access specialist talent and resources it needs to deliver its services.	<p>Additional Social Care workforce already in pressurised areas. Response from care home and home care providers is that there will be limited if any impact for them, as workforces in both cases are predominantly non - EEA nationals.</p> <p>Support provided to EU workforce ensuring they understand the EU settlement scheme and their rights post exit and support around wellbeing.</p> <p>Creation of a Social Work Academy within children's social care to address over reliance on agency workers and mitigate any impact on the supply of agency staff from Brexit.</p>	3 4 12	<u>Required Control Measure Target Date:</u>	2 4 8	Amanda Marcus	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To
ASB0017	<p>Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.</p>	<p>Failure by Directorates to ensure that the Borough Major Emergency Plan (Part 3B) is kept up to date with Directorate information and procedures. Staff are unaware of the EP process. Insufficient resilience in key roles including management, rest centres, BECC and CPU.</p>	<p>(1) Failure of the Council to continue to operate during a crisis period as a consequence of a civil event or situation.</p> <p>(2) Slower than expected management response causing increased disruption to key service delivery, inconvenience to service users and the stakeholders, adverse public criticism and additional costs to the Council.</p>	<p>Business continuity plans kept up to date</p> <p>Staff with extensive experience in dealing with incidents are in place. Officers in the Civil Protection Unit have dealt with incidents on several occasions, and have gained quite extensive experience on dealing with this type of incident and the action that may be required to be taken.</p> <p>Any future restructure will need to ensure that key posts are retained within the organisation to continue to minimise this risk</p> <p>Borough Emergency Management Team to co-ordinate the Council's response on tactical matters. B. E. M. Team.</p> <p>6 month review of EP plan with Directorate changes.</p>	3 3 9	<p>Procurement of an IT system to manage BC plan update</p> <p>Drafting of a business case to procure IT System to manage BC plan update - the business case is drafted and has been agreed by the Directorate Management Team. The proposal will now go forward to the Corporate Leadership Team in September 2017.</p> <p>Update - the system was procured from Clearview. An implementation plan is in place to populate the database, train staff and migrate to the new system.</p> <p>Update - In order to minimise the risk we have required Business Continuity Champions to review their BC plans and to update the contact details of relevant staff. This is the major element of the June BIA revision. This process</p>	2 2 4	Denise Radley	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
				<p>Annual report to CMT</p> <p>Independently review the Borough Major Emergency Plan to ensure it is fit for purpose. complete</p> <p>Rollout a refresh training programme for senior managers and officers supporting the emergency plan. Complete</p> <p>2016 June BC business impact assessment reviews by service areas 2016 June BC plan update notification has been sent to directorates</p> <p>Additional staff to be sought to be trained and on call if needed. Two additional staff have been identified and trained to perform the on-call rota for Civil Protection. Additionally the CPU Manager has resumed his role on the rota. This has increased the pool of those available and improved resilience. The number of BECC Managers, loggists and rest centre volunteers have all been increased with appropriate training provided - this has significantly increased our resilience. The number of on call directors is under review and will also be expanded.</p> <p>Business Continuity test on key LBTH sites. Exercise Sandcastle was held on 15th May as a test of the 'blackboard' system in real time during working hours. The result was reviewed at the Civil Contingencies Board. Exercise Connects (test of communication systems) is planned for 7 November 2018.</p>		<p>is complete. Training on the Clearview system has been arranged for 19 July for BC Champions. Once complete the system will be tested and then go live. N.B. Once Clearview is implemented there will no longer be the need to conduct twice yearly revisions of the BIA's as the system is live, unlike the current paper based process that is cumbersome.</p> <p>Ann Corbett <u>Required Control Measure Target Date:</u> 31/07/2019</p> <p>Sessions on MEP/BC plans for members and senior managers.</p> <p>Since this risk was identified the Civil Protection Unit has provided Silver / BECC manager training on 5 Feb, 15 Feb and 4 June 2018 to 35 officers at DD / Head of Service level. The Emergency Planning College provided 'Leadership in Emergencies' training to CLT on the 9 and 10 July 2018. 10 CLT members attended. The Emergency Planning College provided BECC Managers training to 16 officers at DD and Head of Service level on 25 and 26 June 2018. The Emergency Planning College provided a bespoke session on Civil Contingencies and the role of members on 28th Sept 2018. 7 members attended. All members attended a session on emergency planning as part of their induction following the 2018 election. A session was provided to Cabinet on 'Recovery' and then</p>			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
				Exercise Preparer (an exercise involving a cluster of 6 or 7 boroughs) is planned for February 2018. The next pan-London Safer City exercise will be on 1 and 2 May 2019.				delivered to CLT. Ann Corbett <u>Required Control Measure Target Date:</u>							
CLPRCG0040	We are currently at a recycling rate of 23.6% and have a target to reach 35% by 2020. Services are currently in transition from contracted to an in-house delivery model. This may impact on our ability to bring in long term measures to improve recycling on the service as there may be significant service redesign.	Service changes may affect ability to deliver long term solutions to increase recycling rate	Reputational		3	3	9	<u>Required Control Measure Target Date:</u>			3	3	9	Oli Kapopo	A Borough That Our Residents Are Proud Of And Love To Live In.

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
THB0004	<p>Brexit - Organisational Impact</p> <p>Impact of Brexit on the regulatory landscape</p> <p>Impact on income streams</p> <p>Impact on local communities</p> <p>1. Decreased revenues & changes in demand</p> <ul style="list-style-type: none">- Business and economy- Drop in the value of the pound- Business rates- Regeneration schemes- Skills shortages- Cost of living- Decline in town centres/high streets <p>2. Laws, Legislation and regulation.</p> <ul style="list-style-type: none">- Environmental regulations- Devolution/public service reform- Human rights <p>3. Citizens and Community</p> <ul style="list-style-type: none">- Community cohesion- Migration into the borough- No Recourse to Public Funds"	Leaving the European Union on the 29th March 2019 without a negotiated withdrawal agreement.	Disruption to council processes and services.		3	3	9	<p>Identify and plan for impacts on service budgets and identify new income streams e.g. new government initiatives.</p> <p>Monitor/Plan/Mitigate - mitigations in terms of business continuity plans, are required from all areas of the organisation.</p> <p>Putting in funding to plug funding gaps over 4-5 years with General Fund as contingency, but significant shocks might remove this backup, earmarked reserves could be used to meet higher priorities.</p> <p>Concern that not much time to get useful information from Government contacts to react.</p> <p>Working with partners to support local business, including access to business rate relief for small businesses.</p> <p>Neville Murton</p> <p><u>Required Control Measure Target Date:</u></p> <p>30/06/2019</p>	2	3	6	Neville Murton	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total				L	I	Total		
ASD0032	Delay to the June 2019 revision of the Business Impact Assessments for the Business Continuity Plans. The delay has been approved by the CCB on 15 April 2019 to enable the implementation of a new internet based Business Continuity planning tool.	Business Continuity Plans being out of date and an incident occurring resulting in key contacts not being known and contactable to respond.	A poor response to a civil emergency.		2	2	4	Regular review of Implementation plan An implementation plan for the 'Clearview' business continuity system is in place. Migration of data and information to the system and training of relevant business continuity champions from each Directorate is due for completion by mid July 2019. Progress will be reported to HAC DLT. Charles Griggs <u>Required Control Measure Target Date:</u> 31/07/2019			2	2	4	Charles Griggs	A Borough That Our Residents Are Proud Of And Love To Live In.

Appendix 2

Corporate Risks detailed summary update

Details of current corporate risks and updates by risk owners following review of risks. It provides a summary of the risk, control measures and relevant information on current status of the risk.

Risk Reference	Risk Description and Owner	Update						Review Date/Over due
		Date Created	Days on Register	Raw Risk Rating	Controlled Risk Rating	Appetite Category	Appetite Level	
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency. Richard Baldwin	15/05/2013	2228	25	16	Safety & Safeguarding	5-9	27/09/2019
							13 Control Measures, 12 are 100% complete The re-inspection of Children's Social Care by Ofsted has now taken place. The outcome of the inspection is that Ofsted are now satisfied that the level of practice, decision-making and leadership in relation to the safety of children and young people is now at an appropriate level. This process is overseen by the Improvement Board and Ofsted inspectors via monitoring visits.	
CSDSC0014	The inspection process produced evidence to show that in the judgement areas of help and protection, in leadership and management and governance and in relation to the LSCB the restorative action that has been taken has been neither sufficiently effective nor timely. The Ofsted inspectors highlighted the need for some urgent and rapid improvement across children's social care. Richard Baldwin	03/04/2017	809	25	16	Safety & Safeguarding	5-9	21/09/2019
							2 Control Measures, 1 100% complete, 1 75% complete. The re-inspection of Children's Social Care by Ofsted has now taken place. The outcome of the inspection is that Ofsted are now satisfied that the level of practice, decision-making and leadership in relation to the safety of children and young people is now at an appropriate level. This process is overseen by the Improvement Board and Ofsted inspectors via monitoring visits.	

THB0003	Brexit risk to LBTH procurement and supply chains. Zamil Ahmed	06/03/2019	107	16	8	Brexit	N/A	1 Control measure, 50% completed. Engagement with Contractors and providers. Corporate approach to managing potential supply chain risks (currently the council operates a devolved contract management system) through the strategic procurement board including capturing work undertaken with contractors in directorates and supply risks identified.	16/07/2019
THB0001	Failure to properly undertake the necessary European Union (EU) exit impact assessments, relevant planning and preparing appropriate mitigation particularly in the following areas; <ul style="list-style-type: none"> - All the statutory services for which the council is responsible. - All regulatory services for which the council is responsible. - Impact on supply chains including those managed directly by the council and those indirect contracts managed through commissioned services. - Data handling including data handling for any outsourced services. - Local partnership working with key statutory and strategic partners. Appropriate plans and activity to provide community assurance and provision of timely information. Neville Murton	07/02/2019	134	16	12	Brexit	N/A	2 control measures, 1 = 100% complete, 1 = 50% complete HR resource planning and resilience. Financial modelling / Strategy reviews. A BCP / staff composition survey has been sent to all Heads of Service. The survey asks for information on the number of EU nationals within each team, what contracts depend on EU imports / services and what civil disorder plans / backups are in place within relevant teams. Information from survey now informs mitigating actions currently been put in place.	10/07/2019

WSPP0015	<p>Increased demands on corporate services</p> <p>The management of a service that will have a budget of £20M, employ 300 officers and be implementing change that will impact on the majority of the boroughs residents will require significant support from corporate services such as HR, Finance, Policy, Commercialisation and Communications.</p> <p>Dan Jones</p>	01/11/2018	232	15	9	Compliance & Regulatory	5-9	<p>2 control measure in progress</p> <p>Element of decided HR and Administration support will be built into the services structure.</p> <p>During mobilisation the impact of these corporate services will be assessed.</p> <p>Recruitment of temporary HR and communications support staff. Communications staff recruited and in place.</p> <p>HR in process of recruitment.</p>	26/09/2019
ASD0015	<p>Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.</p> <p>Claudia Brown</p>	10/08/2015	1411	15	10	Safety & Safeguarding	5-9	<p>10 control measures in place 100% complete</p> <p>Continuing to prioritise improving safeguarding practice through a range of measures which are monitored at ASC Improvement Board, Corporate Safeguarding Board and the Safeguarding Adults Board</p> <p>Remains a risk in Adult Social Care. Adequate mitigation in place and so risk is now considered medium level.</p>	21/12/2019
PLC0013	<p>Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.</p> <p>Mark Baigent</p>	28/09/2017	631	15	5	Safety & Safeguarding	5-9	<p>4 Control Measures, 3 = 100% Complete, 1 = 80% Complete</p> <p>The Council continues to monitor activity across sectors to remediate blocks with unsafe ACM cladding. The Government has announced funding for both social and private sector remediation. Social sector works are underway. There are concerns about the pace of private sector progress, including how long funding applications will take to be awarded. There are also concerns about non-ACM cladding and other risks not covered by the funding and the impact on leaseholders including ongoing interim measures.</p>	21/07/2019


THB0002	Impact of Brexit on the recruitment and retention of LBTH staff (People & Skills).	06/03/2019	107	12	8	Brexit	N/A	Additional Social Care workforce already in pressurised areas.	16/07/2019
	<ul style="list-style-type: none"> - Number that are EU residents - Specific service pressures e.g. social care - Professional qualifications from EU nations - Vacancies - Skills shortages 							<p>Response from care home and home care providers is that there will be limited if any impact for them, as workforces in both cases are predominantly non - EEA nationals.</p> <p>Support provided to EU workforce ensuring they understand the EU settlement scheme and their rights post exit and support around wellbeing.</p> <p>Creation of a Social Work Academy within children's social care to address over reliance on agency workers and mitigate any impact on the supply of agency staff from Brexit.</p> <p>Risk to be reviewed in August to check data and ensure adequate provision is in place when a final decision is made on Brexit.</p> <p>Few staff have declared as EU nationals and with the removal of fees, application for settled status should be less burdensome.</p>	
	Increasing costs for agency staff or attracting workers for low skilled jobs								
	Armanda Marcus								

ICT0071	<p>Failure to ensure ICT risks are within the scope of council-wide risk management and internal control frameworks in the following areas;</p> <ul style="list-style-type: none"> •ICT availability and continuity risk •ICT security risk •ICT change risk •ICT data integrity risk •ICT outsourcing risk <p>Ensuring the following are kept under review:</p> <ul style="list-style-type: none"> •ICT risk management policy, processes and risk tolerance thresholds •Organizational management and oversight framework •Internal audit coverage and findings; and •ICT risk controls that are specific for the identified material ICT risk. <p>Adrian Gorst</p>	20/11/2018	213	12	8	Innovation	20-25	<p>IT security risk – managed through Information Governance Group and Strategic Information Governance Group, IT are standing members.</p> <p>IT change risk – managed through weekly change advisory board and through monthly technical design authority.</p> <p>IT outsourcing risk – managed through monthly operations meeting and quarterly strategic partnership boards.</p> <p>An audit will be undertaken to ensure meetings are happening, minutes are being kept, and actions progressed.</p>	01/08/2019
CLPRCG0040	<p>We are currently at a recycling rate of 24.6% and have a target to reach 35% by 2020. Services are currently in transition from contracted to an in-house delivery model. This may impact on our ability to bring in long term measures to improve recycling on the service as there may be significant service redesign.</p> <p>Oli Kapopo</p>	08/11/2018	225	9	9	Reputational	10-12	<p>We have re-routed all 8 recycling rounds and will enhance monitoring at the MRF. We are also working with partners, asking them to remove black bags from recycling bins to reduce contamination.</p>	23/07/2019

ASD0017	<p>Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response.</p> <p>The risk is increased if there was to be more than one incident at the same time.</p> <p>Denise Radley</p>	04/08/2013	2147	9	4	Safety & Safeguarding	5-9	<p>12 Control Measures, 11 are 100% and 1 is 90% Complete.</p> <p>All the control measures have been reviewed. The only outstanding measure is the implementation of the Clearview IT system. Training of BC champions has been arranged for 19 July 2019; thereafter the system will 'go live'.</p> <p>The Clearview system has been procured and an implementation plan is in place. Until the 'go live' date we have a work around to manage the Business Impact assessment process. In order to minimise the risk we have required Business Continuity Champions to review their BC plans and to update the contact details of relevant staff. This is the major element of the June BIA revision. This process is complete. Training on the Clearview system has been arranged for 19 July for BC Champions. Once complete the system will be tested and then go live.</p> <p>N.B. Once Clearview is implemented there will no longer be the need to conduct twice yearly revisions of the BIA's as the system is live, unlike the current paper based process that is cumbersome.</p>	26/09/2019
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THB0004	<p>"Brexit - Organisational Impact Impact of Brexit on the regulatory landscape Impact on income streams Impact on local communities</p> <p>1. Decreased revenues & changes in demand - Business and economy - Drop in the value of the pound - Business rates - Regeneration schemes - Skills shortages - Cost of living - Decline in town centres/high streets</p> <p>2. Laws, Legislation and regulation. - Environmental regulations - Devolution/public service reform - Human rights</p> <p>3. Citizens and Community - Community cohesion - Migration into the borough - No Recourse to Public Funds</p> <p>Neville Murton</p>	06/03/2019	107	9	6	Brexit	N/A	<p>1 control measure; 75% complete.</p> <p>Identify and plan for impacts on service budgets and identify new income streams e.g. new government initiatives.</p> <p>Monitor/Plan/Mitigate - mitigations in terms of business continuity plans are required from all areas of the organisation.</p> <p>Putting in funding to plug funding gaps over 4-5 years with General Fund as contingency, but significant shocks might remove this backup, earmarked reserve could be used to meet higher priorities.</p> <p>Working with partners to support local business, including access to business rate relief for small businesses.</p>	16/07/2019
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ASD0032	<p>Delay to the June 2019 revision of the Business Impact Assessments for the Business Continuity Plans.</p> <p>The delay has been approved by the CCB on 15 April 2019 to enable the implementation of a new internet based Business Continuity planning tool.</p> <p>Charles Griggs</p>	15/04/2019	74	9	4	Safety & Safeguarding	5-9	<p>1 Control Measure</p> <p>An implementation plan for the 'Clearview' business continuity system is in place. Migration of data and information to the system and training of relevant business continuity champions from each Directorate is due for completion by mid July 2019. Progress will be reported to HAC DLT.</p> <p>In order to minimise the risk we have required Business Continuity Champions to review their BC plans and to update the contact details of relevant staff. This is the major element of the June BIA revision. This process is complete. Training on the Clearview system has been arranged for 19 July for BC Champions. Once complete the system will be tested and then go live.</p> <p>N.B. Once Clearview is implemented there will no longer be the need to conduct twice yearly revisions of the BIA's as the system is live, unlike the current paper based process that is cumbersome.</p>	15/07/2019
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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Tuesday, 23 July 2019</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted)</p>
<p>Head of Internal Audit Annual Report</p>	

<p>Originating Officer(s)</p>	<p>Paul Rock</p>
<p>Wards affected</p>	<p>(All Wards)</p>

Executive Summary

This report provides the annual audit opinion of the Head of Internal Audit in accordance with the requirements of the Public Sector Internal Audit Standards. The opinion supports the governance conclusions included within the Annual Governance Statement, which forms part of the statement of accounts required under the Accounts and Audits Regulations 2015.

Recommendations:

The Audit Committee is recommended to:

1. Note the content and opinion of the Head of Internal Audit as outlined within the Head of Internal Audit Annual Report which includes a summary of the work undertaken during 2018/19.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require authorities to maintain an adequate and effective system of internal audit of its accounting records and systems of internal control in accordance with proper practices. The Audit Committee has responsibility for oversight over the authority's governance, risk and control framework. The annual report from the Head of Internal Audit assists the Audit Committee in discharging this responsibility.

2. ALTERNATIVE OPTIONS

- 2.1 None.

3. DETAILS OF THE REPORT

- 3.1 Internal Audit is a statutory requirement for local authorities under the Accounts & Audit Regulations 2015 for English local authorities (including police and fire bodies). The regulations state that a local authority shall maintain an adequate and effective system of internal audit of its accounting records and systems of internal control in accordance with proper practices. These regulations further recognise the need to follow public sector internal audit standards.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) define the way in which internal audit should undertake its functions and requires that a written report is submitted to those charged with governance, which should include an opinion on the overall adequacy and effectiveness of the Council's control environment. The annual opinion supports the Annual Governance Statement, which is required under Regulation 6 of the Accounts and Audit Regulations 2015.
- 3.3 The attached report summarises the planned and ad-hoc internal audit and counter fraud work undertaken by Internal Audit during the 2018/19 financial year. It focusses on the outcomes of audit reviews, management actions, counter fraud activities and service performance.
- 3.4 The regulations also require that a formal review of the 'effectiveness of the system of internal audit' is conducted. The annual audit opinion together with the review of conformance with the Public Sector Internal Audit Standards provides this assurance.
- 3.5 The annual assurance opinion provided within the annual internal audit report informs and forms part of the 2018/19 Annual Governance Statement, which will be presented to the Audit Committee separately and included in the accounts. The Head of Internal Audit's opinion is as follows:

On the basis of the audit and counter fraud activity undertaken during the year, and taking into consideration external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses, it is my opinion that I can provide **reasonable assurance** that the authority has adequate systems of internal control and that they have, in the main, been operating effectively.

The framework of governance, risk management and control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific equality implications.

5. OTHER STATUTORY IMPLICATIONS

5.1 There are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the requirements on the responsible financial officer set out in the Accounts and Audit Regulations 2015, there are no significant financial implications.

7. COMMENTS OF LEGAL SERVICES

7.1 This report and the appendices comply with the Council's legal obligations in respect of auditing and the management of risk. It also demonstrates that the Council has appropriate systems in place to manage its financial affairs in compliance with the Corporate Director Resources' duties under s.151 of the Local Government Act 1972

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix 1 – Annual Report of the Head of Internal Audit.

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.

- Children's Services Monitoring Visits 2018/19.
- Corporate Peer Challenge. London Borough of Tower Hamlets. 2018.

Officer contact details for documents:

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**Head of Internal Audit Annual
Report 2018/19**

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1. Introduction

1.1 The Annual Reporting Process

- 1.2 The Public Sector Internal Audit Standards (Performance Standard 2450) state that the Chief Audit Executive, referred to in this report as the Head of Internal Audit, must deliver an annual internal audit opinion and a report that can be used by the organisation to inform its governance statement.
- 1.3 The annual report must incorporate the opinion, a summary of the work that supports the opinion, an explanation about any limitations on the scope, details of other internal or external assurance or activity that may have been relied on when forming the opinion, a statement about conformance with the Public Sector Internal Audit Standards and the results of Internal Audit's Quality Assurance and Improvement Programme.

2. Head of Internal Audit Annual Opinion 2018/19

- 2.1 In reaching my opinion I have taken into consideration the outcomes of audit and counter fraud activity undertaken during the year; external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses.

On the basis of the audit and counter fraud activity undertaken during the year, and taking into consideration external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses, it is my opinion that I can provide **reasonable assurance** that the authority has adequate systems of internal control and that they have, in the main, been operating effectively in practice.

The framework of governance, risk management and control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

3. The Basis of the Annual Opinion

- 3.1 The outcome of the audits undertaken during the year by Internal Audit form the basis of the annual audit opinion over the adequacy and effectiveness of the governance, risk and control framework.
- 3.2 A risk-based internal audit plan was agreed with the Audit Committee in 2018. The changing public sector environment and emergence of new risks increasingly necessitates re-evaluation of the audit plan throughout

the year. During 2018/19, regular reports have been presented to the Audit Committee to highlight progress made towards the delivery of the audit plan, along with details of any significant amendments to the plan. Whilst there were no significant amendments, a number of planned audits were deferred and moved into the 2019/20 audit plan.

- 3.3 A combined assurance opinion was provided at the conclusion of each audit. To ensure consistency in reporting, the following definitions of audit assurance are used for each audit.

Table 1 - Audit Opinion Definitions

Level	Definition
Full	There is a sound system of control designed to achieve the system objectives and from our testing the controls are being consistently applied.
Substantial	While there is basically a sound system there are weaknesses which put some of the control objectives at risk and from our testing there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited	Weaknesses in the system of controls are such as to put the systems objectives at risk and from our testing the level of non-compliance puts the systems objectives at risk.
Nil	Control is generally weak leaving the system open to significant error or abuse and from our testing there were significant non-compliance with basic controls leaves the system open to error or abuse.

4. Internal Audit 2018/19

- 4.1 The following table summarises the outcomes of the audit reviews completed for 2018/19:

Table 2 - Summary of Audit Outcomes for 2018/19.

Audit Title	Assurance Opinion	Report
Management of Members' Enquiries	Substantial	Final
Members' Induction and Training	Substantial	Final
Contract Monitoring of Commissioned Services for Public Health	Substantial	Final
Inspection of Mile End and Victoria Parks	Substantial	Final
Elective Home Education	Substantial	Final
Recycling Contract Monitoring	Substantial	Final
HR / Payroll	Substantial	Final
Creditors	Substantial	Final

Pensions	Substantial	Final
Housing and Council Tax Benefit	Substantial	Final
Housing Rents	Substantial	Final
Acting Up and Honoraria	Substantial	Final
Project and programme Management	Substantial	Final
Lettings	Substantial	Final
Tendering for waste contracts	Substantial	Final
Ice Cream Tendering	Substantial	Final
Members Gifts and Hospitality	Substantial	Final
Street Lighting	Substantial	Final
Homelessness Assessment	Substantial	Final
Declaration of Interests	Limited	Final
Deprivation of Liberty Safeguards	Limited	Final
Rapid Response Team - Service Review	Limited	Final
Framework1 - Payment Control	Limited	Final
Youth Service	Limited	Final
Dangerous Structures	Limited	Final
Management of Markets	Limited	Final
Handy Person's Service	Limited	Final
Purchase cards	Limited	Final
DBS	Limited	Final
SEND Commissioning	Limited	Final

- 4.2 In total, 19 substantial assurance opinions (63%) and 11 limited assurance opinions (37%) have been given (based on finalised reports only). Summaries of the finalised reports with limited assurance opinions have previously been provided to the Audit Committee. Having reviewed these audit outcomes I have concluded that a **reasonable** assurance opinion is warranted, but have also considered the following.

5. Implementation of Agreed Management Actions

- 5.1 In each instance where it was identified that the control environment was not strong enough or was not complied with sufficiently to prevent risks to the organisation, Internal Audit have obtained an agreed management action plan to address the weaknesses identified and improve the system of control and compliance.
- 5.2 As a part of the follow up audit work programme, high and medium priority recommendations have been followed up six months after the issue of the final reports to assess the progress made in implementing the agreed actions. In March 2018, Key Performance Indicators (KPI) for management's completion of actions were reported to the Audit Committee. The KPI's recorded targets of 100% for implementation of high priority recommendations and 95% for medium priority recommendations.

An overview of the performance against these KPI's is summarised in Table 3 below:

Table 3 – Implementation of Agreed Management Actions 2018/19

	High Priority Recommendations	Medium Priority Recommendations
Number of Agreed Management Actions	93	7
Number of Management Actions Implemented	60	4
Number of Management Actions Outstanding	33	3
% Implemented	65%	57%

- 5.3 Management's implementation of actions has worsened since last year. In 2017/18 the response rates were 78% (High) and 73% (Medium). A more detailed analysis of responses has revealed that the implementation of actions agreed during one particular audit was very poor. This has lowered the overall percentage for high priority recommendations from a potential of 75% (if all actions had been fully implemented) to the current rate of 65%. Overall, there is clear room for improvement in management's implementation of agreed actions and Internal Audit will be encouraging increased accountability and ownership by management in the future.

6. Anti-Fraud and Corruption

- 6.1 There continues to be an increasingly high risk of fraud across the public sector. The Council's Counter Fraud Specialists undertake activity to support the Council in reducing its fraud and corruption risks, this includes both reactive and proactive elements, along with a number of initiatives to raise awareness of the council's anti-fraud and corruption culture. Progress on this activity has been regularly reported to the Audit Committee. Appendix 1 of this report summarises a sample of cases that have been referred and investigated.
- 6.2 During 2018/19, 27 corporate/internal referrals in respect of alleged fraud or code of conduct breaches were received. This included referrals received via the Council's whistleblowing procedure. Of these, 25 investigations have been completed which includes all whistleblowing referrals. In addition, 357 referrals were received in respect of suspected social housing fraud matters, and 122 referrals in respect of Parking / Blue Badge fraud.
- 6.3 The positive outcomes achieved following the investigation of the above matters includes the following:

- 55 Social Housing properties recovered
 - 12 Right to Buy applications stopped
 - 58 Parking Control Notices issued
 - 46 Vehicles Removed
 - 175 Blue Badges seized
 - 60 Resident Parking Permits cancelled
- 6.4 Initial matches from the biennial National Fraud Initiative (NFI 2018) data matching exercise were received by the Council in February 2019. The 'potential' fraud matches have been reviewed using the recommended prioritisation filters. For the NFI 2018 exercise the total number of matches received so far is 20,115, of these 2,144 are considered high or medium risk. To date, a total of 2,213 have been reviewed and resolved. A detailed report about the current NFI arrangements and progress made has been provided to the Audit Committee.

7. Other Sources of Assurance

- 7.1 During 2018/19 Ofsted have undertaken four Children's Service Monitoring Visits. The visit in March 2019 was the sixth and final monitoring visit since the Council was judged inadequate for overall effectiveness in April 2017. In their overview the inspectors reported that, whilst there were still some areas that have not yet been fully addressed effective action had been taken by leaders and managers following the previous inspection and subsequent monitoring visits has led to suitable improvements in the quality of social work practice for children in need of help and protection.
- 7.2 In June 2018 the Council asked the Local Government Association to run a Corporate Peer Challenge to independently review the achievements against the Best Value Action Plans and Best Value Improvement Plans. The LGA Peer Challenge Team were asked to review whether the council had adequately addressed the directions previously issued by the Ministry of Housing, Communities and Local Government (MHCLG); whether the council was adequately addressing its chosen priorities and delivering continued improvements; and whether the Council was identifying key challenges and setting realistic and ambitious targets for the future? In summary, whilst some new areas had been identified for improvement and increased focus, the Peer Challenge Team reported there had been significant improvements in all of the areas identified.

8. Schools

- 8.1 During 2018/19, 11 schools were subject to an internal audit review. A standard audit program is used to ensure consistency with regards to the scope of review for each school visited. The scope of the reviews covers:
- Operation of Governance Processes
 - Financial Planning and Budgetary Control
 - Control and Monitoring of Schools Bank Account(s)

- Procurement and Expenditure (including Large Single Purchases Tendering & Value for Money and Purchase cards)
- Income Collection and Banking
- Personnel and Payroll Management
- School Meals and School Journeys
- Inventory
- Security and Risk Management.

8.2 For every school report issued an action plan has been agreed with the school. The implementation of these actions should ensure that the control environment at these schools is improved to an appropriate level. Table 5 below details the schools subject to audit during 2018/19 with the assurance opinion provided.

Table 5 – Schools Audits 2018/19

School Name	Assurance
Cubitt Town Infants School	Substantial
Old Church Nursery	Substantial
Rachel Keeling Nursery	Substantial
Alice Model Nursery School	Substantial
Cyril Jackson Primary	Limited (Draft)
Our Lady & St Joseph Primary	Substantial
Harry Gosling Primary	Substantial
Shapla Primary School	Substantial
Raines Foundation Secondary	Limited
Swanlea Secondary	Substantial
George Green's Secondary School	Limited

9. Tower Hamlets Homes

9.1 The LBTH Internal Audit Team delivers an annual plan of audit activity for Tower Hamlets Homes (THH) as set out in the current management agreement. During 2018/19 summaries of the audit findings were reported to the Tower Hamlets Homes Finance and Audit Committee. Table 6 below summaries the audits delivered at THH along with the assurance opinions provided. For clarity, I have not taken the outcome of these audits into consideration when forming the annual opinion for the council, and are reported here as information for the Audit Committee.

Table 6 – Tower Hamlets Homes Audit Programme

Audit Description	Assurance Opinion
Right to Buy	Substantial
Management of Complaints	Substantial
Management and Control of Security breaches and Incidents	Substantial

THH Governance	Substantial
Financial Systems	Substantial
Pre-contract Audit on Dickinson House Fire Works	Limited
Follow Up audit on starters and Leavers	Substantial
Follow Up audit on Purchase card Payments and Staff Expense Claims	Substantial

10. Scope limitations

- 10.1 The internal audit plan cannot address all risks across the Council and the plan represents our best use of the available resources. The annual opinion draws on the work carried out by Internal Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit plan. Not all risks fall within our audit plan. However, I have confirmed there were no audits of Information Technology (IT) related risks in 2018/19. Whilst I understand IT services are outsourced, I consider this lack of review material and I am limiting the scope of my opinion to exclude IT related risks. I will ensure that IT related governance, risks and controls are subject to internal audit in 2019/20 and will engage the support of specialist IT auditors.

11. Internal Audit Performance

- 11.1 During the year the Internal Audit service carried two vacancies pending the outcome of the Finance restructure. In addition, one member of the Internal Audit team has been primarily focussed on counter fraud activity. To compensate, the internal audit service was supported by the engagement of a third-party provider to deliver some systems and schools audit work. The contract with the third party provider has not been extended beyond 2018/19 and the staff vacancies remain unfilled. As a result there have been delays to some audits and the 2018/19 plan has yet to be fully completed. It is anticipated that the vacancies and the appointment of a new third-party audit partner will be resolved by 30 September 2019. Any risks to delivery of the 2019/20 audit plan will be reported to management and the audit committee.
- 11.2 The Internal Audit plan for 2018/19 was agreed with the Audit Committee in March 2018 with a target of 90% completion to draft report stage by 30th May 2019. As at 30th May 2019, 92% of the audit plan was complete to at least draft report stage (after deferrals and additions have been taken into account).
- 11.3 Continuous development in the quality of the internal audit service remains a key objective. In order to obtain feedback from the organisation, when final reports are issued a 'Customer Satisfaction Survey' is issued to all officers who receive the report. Respondents are requested to provide an opinion as to the effectiveness of the audit and the relevancy of the audit recommendations provided.

- 11.4 For 2018/19, out of the 24 satisfaction surveys sent out for final reports (including Tower Hamlets Homes) 20 completed surveys were received. All 20 surveys have reported back positive outcomes indicating that the recommendations made in the internal audit report will lead to improvement in control environment.

12. Internal Audit's Independence

- 12.1 During the year the Head of Internal Audit was also responsible for risk management, insurance and counter fraud activity. Having recently been appointed as the Head of Internal Audit, I have sought assurance that Internal Audit has operated independently of the organisation and there were no compromises of Internal Audit's independence in its operation this year. Going forward, and in accordance with the Public Sector Internal Audit Standards, I will be ensuring that arrangements are put in place for independent audit of the risk and insurance functions. The outcome of these audits will be reported to the Audit Committee to support their role in oversight of Internal Audit.

13. Conformance with the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme

- 13.1 During 2017, an external assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards was undertaken by Kent County Council. The peer assessment concluded that out of the 56 areas of compliance, there were 5 standards where the current internal audit practices were not considered to be consistent with the requirements of the standards.
- 13.2 The areas of non-compliance identified within the report specifically relate to the following standards:
- 1300 Quality Assurance and Improvement Programme (the sum of standards 1310-1320)
 - 1320 Reporting on the Quality Assurance and Improvement Programme
 - 1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing
 - 2450 Overall Opinions
 - 2050 Coordination & Resilience
- 13.3 An action plan was developed to address all the above points and was kept under review by the service. Upon completion of the actions, the outcomes will be reported to the Audit Committee.
- 13.4 In addition, the action plan will be refreshed after a self-assessment against the PSIAS has been completed (by 31 August 2019) and an updated action plan, including progress against the previously agreed actions will be reported to the Audit Committee.

- 13.5 Further work is required to be fully compliant with the standards and to embed the Quality Assurance and Improvement Programme. I will ensure that Internal Audit is conforming with all the standards by 31 March 2020. Whilst there are some standards that require further work, I am of the view that the level of compliance does not impact on my ability to provide an annual opinion over the internal control framework.

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Case studies for Audit Committee Report of July 2019

Case 1

This case of Council Tax fraud came to light when the Council Tax Team referred a concern about a letting agency using deceased students' identities to claim council tax student exemptions on properties they were renting out individual rooms to people and then charging them rent and also council tax.

The letting agents had provided the Council Tax Team with false student certificates and tenancy agreements, after the students had passed away.

The investigations were prolonged with the manager/directors of the letting agency being evasive and difficult to interview. The case was nonetheless prepared for prosecution with an estimated original financial loss in region of £4,000.

The case was heard at the Magistrates Court in April 2019 with one party who pleaded guilty and the other found guilty after the hearing.

Both parties were given community orders for 12 months of unpaid work (150 and 180 hours) along with costs and victim surcharges of £1,585 and £1,285.

Case 2

A Right to Buy (RTB) case was investigated by the Social Housing Fraud Team and as a result of the investigations their RTB was stopped.

During the investigation, it was identified that the solicitors acting for the RTB purchasers has fabricated documents in an attempt to push through the sale.

This matter concerning the solicitor was referred to the Metropolitan Police, but they were unable to pursue the case as a criminal matter.

It was then referred to the Solicitors Regulatory Authority, who carried out their own investigations and processed the referral through the Solicitors Disciplinary Tribunal.

In April 2019 the solicitor appeared before the Solicitors Disciplinary Tribunal and the Tribunal certified that there was a case to answer was found guilty of contravening the solicitor's disciplinary code.

Although there was an appeal, it was unsuccessful and the solicitor was ordered to pay the fine of £5,000 along with costs of £17,000). However, the solicitor was allowed to remain on the solicitor's register after the appeal.

Case 3

A referral was received regarding a member of staff working in a remote, specialised area of the council. The allegation suggested that the officer was 'moonlighting' and doing extra work and initial enquiries made by the team's manager had suggested this was true and also that another member of staff may be involved.

Further investigative action by the Corporate Anti-Fraud Team revealed that two officers had been regularly undertaking agency work during the hours they were contracted to work for the council and a combined total of 55 periods of employment over a four year period had taken place.

The two officers had been 'covering' for each other and the remoteness of their job and the fact that they largely worked alone had allowed this to happen.

Both officers resigned during the disciplinary process. In January of this year both officers pleaded guilty at Thames Magistrates Court to the charges under Section 3 of the Fraud Act 2006. Both were given Community Orders for 12 months with 100 hours of unpaid work. Both were also fined and ordered to pay costs.

Case 4

A data matching exercise sparked an investigation into a member of staff who held a social housing tenancy, a flat in the borough, but was found by the matching exercise to have links to two other properties, raising suspicion that the social housing property may have been sublet or was not being lived in. The flat was in the process of being purchased under the Right to buy scheme.


Further enquiries found the two properties the tenant had links with were a property in a neighbouring borough that had been purchased by her partner and his father as a buy to let property four years after her tenancy began. The other was a property within the borough which her husband also co-owned with his father.

It was then discovered by investigators that she had obtained her flat initially, by making a false submission as to her true housing need. In her previous property she had requested rehousing due to overcrowding, resulting in the tenancy of her current property being granted. However, she had not declared that a family member had moved out, alleviating the overcrowding issue.

Following formal interviews being carried out, the resident withdrew her Right to buy application and then voluntarily surrendered the tenancy.

The matter was taken to a criminal prosecution and the defendant was found guilty at Crown Court of two counts of fraud and given a 15 month sentence, suspended for 18 months and a requirement to complete 200 hours of unpaid work and pay compensation to the council of £25,000.

She was dismissed from her employment.

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Tuesday, 23 July 2019</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted)</p>
<p>Annual Governance Statement</p>	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards)

Executive Summary

As part of the Annual Accounts and in accordance with the principles of the CIPFA / SOLACE Delivering Good Governance in Local Government Framework. Tower Hamlets is required to undertake a review of its corporate governance processes, systems and the assurances on the governance framework to support the creation of an annual governance statement.

Recommendations:

The Audit Committee is recommended to:

1. Approve the Draft 2018/19 Annual Governance Statement and Action Plan attached at Appendix 1.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 require that the Authority must agree an Annual Governance Statement (AGS), prepared in accordance with proper practices published by CIPFA in relation to internal control, for publication with its Statement of Accounts. The Audit Committee provides an important role in reviewing the effectiveness of governance arrangements within the Council and therefore the recommendation above falls within the terms of reference for the Committee.

2. ALTERNATIVE OPTIONS

- 2.1 None

3. DETAILS OF THE REPORT

- 3.1 The review of the effectiveness of the Council's system of internal control that underpins the Annual Governance Statement (AGS) must be carried out at least annually. The Council's AGS forms part of the annual accounts. Its content is prepared from various sources and assurance processes including the Annual Report of the Head of Internal Audit.
- 3.2 Corporate governance is defined as the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate lead their communities. There is a strong correlation between effective governance and effective service delivery. To deliver the Council's vision and support the drive for continuous improvement strong governance arrangements need to be in place.
- 3.3 The AGS is presented to the same Audit Committee meeting as the Statement of Accounts. The AGS sets the context, describing the internal control and governance environment of the Council that have been in place for the last year.
- 3.4 Evidence sources collated for drafting the 2018/19 AGS were as follows:
- A review against the Council's own Code of Corporate Governance.
 - Consultation with, and assurance provided by Corporate Directors.
 - Work undertaken during the year by Internal Audit and other inspection bodies.
 - A review of progress against the delivery of the 2018/19 AGS significant governance issues and action plan.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific equality implications arising from this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,
 - Safeguarding.
 - Data Protection / Privacy Impact Assessment.

5.2 There are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the requirements of the Accounts and Audit Regulations 2015 there are no specific financial implications arising from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 This report demonstrates the Council's compliance with the Accounts and Audit Regulations 2015

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix 1 – Draft Annual Governance Statement 2018/19.
- Appendix 2 – Code of Corporate Governance

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:

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Annual Governance Statement 2018 – 19

Date First Issued
May 2019

What is Corporate Governance?

Corporate Governance refers to the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The *International Federation of Accountants / CIPFA 2014: International Framework Good Governance in the Public Sector*, further states that to deliver good governance in the public sector, both governing bodies and individuals working for them must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest requires behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.

Our governance arrangements aim to ensure that we meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our public money and resources are safeguarded, properly accounted for and used economically, efficiently and effectively.

The governance framework comprises the systems, processes, cultures and values by which Tower Hamlets is directed and controlled, and through which we engage with and lead the local community. The framework brings together an underlying set of legal requirements, good practice and management processes.

How do we know our arrangements are working?

To monitor the effectiveness of our corporate governance systems, we have approved and adopted a 'Code of Corporate Governance' which is consistent with the principles of the CIPFA / SOLACE 2016: *Delivering Good Governance in Local Government Framework 2016 Edition*.

This code is subject to review, challenge and endorsement by the Audit Committee or scrutiny panels as appropriate. A copy of the code can be located via www.towerhamlets.gov.uk or can be obtained from the Monitoring Officer.

Each year we review our corporate governance processes, systems and the assurances on the governance framework to create an annual governance statement. We review our compliance with the approved code of corporate governance, consulting with and obtaining positive assurances from the corporate leadership team and governance officers.

In addition we also reflect and take into consideration the work of internal and external audit and other inspection bodies completed during the year. The issues identified during the review are highlighted in the action plan at the end of this statement.

This AGS builds upon those of previous years. It summarises the key governance framework which has been in place for the year ended 31 March 2019 up to the date of approval of the statement of accounts and records any significant governance issues that need to be addressed over the coming year.

As we are continually changing and seeking improvement it is important that the governance arrangements are robust and flexible enough to manage change effectively, and positively support our aims and objectives.

It is recognised that the governance framework cannot eliminate all risk and therefore only provides reasonable and not absolute assurance of effectiveness.

How Tower Hamlets works

The Council comprises of a directly elected Mayor and 45 Councillors who are elected on a four year term. Councillors are elected to represent the 20 wards across the Borough with between one to three Councillors in each ward.

The Executive Mayor is Mayor John Biggs. The composition of the Council is:

Labour (42 seats)

Conservative (2 seats)

Aspire (1 seat)

Liberal Democrats (1 seat)

Councillors are democratically accountable to the residents of their Wards. The overriding duty of Councillors is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

Full Council consists of the Mayor and all Councillors. It meets to make major decisions including setting Council Policy, the Budget and Council Tax and considering any recommendations outside of the budget and policy framework. The Council appoints a number of Committees to carry out specific functions. These include: the Regulatory Committees, the Pensions Committee and a Standards (Advisory) Committee.

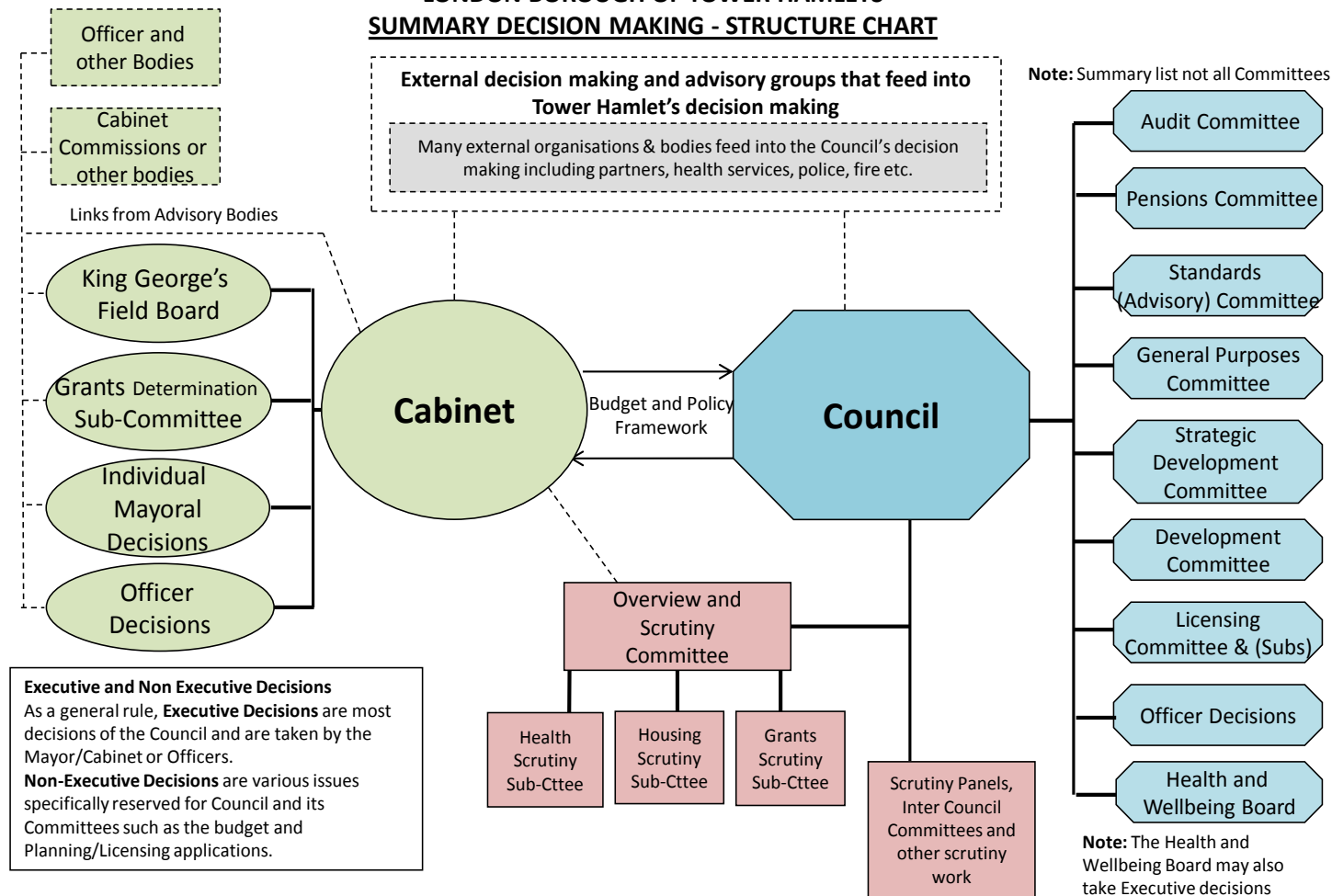
The Mayor appoints and is supported by a Cabinet. The Mayor in Cabinet is responsible for most regular decisions of the Council. This includes approving the budget and plans for the Council to consider, approving and monitoring other major decisions. The Mayor in Cabinet has to take decisions in line with Budget and Policy Framework set by Full Council. Any proposals outside this must be referred to Full Council to decide.

The public has wide access to Council meetings through attendance, submission of deputations, questions and opportunity to contribute to debates. The Council's website gives dates and times of meetings and access to documents.

The Council & Democracy page of the Council's main website provides a wide range of information in respect of how democracy works within the Council. This includes details of:

- Dates and times of all meetings;
- Full committee meeting papers;
- Contact details for each elected representative;
- Decision making process including the Forward Plan of Decisions to be taken by the Mayor in Cabinet, and Officer Decisions under delegation.

LONDON BOROUGH OF TOWER HAMLETS SUMMARY DECISION MAKING - STRUCTURE CHART



Note: Some bodies omitted for clarity

KEY:

Non-Executive Decision Making

Executive Decision Making

Scrutiny Bodies

Advisory Bodies

Constitution

The constitution is available via www.towerhamlets.gov.uk and this sets out how TH operates, how decisions are made and the processes that are followed to ensure that decision making is efficient, transparent and accountable to local people. A number of the codes of practice and procedures within the constitution are required by law, whilst some are chosen to reflect best practice arrangements.

The constitution further sets out the role of key governance officers, including the statutory posts, and explains the role of these officers for ensuring that processes are in place to ensure that TH meets its statutory obligations and also for the provision of advice to councillors, officers and committees on staff management, financial, legal and ethical governance issues. The statutory posts / are:

Statutory Roles:	Allocated to:
Head of Paid Service	Chief Executive
Chief Finance Officer (Section 151)	Corporate Director Resources
Monitoring Officer	Corporate Director Governance and Monitoring Officer
Director of Social Services (Adult Services Only)	Corporate Director Health, Adults and Community
Director of Children's Services	Corporate Director Children and Culture
Chief Education Officer	Corporate Director Children and Culture
Director of Public Health	Director of Public Health

The senior management structure within the Council has seen some personnel changes but has been largely stable throughout 2018/19. Following the departure of the previous postholder a new Corporate Director for Resources (S151 Officer) was appointed. The Corporate Director of Place was also appointed to during the year; in both cases acting arrangements were confirmed providing stability and continuity in respect of those postholders. The key governance officers have been involved in the preparation of this statement and are satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted.

Structure

Scrutiny committees

Scrutiny is a key part of the democratic process, monitoring Cabinet policy decisions and with a key role in advising on the development of policy. Scrutiny also has a broader remit to examine issues affecting TH.

Within its terms of reference, the **Overview and Scrutiny Committee** shall:

- Review or scrutinise decisions made, or other actions taken in connection with the discharge of any functions which are the responsibility of the Executive;
- Advise the Mayor or the Executive of key issues / questions arising in relation to reports due to be considered by the Mayor or the Executive;
- Make reports or recommendations to Council and / or the Mayor or the Executive in connection with the discharge of any functions which are the responsibility of the Executive; and
- Review or scrutinise the decisions made or other actions taken in connection with the discharge of any functions which are not the responsibility of the Executive.

There are three Scrutiny Sub-Committees which support the work of the Mayor / Cabinet and TH as a whole. These relate to three specific themes, which are:

- **Grants Scrutiny Sub-Committee** established to support an objective, fair, transparent and co-ordinated approach to grant funding across the council. This committee meets on a bi-monthly basis with 6 meetings being held during 2018/19.
- **Health Scrutiny Sub-Committee** which has the role to scrutinise local health services in accordance with the Health and Social Care Act 2001. The committee meets on a quarterly basis with 4 meetings being held during 2018/19.
- **Housing Scrutiny Sub-Committee** undertakes the overview and scrutiny pertaining to housing matters including reviewing and / or scrutinise decisions made or actions taken in connection with the discharge of the Councils housing functions. The Committee met on 5 occasions during 2018/19.

In addition to the above, the **Inner North East London Joint Health and Overview & Scrutiny Committee** was established in 2018/19. This committee comprises of the London Boroughs: Hackney, Newham, Tower Hamlets and City of London Corporation. The Committees remit is to consider London wide and local NHS services developments and changes that impact all the authorities mentioned above. The Committee meets as required and has been established in accordance with Section 245 of the NHS Act 2006 and the Local Authority (Overview and Scrutiny Committees Health Scrutiny Function) Regulations 2002. The first meeting of the committee was held in February 2019.

Best Value Improvement Board (BVIB)

As part of the final representation to the Secretary of State for MHCLG, the council submitted a Best Value Improvement Plan 2017/18, which proposed the creation of a Best Value Improvement Board (BVIB) to drive sustainable improvement across the organisation by providing oversight, support and challenge. The Board is chaired by the Mayor with both cross party and external representation to provide suitable challenge to improve all council activities.

In 2018/19, the BVIB continued to provide a council wide approach to setting, reviewing and implementing improvement activity. The BVIB met in public every quarter to ensure transparency and accountability in relation to progress being made, and ensure there was sustainable improvements across the council. The BVIB held cabinet members and officers to account, and provided focus, advice and challenge as a “critical friend” on the adequacy of the Council’s Improvement Plans, monitoring the pace and impact. Additionally, the BVIB submitted a quarterly progress report to the Ministry of Housing, Communities and Local Government.

In June 2018, the BVIB oversaw an LGA Corporate Peer Challenge. This was an agreed action coming out of the March 2017 Directions and represented a significant milestone in the Council’s improvement journey. It provided fresh insight into the opportunities for improvement and the organisations capacity and ability to deliver. Following the Corporate Peer Challenge, the Directions were lifted and the BVIB disbanded. A Transformation & Improvement Board (TIB) has been set up to ensure that the improvement journey the Council has undertaken in previous years is sustained in the long term. The TIB aims to support the council to be a modern and efficient organisation by delivering transformation and improvement that improves services and outcomes for local residents. It will also ensure the recommendations made by the LGA Corporate Peer Challenge are delivered.

Audit Committee

This committee undertakes the core functions, and complies with best practice as detailed within the CIPFA 2018: Audit Committees – Practical Guidance for Local Authorities and Police and has oversight of the delivery (as the ‘Board’) of Internal Audit standards in accordance with the Public Sector Internal Audit Standards (PSIAS). As a consequence of the local elections held in May 2018, membership of the committee was formed largely by new Councillors both to the Council and to the Committee. This includes the Chair and Vice Chair of the committee. In order to support the effectiveness of the committee, all members received training in respect of Governance, Internal Control and Counter Fraud practices as part of the induction process. In addition, specific training was provided in respect of the CIPFA Guidance.

The committee takes a positive and proactive approach to governance and reviews progress on the AGS action plan, internal audit annual audit plan, anti-fraud arrangements including whistleblowing and risk management. Although not previously completed, the chair of the committee going forwards will provide an annual report to full Council which outlines the work and effectiveness of the committee during the year.

Corporate Parenting Board (CPB)

The joint Member / Officer CPB will advise the Mayor in Cabinet to ensure that the services the Council provides to the children in its care are of the highest standard and that those services meet national and local government objectives for children and young people in public care.

Specifically the CPB will:

- Oversee the delivery of Tower Hamlets Children Looked After Strategy and ensure it is updated to reflect new policy, priorities and practice changes.
- Offers high level support and challenge to the implementation of the Council's improvement plan in relation to looked after children and care leavers.
- Acts as a monitor of performance by officers of the Council by receiving and reviewing regular performance reports
- Keeps abreast of new policy and legislation that affects looked after children and care leavers to ensure the council's offer is aligned with best practice and expected standards.
- Provides a forum for identifying and supporting the priorities of children looked after and care leavers Members, Officers and the council more widely.
- Provides a forum for communication and purposeful engagement between children looked after, care leavers, Members and Officers
- Seeks to influence policy and practice for the benefit of children and young people looked after and leaving care.

- Steer and advise the wider Council and partners on its role as a Corporate Parent.
- Ensure that the wider council and partners contribute effectively in providing the best offer for children looked after and care leavers.

Council Owned Companies / Partnerships

Tower Hamlets Homes

The Council has in place a well-established Arm's Length Management Organisation - Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage the Council's housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company Board. Performance is monitored through a formal review process with senior council officers and elected members. The company operates its own risk management strategy and is subject to internal and external audit and inspection activities in compliance with the Companies Act.

During 2018/19, the Council commissioned Altair to support it in exploring options for the delivery of its housing management services beyond the end of the current management agreement. The review was undertaken in two stages; consisting of a baseline assessment and an options review. The purpose of the baseline Assessment stage of the project was to review the current strategic, operational and financial context of LBTH, and to assess the effectiveness of THH as a housing manager, considering its strengths and challenges.

Overall, Altair assessed that THH is a generally well-performing housing manager in terms of both housing management performance and cost. There is room for improvement in some key areas of service delivery, but evidence of performance improvements over recent years and an extensive transformation programme currently being delivered are positive.

The review further found no performance or financial imperative to significantly change the housing management arrangements for the LBTH stock currently managed by THH

Seahorse Homes Limited

Seahorse Homes Limited is a wholly owned company limited by shares established in 2017, to provide market rented homes and deliver a return on investment, both to cross-subsidise affordable housing and to fund wider General Fund services. The agreed business plan sets out its intention to acquire homes and then to develop homes. The Council holds 100% of the shares in this company and has initially committed £6m in equity. The company has yet to start trading. The Board of Directors is comprised of three Council officers. Following staffing changes within the Council the composition of the Board is being reviewed to minimise potential conflict of interests.

Mulberry Housing Society

Mulberry Housing Society is a not-for-profit charitable Community Benefit Society (CBS) established in 2017. The Council funds the CBS and holds two of five seats of the Board, the others being held by independent people initially appointed by the Council. The Board of Directors is comprised of two council officers and three independent members. The society is seeking to acquire homes which will be let at sub-market rent levels in order to meet housing needs. There were no financial transactions through the CBS in 2018/19. As an independent CBS, the Council does not have any equity shareholding in the company but intends to fund activities through retained right to buy receipts and loan finance.

PLACE Ltd (Pan-London modular TA)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 is a collaborative enterprise between a group of London Boroughs. The company will purchase modular homes that can be delivered to 'meanwhile' sites across the capital and relocated several times over a minimum 40 year lifespan. The pilot site is likely to be in Tower Hamlets. The company has secured capital grant from the Greater London Authority, which will be administered by the Council. In addition, the Council is

considering providing a capital loan facility to the company. As a CLG, the Council does not have an equity shareholding in the company.

Capital Letters (London) Ltd (Pan-London TA procurement hub)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 and is a collaborative enterprise between a group of London Boroughs. The company will lease private properties for use as temporary accommodation and tenancies to prevent homelessness. The company has secured revenue grant funding from MHCLG which will initially be administered by the Council; a Chief Executive and Chief Finance Officer have been appointed in 2019 and they will be adopting their own processes and procedures including for the payment of salaries and maintenance of accounting systems. The Council may provide a loan facility to the company to support positive cash flow. As a CLG, the Council does not have an equity shareholding in this company.

Tower Hamlets Strategic Plan 2019 – 2022

The rolling three-year Strategic Plan reflects on the progress made during 2018/19 and reflects the promises made in the Mayor's Manifesto to make the borough a cleaner, safer and fairer place to live.

Since the May 2018 election, the council has focused on realising the ambitions with new initiatives to make Tower Hamlets safer, support and protect our young people, tackle the housing crisis, reduce poverty and inequality, improve health outcomes, clean up our streets and improve air quality in the borough.

The plan reaffirms the Council's commitment to delivering on the manifesto promises made, and sets out the wider vision for Tower Hamlets.

The Strategic Plan remains in an important precursor to the Council's Performance Management and Accountability Framework and is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measure that will help us determine whether we are achieving the outcomes.

The Council is therefore looking to deliver the following priorities over the next three years:

Priority 1 – People are aspirational, independent and have equal access to opportunities;

Priority 2 – A borough that our residents are proud of and love to live in; and

Priority 3 – A dynamic, outcome-based Council using digital innovation and partnership working to respond to the changing needs of our borough.

Review of Effectiveness

Tower Hamlets has a responsibility to conduct an annual review of the effectiveness of its governance framework, including the system of internal control.

This is informed by:

- Annual assurance opinion of the Head of Internal Audit.
- Performance against targets.
- Annual assurance statements from Corporate Directors.

- A review of the progress made with regards to the implementation of the previous year's AGS action plan.

The review of effectiveness of our governance framework is informed by the work of the Corporate Leadership Team who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's Annual Report, and also by comments made by the external auditors and other agencies and inspectorates. The Statutory Officers Group considers the draft Annual Governance Statement, prior to formal review of the AGS by the Audit Committee.

Planning

The Council's Performance Management and Accountability Framework (PMAF) ensures that the vision and priorities are translated into clear plans and measurable outcomes which are appropriately monitored and delivered by officers and elected members. The PMAF sets out corporate expectations for managing performance, and informs the design and operation of performance management processes within individual Directorates and services.

Evidence and analysis have been used to identify our priorities and outcomes for local people, and these are outlined in our Strategic Plan, along with the actions we will take to make these happen, and the performance measures we will monitor in order to review and challenge whether what we are doing is achieving the desired results.

Strategic performance monitoring is undertaken publically on a quarterly basis at Cabinet. The Council takes an outcomes based approach to performance management: identifying the outcomes we want to achieve for local people and taking actions which will support the delivery of these outcomes. Our strategic performance measures enable us to understand the impact of our actions. Members and officers are supported in their work to improve performance through Dashboard reporting. This allows a greater breadth of data to be provided within reports, and tailored to individual audiences. Mayor and Cabinet Member Dashboards are designed to encourage dialogue between Members and Directors regarding performance, challenges, associated risks and improvement plans, and support accountability. Senior managers receive performance and organisational health dashboards which report by exception and focus on areas of under-performance, high risk and high cost.

The Council has formal procedures in place to challenge where there are identified performance concerns: taking a trouble-shooting approach to improving performance, acting as a 'critical friend', and making decisions about where to focus improvement work. Therefore, areas of identified concern are referred to our Performance Improvement Board for further examination. Areas of under-performance may also be referred to the Council's Overview and Scrutiny Committee for further review.

Delivery of Projects

LBTH has developed a Smarter Together portfolio which brings together the various programmes and projects with the council. The management of these projects complies with recognised industry best practice within the public sector.

The portfolio has been set up in accordance with Management of Portfolios (MoP) best practice guidance to ensure the optimisation of investment. A programme and project methodology has also been established - based on Managing Successful Programmes (MSP), Management of Risk (MoR) and Management of Benefits (MoB) - to apply best practice principles throughout the delivery lifecycle. There are clearly defined roles and responsibilities for all decision-making forums set out in agreed Terms of Reference, supported by discussion/decision logs, actions lists and a suite of registers to ensure effective management of risks, issues, assumptions and dependencies.

An internal gateway process has been put in place to ensure sufficient rigour is applied before new change initiatives are commissioned. This includes assessing (against agreed criteria) whether the change initiative is suitable for investment before production of a business case. Business cases are developed using HMT's business case guidance to make sure information allows reliable and evidence-based decision making wherever possible. During the programme and project lifecycles, go/no go decision points have been built into plans to validate benefits before commencing key stages, such as design, procurement, build, development and implementation as appropriate.

A high level PMO technical competency framework has been developed and a learning and development programme is being delivered to ensure PMO staff are trained and qualified in key areas of expertise.

The Audit Committee

A well-established Audit Committee provides independent, effective assurance on the adequacy of the governance arrangements within TH. All major political parties are represented on the committee.

The Audit Committee has formally defined terms of reference as outlined within Part A3 – Responsibility for Functions of the Constitution. The remit of the Committee includes:

- To consider the Internal Audit plan and review the performance of Internal Audit against this target
- To review internal audit findings and the annual report of the Head of Internal Audit and seek assurance that action has been taken where necessary
- To act as a forum for the external auditors to bring issues to Members' attention including both specific reports and general items as the Annual Audit Letter and the Annual Governance Report.
- 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.
- To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption.
- 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.
- To meet the obligations of the Accounts & Audit (England) Regulations 2015, 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).

The Audit Committee met regularly throughout 2018/19 and considered all reports consistent with those outlined within its terms of reference. This specifically included reports of the External Auditor, and the Annual Internal Audit Report of the Head of Internal Audit.

In line with Practical Guidance for Audit Committees published by CIPFA and to aid the promotion of effective public reporting, the Chair of the Audit Committee will publish an annual report from the committee.

Management

Each Corporate Director has provided a self-assurance statement in respect of 2018/19, supported by assurance received from their direct reports, that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of TH which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of THs' key priorities; and
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.

All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority's policies are implemented in practice. The Monitoring Officer and the Legal Services Team monitor compliance with, and awareness of, key laws and regulations. Corporate Directors, Divisional Directors and Service Heads are responsible for monitoring implementation of the Council's policies.

One of the key elements in obtaining the required internal control assurance for the Annual Governance Statement is the completion of the Annual Positive Assurance Statement by senior officers. Corporate directors were asked to compile their statements after taking assurance from their senior / departmental management teams.

Internal Audit

TH takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of THs' activities. It is the duty of the Head of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of internal control within TH. This opinion has been used to inform the AGS.

The Internal Audit Service has been, in the main, managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS). There is some further work required to fully embed the standards including the Quality Assurance and Improvement Programme.

One of the key assurance statements TH receives is the annual report and opinion of the Head of Internal Audit. A new Head of Internal Audit was appointed at the end of 2018/19; he took up post on the 3 June 2019. As outlined within annual report of the Head of Internal Audit, the following assurance opinion was provided:

*On the basis of the audit and counter fraud activity undertaken during the year, and taking into consideration external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses, it is my opinion that I can provide **reasonable assurance** that the authority has adequate systems of internal control and that they have, in the main, been operating effectively in practice.*

The framework of governance, risk management and control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

External Audit & Inspections

Deloitte LLP was appointed as the Council's external auditor from 1 September 2018, following the decision of the Council to opt in to the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the council for a period of five years (2018/19 to 2022/23).

KPMG, the previous external auditor, completed their audit of the 2017/18 financial statements. Within the Annual Audit Letter 2017/18, the auditor issued an unqualified opinion in relation to the Council's 2017/18 statutory financial statements. This means that KPMG concluded that the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

However, the 2017/18 value for money (VFM) work, KPMG issued a qualified conclusion on the Council's arrangements to secure value for money for 2017/18. KPMG specifically concluded that "the authority had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. KPMG remained satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource development' criterion. KPMG therefore issued a qualified VFM conclusion on an 'except for' basis, which is consistent with the VFM opinion given in 2016/17.

During 2018/19 external inspectors from Ofsted and the Local Government Association have completed a number of inspections and reviews, summary details are as follows.

Ofsted

As a follow up to the April 2017 report published by Ofsted in respect of Tower Hamlets' Single Inspection of Children in need of help and protection, children looked after and care leavers and the Local Safeguarding Children Board, all of the scheduled Ofsted monitoring visits have now been completed. The full inspection of the service was completed during June 2019. The majority of the

monitoring reports have highlighted areas of improvement across Children's Social Care. They have also helpfully pointed out areas where further work is required, and we have focused much activity on strengthening these aspects of practice in order that we can present a strong and positive account of practice throughout the upcoming inspection. The final judgement from the full inspection in June will be published at the end of July 2019.

Local Government Association (LGA) – Corporate Peer Challenge

During June 2018, the council took part in a four day Local Government Association led Corporate Peer Challenge. The LGA Peer Challenge team were asked to review the following:

1. How the Council adequately addressed the directions issued by MHCLG and the expectations of the departed commissioners;
2. Whether the Council is addressing its chosen priorities and delivery continued improvements to local residents and businesses: and
3. Whether the Council is identifying key challenges and setting realistic and ambitious targets for the future.

The final feedback report issued to the Mayor and the Chief Executive concluded that:

1. The directions of MHCLG and the expectations of the departed Commissioners were to consider to improvements in the areas of: Grants; Procurement; Property; Election and Communication and Culture. In summary the peer team believes that there have been significant improvements in all of the areas identified;
2. The Council set priorities were adopted from the Mayor's Manifesto. These priorities are now being incorporated in a refreshed Strategic Plan.

3. The Council clearly understands its population, their needs and the challenges in addressing these needs. These are reflected in the revised Strategic Plan and its improvement work.

As a result of the feedback received improvement actions were developed with the delivery of these monitored by the Transformation & Improvement Board.

Risk Management

All councillors and managers are responsible for ensuring threats and opportunities are considered in the decisions they take. TH has in place a formally approved risk management strategy which is subject to annual review. That strategy sets out a corporate risk appetite that is not risk averse but seeks to support decision making that consider threats, identifies mitigations etc. in order to ensure opportunities are seized and delivered.

In support of the delivery of effective risk management arrangements, a corporate risk management system 'JCAD' is used to capture all relevant corporate / directorate and project related risks. In addition, directorate Risk Champions oversee the continued development and review of the council's approach to risk management, acting as risk specialists to continually review existing risk and to consider emerging risk matters.

Information Governance

Two formal groups oversee information governance risks to ensure that robust governance arrangements are in place and are maintained across the council. An Information Governance Group meets six weekly. In addition, the established Information Governance Strategy Board is chaired by the Head of Legal Services and is represented by Divisional Directors from each directorate.

Update on the 2017/18 Significant Governance Issues

The 2017/18 AGS included three significant governance issues which were to be implemented and addressed during 2017/18. Action 1 is complete and closed. The implementation of actions 2 and 3 has progressed significantly with elements remain on-going.

Action 1 – To continue to effectively deliver the commitments outlined and defined within the Best Value Improvement Plan as a response to the findings of the Commissioners.

Outcome: This outcome has been delivered with the improvement plan outcomes being delivered.

Action 2 – To continue to deliver improvements in Children's Services that respond to the Ofsted findings.

Outcome: This outcome remains ongoing however significant progress has been and continues to be made as outlined within the earlier relevant text within this document. The required improvements are continuing to be delivered across both years.

Action 3 – The 2017/18 Internal Audit of the Leaving Care Service governance and control arrangements received a Nil assurance rating to this audit and which recommended that a full service review is undertaken.

Outcomes: This action has largely been delivered however work remains ongoing which is the subject of ongoing input from the Internal Audit team.

Significant Governance Issues 2018/19

Based on THs' established risk management, the issues detailed in the following action plan have been assessed as being significant for the purpose of the 2018/19 AGS.

It is proposed over the coming year that steps will be taken to address the issues identified to further enhance THs' governance arrangements.

No.	Issue	Action	Outcome	Lead Officer(s)	Completion Date
1	Lack of robust budget management leading to large budget overspends being reported at the year-end / Period 11.	<p>To undertake a review of the current budget management process with the aim of introducing a new protocol and revised process which clearly identifies accountability.</p> <p>Improvements to Agresso, as part of the latest upgrade due in 2019, to make the budget management process more user-</p>	Improved budget management	Corporate Director of Resources	31 March 2020

		friendly, which will promote greater uptake, as the Council rolls out 'self-service'.			
2	Indications that role based access has not been fully implemented, particularly amongst staff who have moved within the Council.	<p>Immediate review of existing arrangements to implement and recommended short term remediation.</p> <p>This will include future migration to Office 365 to improve the control of data sharing and provide data owners with the ability to manage access to shared resources.</p>	Improved Data Governance / Compliance arrangements.	Divisional Director of IT.	31 March 2020
3	Management's implementation of agreed actions arising from Internal Audit reviews is below expectations; to date around 65% of high priority actions have been implemented.	Internal Audit will evaluate why management have been unable to implement agreed actions with the aim of identifying improvements and	90% of high priority management actions to be implemented within agreed timescales.	Head of Internal Audit and Corporate Directors.	31 March 2020

		report its findings to CLT. A revised target will be agreed with Corporate Directors and reported to the Audit Committee.			
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TOWER HAMLETS CODE OF CORPORATE GOVERNANCE

2019 Version 1.0

Foreword

From Will Tuckley, Chief Executive

This Code of Corporate Governance sets out the commitment of the London Borough of Tower Hamlets to continue to uphold the highest possible standards of good governance. This is essential for ensuring we conduct our business in accordance with the law and proper standards and that public money is properly accounted for.

The Code of Corporate Governance is an important tool in showing our residents how the Council follows good practice to achieve the best outcomes we can for them.

The Code will be regularly reviewed to match our evolving Corporate Strategies and Policies. Our Audit Committee has oversight for making sure that we are following the commitments in this document in order to deliver the highest standards of governance for our residents.

Introduction

Good governance is about how the Council ensures that it is doing the right things, in the right way, for the communities it serves, with particular regard to being open, inclusive and accountable.

Our Commitment

Tower Hamlets are committed to upholding the highest standards of good corporate governance.

The Governance Framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate, leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

This Code of Corporate Governance is based on the following principles recommended by CIPFA/SOLACE in a joint document entitled 'Delivering Good Governance in Local Government' which builds on the seven Principles for the Conduct of Individuals in Public Life.

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

This document describes how the Council achieves the seven principles of good governance and describes how the Council's corporate governance arrangements will be monitored and reviewed.

Applying the Seven Core Principles

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The following items are applicable to all three strands of Core Principle A

Supporting Principles		The Council does this by:	Supporting documentation and evidence of compliance
A1	Behaving with Integrity	<ul style="list-style-type: none"> The Council's constitution sets out the rules under which the organisation must operate. This includes ensuring decisions are taken appropriately, by the correct body and with all relevant information presented. Article 12.03 of the Constitution sets out the role of the Monitoring Officer. The Corporate Director, Governance has this assigned role. The Monitoring Officer is responsible for dealing with many issues relating to integrity in decision making including around the work of the Standards (Advisory) Committee and Member Conduct. The Strategic Plan is the main strategic business planning document of the council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes. The Strategic Plan outlines the Council's approach to tackling inequality and 	<ul style="list-style-type: none"> The Council's Constitution including sections on: <ul style="list-style-type: none"> Officer code of conduct Member code of conduct Member Officer Relations Protocol Scheme of Delegation Register of Interests and Declarations at Meetings Gifts and Hospitality Register Cabinet, Council and Committee reports online Member Induction and Development Programme Strategic Plan – Tower Hamlets Plan – Borough Equality Assessment – Whistleblowing Policy Corporate and Statutory Complaints Procedures Information Governance
A2	Demonstrating Strong commitment to ethical values		
A3	Respecting the Rule of Law		

		<p>improving outcomes for residents and has tackling inequality at its core outlining the priorities and outcomes for reducing inequality and need in the borough.</p> <ul style="list-style-type: none"> • The Tower Hamlets Plan is the over-arching for the borough's local strategic partnership. Partners wanted to work together to identify creative and innovative new ways of delivering effective and efficient services and providing strategic leadership on complex, cross-cutting issues. • There is a whistleblowing policy and it can be found direct from the home page of the intranet. It provides a route for officers to bring to the monitoring officers attention areas of malpractice where no other appropriate route exists. • These reports and decisions are published online to ensure transparency and Executive decisions are subject to the 'Call-In' process by backbench Councillors who have the opportunity to raise any concerns they may have. • The Register of Interests (for officers and Members) and the requirement to declare interests at meetings ensure that potential issues are recorded and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. • Likewise, the Gifts and Hospitalities register ensures that Members and officers declare any relations with outside bodies that could be an 	<p>Framework, including Data Protection, Information Security and Computer Use Policies.</p> <ul style="list-style-type: none"> • Social Media Policy • TOWER values and new Competency Framework • Investors in People accreditation • Declarations of interest and secondary employment for officers • Grievance Policy • Disciplinary Policy • Combatting Harassment and Discrimination Policy
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		<p>issue.</p> <ul style="list-style-type: none"> • The Member Induction and Member Development Programmes ensure Members are aware of their responsibilities around good decision making and behaving with integrity. This programme includes committee specific training where required. • Raising Awareness of Information Governance Regulations and Obligations as set out in the Council's procedures and framework. • The Council's TOWER values are important because they shape the culture and standards of the organisation. • The Council's Legal Services are tasked with ensuring Council decision making is not ultra vires and follows relevant regulations and legal processes as required. 	
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Core Principle B: Ensuring openness and comprehensive stakeholder engagement

B1 Openness

B2 Engaging comprehensively with institutional stakeholders

B3 Engaging with individual citizens and service users effectively

<i>The Council does this by:</i>	<i>Supporting documentation and evidence of compliance</i>
<ul style="list-style-type: none"> • Publishing a Constitution setting out the Council's governance and decision making arrangements. • All formal decision making meetings have agendas, reports and minutes which are published on the Council's website and available to anyone through the Mod.Gov tablet app. • The Council publishes and maintains a constantly updating list of important Executive decisions on the Council's website. This includes reports for Cabinet and any other key Executive decisions. • The Council's Overview and Scrutiny Committee engages stakeholders, residents and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee co-opts residents with relevant knowledge onto the Committee and encourages residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses are invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interest are represented. • The Council is updating its Overview and Scrutiny Toolkit is to provide officers, Members, stakeholders and local communities with 	<ul style="list-style-type: none"> • The Council's Constitution • Publication of committee agendas and minutes of meetings. • Forward Plan • Committee software system • Register of Members' Interests • Strategic and Services Plans • Tower hamlets plan • Scrutiny Committee reports to Council • Strategic Plan (equalities embedded) Equality Analysis • Annual Residents' Survey and other Residents' surveys • Range of consultations • Borough Profile • Co-production Framework • Tower Hamlets Together Board and Joint Commissioning Executive • Freedom of Information Publication and

guidance and advice on how the scrutiny function works at Tower Hamlets. The Toolkit aims to clarify processes so residents know how they can get involved.

- The Strategic Plan is the main strategic business planning document of the council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes. The Strategic Plan outlines the Council's approach to tackling inequality and improving outcomes for residents and has tackling inequality at its core outlining the priorities and outcomes for reducing inequality and need in the borough.
- The Performance and Intelligence team provides advice on designing, running and analysing consultations and surveys to Officers around the Council. The Council actively engages specific groups depending on the nature of the consultation / survey. The Council commissions a specialist market research company to undertake its Annual Resident Survey with key findings made public. Action Plans are produced to address areas of under-performance / challenge.
- The Council has an established voluntary and community sector strategy and is now developing a framework approach for the Community Commissioning programme, which has been developed in co-production with the VCS.
- We set out how we will work with our key strategic partners to deliver cross cutting actions for the borough in the Tower Hamlets Plan
- We belong to a range of public sector information sharing networks for example sharing performance data for benchmarking and improvement with London LAs through London Councils. We are working with the GLA to develop London level data sharing agreements, and with our health partners through a partnership board Tower Hamlets Together.

Disclosure Log

- Environmental Information Scheme
- Publication Scheme
- Corporate Complaints Procedure and Statutory Complaints Procedures
- Customer Contact Centre and Complaints Procedure
- Staff Training and Development
- Engaging staff forums
- Change Champions (i.e. Your Voice Ambassadors)
- Youth Council and Young Mayor
- Annual Statement of Accounts
- Medium Term Financial Strategy and regular MTFS reports
- The Internal Audit function
- The role of the Audit Committee
- Open Government Licence for Public Sector Information
- Business Plan Consultation
- Expected Standards for responding to residents/customers
- A range of communication channels including digital infrastructure (website, social media, newsletter, plasma screens in Idea Stores and other buildings), physical infrastructure (street advertising, vehicle advertising) and print (Our East End).

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| <ul style="list-style-type: none">• The Council makes use of modern committee management software to support the efficient and transparent publication of all information related to the Council's decision making functions including Councillor contact details, registers of interest, agendas, petitions, ways to get involved and similar.• The Council maintains a public register of Members interests and declarations made at meetings. These are published on the Council website.• Freedom of Information processes to allow for the submission and publication of Freedom of Information requests• Complaints systems to allow residents to challenge the Council.• Use of the Open Government Licence for Public Sector Information ensures that people can make use of our data without having to apply for permission. | |
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Core Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits Defining outcomes in terms of sustainable economic, social and environmental benefits	
<i>The Council does this by:</i>	<i>Supporting documentation and evidence of compliance</i>
<ul style="list-style-type: none"> • The Council has an established voluntary and community sector strategy and is now developing a framework approach for the Community Commissioning programme, which has been developed in co-production with the VCS. • The Strategic Plan is the main strategic business planning document of the council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes. The Council has a structured set of plans which turn our vision into actions, through Directorate, Key Council Strategies and Team Plans. • The report templates for all Council, Cabinet and Committee reports contains specific sections to highlight key risks such as those around equalities, environment, crime etc. • The Council has a clear vision of the quality and nature of service delivery which we need to provide to meet the needs of our local community. To do this, ongoing investment needs to be made to our staff through our People Strategy. • The Council's Local Plan considers the spatial vision and planning strategy & policies for Tower Hamlets. • The Council is committed to sustainable development and has a Carbon Management Plan, Environment Strategy and provides air quality monitoring and advice about energy efficiency. • The Tower Hamlets Housing Forum is a partnership between housing associations and the Council. 	<ul style="list-style-type: none"> • Strategic Plan and Service Plans • Performance Management and Accountability Framework • Co-production Framework • Risk Implications in all reports • People Strategy – • Local Plan (and Draft Local Plan 2031: Managing Growth and Sharing the Benefits) and related Planning policies and documents • Our East End • Financial and Budget Planning Consultations • Risk Management Policy and Procedures • Corporate Risk Register • Annual Statement of Accounts • Integrated Finance and Performance Reports • Capital Strategy • The work of the external auditors • Environmental Strategy • Air Quality Monitoring • Carbon Management Plan • Biodiversity Action Plan • Tower Hamlets Housing Forum • Community Safety Partnership Plan

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| <ul style="list-style-type: none"> • The Community Safety Partnership Plan 2017-21 sets out how we will make Tower Hamlets a safer and more cohesive place to live. | |
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Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes	
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| <ul style="list-style-type: none"> • Determining Interventions • Planning Interventions • Optimising Achievement and Intended Outcomes | |
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<i>The Council does this by:</i>	<i>Supporting documentation and evidence of compliance</i>
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| <ul style="list-style-type: none"> • Decision making processes that receive objective and rigorous analysis including involvement of the Monitoring Officer and the Section 151 Officer with all reports having set sections for legal and finance comments and all reports requiring final finance and legal clearance before publication. • Council, Cabinet and Committees receive regular reports on performance monitoring, the strategic plan and other policies and procedures to demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues. • Our Councils Strategic and service plans have a clear vision of the economic, social and environment of the borough, which has been informed by extensive analysis of key data, service intelligence and national and regional policy • The Council's Corporate Portfolio Management Office is responsible for setting standards for programme and project management to make sure we can be excellent in delivering change. • The Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a "critical friend" to | <ul style="list-style-type: none"> • Constitution containing the scheme of delegation and financial regulations • Strategic and Service Plans • Co-Production Framework • Scrutiny Committees • Corporate Leadership Team • Performance Management and Accountability Framework • Needs Analysis such as Borough Profile and Joint Strategic Needs Analysis • Transformation & Improvement Board • Tower Hamlets Improvement |
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<p>drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.</p> <ul style="list-style-type: none"> • The Council's Performance Management and Accountability Framework (PMAF) sets out how we identify how we establish whether performance improvement is necessary, corporate expectations for managing performance, which are complemented by related processes within individual Directorates and services, and which improvement boards have this responsibility. Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements. • We are committed to undertaking needs assessments that provide evidence for areas where service improvement may be required. Our Joint Strategic Needs Assessment (JSNA) helps us and our health partners understand resident's needs relating to health inequalities, and improving health and wellbeing. In addition, the Borough Profile provides data and analysis in a range of topic areas such as crime, housing, income, jobs, education, supporting practitioners to identify interventions necessary to achieve outcomes. • The Council prepares an Annual Governance Statement that details the Council's framework for making decisions and controlling its resources. This is presented to the Audit Committee each year. • The Council's Emergency Planning works to ensure the Council can react quickly and robustly to any emergency situation effecting residents or its own ability to provide services. A number of plans have also been prepared on a multi-agency basis to deal with specific threats. • Internal Audit who should be outcome focused and providing assurance opinions on the effective management of risk leading to the organisational achievement of outcomes and priorities. 	<p>Framework</p> <ul style="list-style-type: none"> • Quarterly and annual joint finance and performance reports • Cabinet and Committee agendas and reports. • Legal and Financial clearance of all relevant reports • Annual Governance Statement • Standards for Managing Employee Performance • Performance Development and Review Scheme • Borough Major Emergency Plan • Multi Agency Plans • Business Continuity Policy • Budget Setting and approval process • Risk Management Framework • Procurement Strategy • Business Plans and Consultations and Savings Tracker • Risk Management Policy
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Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it	
Supporting Principles <ul style="list-style-type: none"> • Developing the entity's capacity • Developing the capability of the entity's leadership and other individuals 	
<i>The Council does this by:</i>	<i>Supporting documentation and evidence of compliance</i>
<ul style="list-style-type: none"> • The Council's constitution is published on the website and has been reviewed within the last year. It contains many relevant sections including the Scheme of Officer delegations, Terms of References for committees and panels, Member and Officer Codes of Conduct and the Member / Officer relations protocol. • The Corporate Leadership Team (CLT), Cabinet, Council and Committees receive reports on how the Council is performing and to highlight areas of weaker performance. CLT in particular receive regular reports on matters of performance. In addition, the CLT also have a specific CLT Transformation Board to examine these sorts of issues. • The Overview and Scrutiny Committee has reviewed its processes and is working towards implementing recommendations to further strengthen its effectiveness and support a culture of Overview and Scrutiny throughout the Council. • The Overview and Scrutiny Committee functions are supported by a training programme and external support through the Centre for Public Scrutiny. New members are supported through an induction programme to scrutiny, which includes effective questioning techniques and training throughout the year, covering budget scrutiny, performance reporting and one-to-one chairing skills. Further, scrutiny Members are provided with tools, advice and guidance through a scrutiny toolkit. • Key to the Overview and Scrutiny Committee's effectiveness is a well-developed 	<ul style="list-style-type: none"> • The Council's Constitution, including: <ul style="list-style-type: none"> ○ Scheme of Delegation ○ Committee Terms of Reference ○ 'Other Bodies' Terms of Reference ○ Member Code of Conduct ○ Officer Code of Conduct ○ Member Officer Relations Protocol • Partnerships Governance Structure • Smarter Together Transformation Programme • Scrutiny Committees • Reports to CLT, Cabinet, Council and Committees • Member Induction Programme and wider Member

<p>work programme. Committee members recently attended a workshop, facilitated by the Centre for Public Scrutiny, to set out the Committee's priorities for the year.</p> <ul style="list-style-type: none"> • The Partnership Governance structure is currently being refreshed to ensure it is up to date and relevant. • Led by CLT and managed by the Corporate Portfolio Management Office, the Council's Transformation programme called SMARTER TOGETHER. Focusing on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with our limited resources. • A comprehensive programme of member induction sessions were provided after the Local Elections. These are being followed by an ongoing member development programme targeting planned and ad-hoc issues as they become apparent. • Members have been provided with an online portal to give them access to many useful documents and refine materials. 	<p>Development Programme</p> <ul style="list-style-type: none"> • Members' Hub • People Resource Plan • Corporate Training Programme • PDP/PDR Process • Job descriptions and person specifications • Continuous professional development for officers • Secondment policy • Recruitment and Selection Policy and Toolkit • Workforce Development Strategies • Corporate Induction and wider induction policies • Smarter Together improvement programme • TOWER values and new Competency Framework • Integrated Finance and Performance Reporting • Corporate Risk Register • Role of Internal Audit • Business Planning Processes
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Core Principle F: Managing risks and performance through robust internal control and strong public financial management			
<i>Supporting Principle</i>		<i>The Council does this by:</i>	<i>Supporting documentation and evidence of compliance</i>
F1	Managing risk	<ul style="list-style-type: none"> • The Council's Constitution sets out the Council's decision making in relation to Financial Management including through the Budget and Policy Framework, Key Decisions and Officer Schemes of Delegation. • The Council's performance digest brings together and cross references key management information including risk to identify and understand areas of under-performance which can be investigated for performance improvement • The Council has developed a risk based approach to identifying key performance indicators which are more susceptible for data quality breaches • All report templates contain sections to highlight the risks associated with the proposals set out in the reports. • The Council ensures that responsibilities for managing individual risks are clearly allocated, and the Corporate Risk register is reported to and reviewed by the Council's Senior Management Team, General Purposes Committee, and Audit Committee on a regular basis. • The Council has recently re-launched its whistleblowing policy following a review and there is a related whistleblowing section on the Council's intranet. • The Council's Emergency Planning works to ensure 	<ul style="list-style-type: none"> • The Council's Constitution • Performance Dashboards and Performance Digest • Data Quality Policy • Quarterly Performance Reports to OSC and Cabinet • Cabinet and Committee Report Templates • Risk Reports to CLT and Committees • Data Sharing Agreements • Information Governance Framework • Whistleblowing Policy • Borough Major Emergency Plan • Multi Agency Plans • Business Continuity Policy • Publishing spend exceeding £250 • Risk Management Strategy and Toolkit • Corporate Risk Register • Regular risk management reports to the Audit Committee • Internal Audit Plan, annual report and recommendations tracker • Anti-Fraud and Corruption

		<p>the Council can react quickly and robustly to any emergency situation effecting residents or its own ability to provide services. A number of plans have also been prepared on a multi-agency basis to deal with specific threats.</p>	<p>Strategy and Action Plan</p> <ul style="list-style-type: none"> • The role of external audit • Corporate Risk Group • Audit Committee • Risk reports to Committees • Project Management Framework • Financial Regulations
F2	Managing performance	<ul style="list-style-type: none"> • The Council makes decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook • The Council's performance digest brings together and cross references key management information including risk to identify and understand areas of under-performance which can be investigated for performance improvement • The Council is implementing outcomes-based accountability and outcomes based budgeting, and is working on integrating finance and performance reporting over the course of the financial year. • The Council has developed a risk based approach to identifying key performance indicators which are more susceptible for data quality breaches • Quarterly strategic performance monitoring of the strategic plan and KPIs is a separate agenda for the Overview and Scrutiny Committee. • Members and senior management are provided with regular reports on performance and progress towards outcome achievement. 	<ul style="list-style-type: none"> • Scrutiny Committees • Performance Dashboards and Performance Digest • Data Quality Policy • Customer Feedback • Committee agendas, reports and minutes • Cabinet and Committee report templates • Integrated Finance and Performance Reporting • Savings Tracker • Business Development Team • Internal Audit Reports


F3	Robust internal control	<ul style="list-style-type: none"> • Reports to Council, Cabinet and Committees are required to set out key implications information in areas such as risk, equalities and environmental impact. • The Audit Committee is responsible for considering the Council's arrangements for internal governance and financial management and to recommend any actions accordingly. It receives a number of relevant reports such as Audit Plans, reports from external audit, anti-fraud and corruption initiatives, Risk Management Arrangements and similar. The Committees full terms of references are provided in the Council's Constitution. 	<ul style="list-style-type: none"> • Annual Governance Statement • Reports to Council, Cabinet and Committees of the Council with implications provided that are clear and measured. • Anti-Fraud and Corruption Policy • Anti-Money Laundering Policy • Internal Audit • Internal Audit Outcome Reports • Risk Management Policy • Risk Management Procedures • Corporate Risk Register • Audit Committee.
F4	Managing data	<ul style="list-style-type: none"> • There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities. • The Council operates to expected Data Protection and records management policies and is implementing the new GDPR rules and procedures. 	<ul style="list-style-type: none"> • Partnerships Governance • Data Protection Policy • Freedom of Information/EIR • Information Security Incident Policy • Records Management Policy • Safe Information Handling Policy • Senior Information Risk Owner • Data Confidentiality Champion • Information Sharing Network • Regulations Policy
F5	Strong public financial management	<ul style="list-style-type: none"> • The OSC has a crucial role in budget scrutiny. This includes reviewing and scrutinising the Council's annual allocation of financial resources to different services and 	<ul style="list-style-type: none"> • Scrutiny Budget Meetings • Budget Consultations

		<p>projects, according to the Council's strategic priorities. This includes reviewing the treatment of risk, setting the council tax, and decisions relating to the control of the Council's borrowing, the control of its capital expenditure and the setting of virement limits.</p> <ul style="list-style-type: none"> • Performance and Intelligence team analyses resident's views relating to the budget consultation which is then used to inform decision-making. • Budget monitoring reports are presented to Cabinet and are published on the Council's website allowing residents to see how the Council is performing against expected budgets. • The Audit Committee is responsible for considering the Council's arrangements for financial management and to recommend any actions accordingly. It receives regular reports such as Audit Plans, Risk Management arrangements, and it approves the Authorities Statement of Accounts. 	<ul style="list-style-type: none"> • Regular Budget monitoring reports published in Cabinet agendas • Financial Regulations • Integrated Finance and Performance Reporting • Business Plan • Business Planning Process • Budget Holder Information • Objection Timetable • External Auditors
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Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability			
<i>Supporting Principle</i>		<i>The Council does this by:</i>	<i>Supporting documentation and evidence of compliance</i>
G1	Implementing good practice in transparency	<ul style="list-style-type: none"> • The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including Access to Information, Petitions and ways of getting involved in decision making. • Key data, statistics and horizon scanning of policy is produced to support the Overview and Scrutiny Committee in their work programming. OSC work 	<ul style="list-style-type: none"> • The Council's Constitution • Annual Work Programme of Scrutiny Committees • Agendas and minutes of Cabinet and Committee Meetings

		<p>programme published.</p> <ul style="list-style-type: none"> • Having a defined process to ensure that reports for the public / stakeholders are fair, balanced and easy to access and understandable for the audience • The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate. • The Council webcasts it's Council, Cabinet and Overview and Scrutiny Committee meetings to ensure full transparency of the meetings. • The Council's maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions. • The Council's whistleblowing policy sets out how whistleblowing issues will be handled and has its own section on the Council's intranet. 	<ul style="list-style-type: none"> • Agendas and minutes of Scrutiny and relevant Committees published • The Executive Forward Plan • Meeting Webcasts • Transparency Code • Data Sharing Agreements • Publication Scheme • The Council's Website • Whistleblowing Policy • Gender Pay Gap reporting • Internal Audit Plan, annual report and recommendations tracker • Anti-Fraud and Corruption Strategy and Action Plan • External Audit Reports • Annual Governance Statement • Communications ensuring residents are informed of key issues, decisions and consultations.
G2	Implementing good practice in reporting	<ul style="list-style-type: none"> • The Council's constitution sets out the Terms of Reference of all Committees to ensure information is presented to the Appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports. • There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities. 	<ul style="list-style-type: none"> • Partnerships Governance Guidance • Committee Agendas, Reports and Minutes • Constitution including Committee Terms of Reference and Access to Information Rules • Integrated Finance and Performance Reporting • Statement of Accounts

		<ul style="list-style-type: none"> Each Committee has a workplan or similar forward programme including expected monitoring reports. 	<ul style="list-style-type: none"> Annual Governance Statement Annual External Audit Report and Letter Internal Audit Reports
G3	Assurance and effective accountability	<ul style="list-style-type: none"> Having processes to ensure external / internal audit recommendations are acted upon / responded to by managers and the Council (G3 & G4) There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities. As part of our extensive improvement journey since 2014, the Council has taken part in a tailored Peer Challenge managed by the LGA. We take part in service specific peer reviews – for example a peer review of our planning service took place during 2018-19. The Council uses the results from external inspections to action plan improvements. There is an extensive improvement structure in the Council including Member oversight and Officer operational groups. As the Council's most senior decision making body, Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report up to it any concerns they have regarding actions that have not been undertaken. Council is also a forum for Members and the public to formally raise concerns that meeting may direct the Council to act upon. 	<ul style="list-style-type: none"> Role of Internal and External Audit Audit Committee Risk Management Procedures Peer Reviews Results of External Inspections (Ofsted, CQC, ICO etc) Partnerships Governance Guidance Council Meetings
G4	Managing data.	See G1 and G3	

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>23 July 2019</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Neville Murton, Corporate Director, Resources</p>	<p>Classification: Unrestricted</p>
<p>Treasury Management Report for 2018-19</p>	

Originating Officer(s)	Katherine Ball, Strategic Finance Manager
Wards affected	All Wards

Executive Summary

This Report is produced in accordance with the CIPFA Treasury Management Code of Practice and covers the financial year ended 31st March 2019.

The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2018-19 were approved by the Council on 21st February 2018 as required by the Local Government Act 2003.

Investment returns fluctuate in line with the bank of England base rate. Base rate is maintained at 0.75%.

The Council has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the impact of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. Risk includes interest rate fluctuations and change to inflation.

The investment income budget set for 2018-19 was £4m with income of £4.259m received.

For the 2018-19 budget, £100m of investments were set aside for investment in pooled funds. To date £76m has been invested. Equity markets fell very sharply over the 3 months to 31 December 2018; and investment in pooled funds was paused due to high market volatility.

A return of 1.16% overall was achieved in 2018-19 which was 0.08 bps below the average for similar LAs, and 0.27bps lower than the 1.43% average for all LAs return.

The 7 day London Interbank Bid Rate (LIBID) is the performance measure for the Council's investment returns. For this reporting year, this rate was 0.51%. For this reporting period the investments portfolio returned 1.16%; this was below the benchmarking average of 1.24%. More detail can be found in section 3.6.

The credit worthiness of investments has remained at AA- over the year.

Prudential Indicators (PI) and Treasury Management (TM) indicators have been fully complied with.	Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement.
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Recommendations:

The Audit Committee is recommended to:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31 March 2019.
2. Note the Council's investments as set out in Appendix 1. The balance outstanding as at 31 March 2019 was £383.150m, which includes £6m pension fund cash awaiting investment.

1. REASONS FOR THE DECISIONS

- 1.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 require that regular reports be submitted to the relevant Council Committee detailing the Council's treasury management activities.
- 1.2 This report updates members on both the borrowing and investment decisions made by the Corporate Director, Resources under delegated authority in the context of prevailing economic conditions and considers the Council's Treasury Management performance.
- 1.3 The regular reporting of treasury management activities assists Members to scrutinise officer decisions and monitor progress on the implementation of its investment strategy as approved by Council

2. ALTERNATIVE OPTIONS

- 2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities. If the Council were to deviate from those requirements, there would need to be good reason for doing so.

3. DETAILS OF THE REPORT

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.

3.2 Treasury management is defined as “the management of the Council’s investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Council on 21 February 2018.

3.4 ECONOMIC COMMENTARY FROM THE TREASURY ADVISER ARLINGCLOSE

3.4.1 After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England’s February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

3.4.2 After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England’s decision to increase the Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

3.4.3 The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

3.4.4 With the 29th March 2019, the original EU ‘exit day’ now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May’s deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote

by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

- 3.4.5 While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with the EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

3.5 INTEREST RATE FORECAST FROM ARLINGCLOSE

- 3.5.1 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US.
- 3.5.2 There appears no near-term resolution to the trade dispute between China and the US. The US has also targeted other countries. With the 2020 presidential election a year away, Donald Trump is unlikely to want to display perceived weakness in trade negotiations to his supporters.
- 3.5.3 The resignation of Theresa May has created greater uncertainty with regard to Brexit. Boris Johnson is the favourite to become Prime Minister and appears to favour exiting the EU on 31st October. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline. **We remain of the belief that policymakers are unlikely to raise Bank Rate unless there is some certainty to the withdrawal arrangement.**
- 3.5.4 While the potential for divergent paths for UK monetary policy remain in the event of a withdrawal agreement, **the weakening external environment severely limits the potential upside for movement in Bank Rate.**
- 3.5.5 UK economic growth is slowing after a relatively strong Q1 2019. Q2 growth is likely to be sluggish, with the ONS already reporting a monthly contraction in GDP for April and PMI data signalling broadly stagnant business conditions. The MPC has downgraded its growth forecast for 2019.
- 3.5.6 Inflation remains around target. The tight labour market risks medium-term domestically-driven inflationary pressure. Slower global growth should reduce the prospect of externally driven inflationary pressure, although political turmoil could push up oil prices.
- 3.5.7 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

- 3.5.8 We have altered our central forecasts in response to the external and political risks facing the UK economy.
- 3.5.9 Bank Rate is expected to remain at 0.75% for the foreseeable future. There are substantial risks to both sides of this forecast, dependant on Brexit outcomes and the evolution of the global economy.
- 3.5.10 Gilt yields have fallen to recent lows. Resolution of global political uncertainty would see yields rise but volatility arising from both economic and political events will continue to offer longer-term borrowing opportunities.

3.6 TREASURY MANAGEMENT STRATEGY 2018-19

- 3.6.1 The Treasury Management Strategy was approved on 21 February 2018 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2018-19 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt. The Council complied with the strategy throughout the reporting period and all investments were made to counterparties within the Council's approved lending list.
- 3.6.2 On 31st March 2019, the Council had net investments of £309m arising from its revenue and capital income and expenditure, a decrease on 2018 of £47m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31st March 2018 Actual £m	Movement over the Year £m	31st March 2019 Actual £m
General Fund CFR	226.815	44.081	270.896
HRA CFR	83.820	1.083	84.903
Total CFR	310.635	45.164	355.799
Less: Other debt liabilities *	-34.957	-24.917	-59.874
Borrowing CFR	275.678	20.247	295.925
<i>External borrowing</i>	84.966	-10.670	74.296
<i>Internal borrowing</i>	190.712	30.917	221.629
Less: Usable reserves	-515.673	-5.981	-521.654
Less: Working capital	-159.819	-96.881	-256.700
Net (investments)	-355.854	-47.000	-308.854

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

- 3.6.3 The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. The balance sheet summary position at 31 March 2019 is shown in Table 1 above, with the treasury management position as at 31 March 2019 shown in Table 2 below. The extent of internal borrowing which stood at £222m at the end of the financial year 2018-19 is the difference between the Borrowing CFR (£296m) and the level of external borrowing (£74m).

Table 2: Treasury Management Summary

	31.03.18 Balance £m	Movement over the Year £m	31.03.19 Balance £m	31.03.19 Rate %
Long-term borrowing	84.966	(10.670)	74.296	3.25
Short-term borrowing	Nil	Nil	Nil	Nil
Total borrowing	84.966	(10.670)	74.296	3.25
Long-term investments	67.000	6.000	73.000	
Short-term investments	291.000	(17.500)	273.500	
Cash and cash equivalents**	82.820	(46.170)	36.650	
Total investments	440.820	(57.670)	383.150	1.16
Net investments	355.854	(47.000)	308.854	

**excluding pension fund balance of £24.8m as at 31/03/2018

Borrowing Strategy for the year ending 31st March 2019

- 3.6.4 The Council held £74.296m of external loans at 31st March 2019 which is £10.670m lower than 31st March 2018 position of £84.966m. The borrowing position as at 31st March 2018 is shown in Table 3 below.

Table 3: Borrowing Position

	31.03.19 Balance £m	31.03.19 Rate %
Public Works Loan Board	56.796	2.92
Banks (fixed-term)	17.500	4.34
Total borrowing	74.296	3.25

- 3.6.5 The Council redeemed £60m of its LOBO (Lender's Option Borrower's Option) loans during 2018-19 and partly re-financed this through PWLB loans.
- 3.6.6 The Council takes a low risk approach to its borrowing strategy. This means that the principal objective when borrowing has been to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds

are required. The secondary objective is to have flexibility to renegotiate loans should the Council's long-term plans change.

Investment Activity

- 3.6.7 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position at the year end is shown in Table 4 below.
- 3.6.8 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Investments Outstanding & Maturity Structure

- 3.6.9 The table below shows the amount of investments outstanding at the end of March 2019 split according to the financial sector.

Table 4 Outstanding Investments by financial sector

Financial Sector	31.03.18 Balance £m	Movement over the Year £m	31.12.19 Balance £m	% Portfolio
UK Banks	50.000	(25.000)	25.000	6.5
UK Building Societies	15.000	(15.000)	0.000	0.0
Government (incl. local authorities)	278.000	(100.000)	145.500	37.9
Oversea Banks	85.000	15.000	100.000	26.1
Money Market Funds	12.820	(3.92)	36.650	9.6
Pooled Investment Funds:	0.000	76.000	76.000	19.8
<i>Cash plus funds</i>	0.000	20.000	20.000	
<i>Short-dated bond funds</i>	0.000	18.000	18.000	
<i>Strategic bond funds</i>	0.000	9.000	9.000	
<i>Equity Income funds</i>	0.000	13.000	13.000	
<i>Property funds</i>	0.000	5.000	5.000	
<i>Multi asset income funds</i>	0.000	11.000	11.000	
Total investments	440.820	(52.920)	383.150	

3.6.10 The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Given the increasing risk and falling returns from short-term unsecured bank investments, the Council has diversified into more secure and/or higher yielding asset classes by allocating £100m for strategic pooled investments and currently £76m has been invested as shown in Table 4 above.

Performance Report

3.6.11 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 5 below. The Council's budgeted investment return for 2018-19 is **115bps** (1.15%) with average cash balance of £350m. This is based on placing £100m in pooled investments during 2018-19. There was a delay in placing these investments because of investment market sentiment over historically expensive investment values.

3.6.12 £76m was invested in pooled funds as at 31st December 2018 with a further £24m on hold due to severe market volatility and accidental changes to pooled funds investment regulation by the Government. It is worth noting that due to the nature of these funds, returns will fluctuate from year to year. The risk profile of these investments was discussed with the Committee as this is important, in order to achieve expected higher returns, there is the expectation and need to accept higher levels of risk (market volatility).

3.6.13 The investment performance for the reporting period is **116bps**. Investment income of £4.26m was generated in 2018-19.

Table 5: Investment performance for financial year to 31st March 2019

Period	LBTH Internal Return	External Fund Return	LBTH Total Return	Benchmark Return	Over/(Under) Performance
Full Year 2017-2018	0.78%	0.00%	0.78%	0.36%	0.42%
Quarter 1	0.72%	0.00%	0.72%	0.46%	0.26%
Quarter 2	0.88%	1.17%	1.01%	0.55%	0.46%
Quarter 3	0.96%	-0.62%	0.71%	0.59%	0.12%
Full Year 2018-19	0.97%	1.97%	1.16%	1.24%	(0.08%)

3.7 Investment Benchmarking

- 3.7.1 LBTH participates in a benchmarking club being run by Arlingclose to enable officers to compare the Council's treasury management / investment returns against those of similar authorities. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 145 local authorities. The progression of risk and return metrics are shown in Table 6 below.

Table 6: Investment Benchmarking

	Tower Hamlets		12 London & Metropolitan Average	145 Local Authorities (LAs) Average
	31.03.2018	31.03.2019		
Internal Investments	£464.8m	£307.2m	£80.4m	£52.8m
External Funds	£0.0m	£75.2m	£12.3m	£12m
Average Credit Score	4.28	3.96	4.31	4.20
Average Credit Rating	AA-	AA-	AA-	AA-
Number of Counterparties & Funds	37	38	12	13
Proportion Exposed to Bail-in	26%	20%	45%	55%
Proportion Available within 7 days	16%	12%	49%	42%
Proportion Available within 100 days	54%	51%	62%	65%
Average Days to Maturity	161	108	149	29
Internal Investment Return	0.68%	0.97%	0.93%	0.85%
External Funds - Income Return	-	1.97%	2.49%	3.64%
Total Investments - Total Return	0.68%	1.16%	1.24%	1.43%

- 3.7.2 It can be seen that as at 31st March 2019 LBTH investment portfolio was delivering 0.97%, outperforming the benchmarking average of 0.93% and also the average return for 145 LAs of 0.85%, whilst for total return for total investments LBTH generated 1.16%, underperforming by 8bps against the average return for 12 London Boroughs, and Metropolitan Boroughs of 1.24%, and also underperforming by 27bps against the average return for 145 LAs of 1.43%.
- 3.7.3 It can be seen from Table 6 that the external managed investment returns had deteriorated due to a severe fall in Equity markets over the 3 months to 31 December 2018. With the external pooled funds exhibiting capital loss of some £2.5m hence the valuation of the portfolio was £73.5m instead of the invested amount of £76m.
- 3.7.4 Based on the advice received from Arlingclose the investment portfolio credit worthiness has improved from A+ to AA- and the proportion of investments exposed to bail-in has reduced from 26% to 20%, this proportion is less than half of the benchmark average of 55%.

- 3.7.5 It can also be seen from the above table that the number of counterparties the Council had as at 31st March 2019 was 38, this was more than double the benchmarking average of 13. This shows the Council is managing the counterparty risk and concentration risk of the investments portfolio by investing with many quality institutions and local authorities.

3.8 **Compliance Report**

- 3.8.1 All treasury management activities undertaken from the beginning of the financial year 2018-19 to the current reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.
- 3.8.2 Compliance with the authorised limit and operational boundary for external debt is set out in table 7 below.

Table 7: Debt Limits

	31.03.18 Actual £m	2018-19 Forecast £m	31.03.19 Actual £m	2018-19 Operational Boundary £m	2018-19 Authorised Limit £m	Complied
Borrowing	84.966	95.000	74.296	297.150	307.150	
PFI & finance leases	63.872	40.000	61.181	33.415	43.415	
Total debt	148.838	135.000	135.477	330.565	350.565	✓

- 3.8.3 The Council measures and manages its exposures to treasury management risks using a range of indicators.
- 3.8.4 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.12.18 Actual	31.03.19 Actual	2018/19 Target	Complied
Portfolio average credit rating	AA-	AA-	A-	✓

- 3.8.5 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	30.12.18 Actual	31.03.19 Actual	2018/19 Target	Complied
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Total cash available within 3 months	£8.9m	£124.150m	£75m	✓
Total sum borrowed in past 3 months without prior notice	nil	nil	nil	✓

- 3.8.6 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.12.18 Actual	31.03.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£0.669m	£1.004m	10%	0%	✓
12 months and within 24 months	£1.004m	£1.004m	30%	0%	✓
24 months and within 5 years	£1.004m	£3.580m	40%	0%	✓
5 years and within 10 years	£3.580m	-	80%	0%	✓
10 years and above	£48.709m	£51.209m	100%	0%	✓

3.9 Non Treasury Investments

- 3.9.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. For English Authorities: This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return

4. EQUALITIES IMPLICATIONS

- 4.1 There are no equality implications directly resulting from this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,
 - Safeguarding.
 - Data Protection / Privacy Impact Assessment.

Best Value Implications

- 5.2 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.
- 5.3 Assessment of value for money is achieved through:
- Monitoring against benchmarks
 - Operating within budget

Risk Management

- 5.4 There is inevitably a degree of risk inherent in all treasury activity.
- 5.5 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.
- 5.6 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.
- 5.7 The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Capita Treasury Services who specialise in Council treasury issues

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 This report provides an update on Treasury Management activities for the 2018-19 financial year.
- 6.2 The Council held an outstanding internally managed investments portfolio of £383.150m as at 31 March 2019. This portfolio earned an average rate of return of 1.16%, however inflation is currently eroding the value of this asset.
- 6.3 The Council adopted a new approach to its investment activities in line with approvals given in the 2018-19 Treasury Management Strategy and its MTFS to increase the level of investment income it generates. The Council had an investment income target of £4m for 2018-19 and generated investment income of £4.259m.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to

invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

- 7.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication “Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes” (“the Treasury Management Code”) in carrying out capital finance functions under the Local Government Act 2003.
- 7.3 This noting report of the Corporate Director, Resources advises the Committee of the Council’s borrowing and investment activities for the quarter ending 31st December 2017 and is consistent with the key principles expressed in the Treasury Management Code. The Corporate Director, Resources has responsibility for overseeing the proper administration of the Council’s financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.
- 7.4 When considering its approach to the treasury management matters set out in the report, 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 don’t (the public sector equality duty)
-

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Investments Outstanding at 31st March 2019
- Appendix 2 – Glossary

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- Arlingclose Ltd - Treasury Management Benchmarking Report and Quarter 4 2018/19 and Treasury Management Outturn Report Template

Officer contact details for documents:

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Appendix 1: Investments Outstanding as at 31st March 2019

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Amundi MMF*		MMF	1.150	
	Aviva MMF		MMF	25.000	
	Insight MMF		MMF	0.250	
	Standard Life MMF		MMF	10.250	
	SUB TOTAL			36.650	
< 1 Month	Argyll & Bute Council	18/03/2019	15/04/2019	7.500	0.95%
	Development Bank of Singapore	10/10/2018	10/04/2019	10.000	0.95%
	Development Bank of Singapore	18/01/2019	18/04/2019	10.000	0.96%
	SUB TOTAL			27.500	
1 - 3 Months	Australia & New Zealand Banking Group	23/05/2018	22/05/2019	20.000	0.95%
	Commonwealth Bank of Australia	23/05/2018	22/05/2019	20.000	0.95%
	Toronto Dominion Bank	05/07/2018	0./07/2019	20.000	0.95%
	Wrexham County Borough Council	03/09/2018	03/06/2019	20.000	1.05%
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus Y (POOLED)			10.000	
	SUB TOTAL			100.000	
3 - 6 Months	Santander	00/01/1900	CALL 95	20.000	0.00%
	Bank of Montreal	12/07/2018	12/07/2019	10.000	0.96%
	Birmingham City Council	28/08/2018	27/08/2019	20.000	1.08%
	Bournemouth Borough Council	25/09/2018	25/09/2019	20.000	0.75%
	Dumfries & Galloway	20/08/2018	20/08/2019	5.000	1.20%
	Canadian Imperial Bank of Commerce	12/07/2018	11/07/2019	10.000	0.95%
	Police and Crime Commissioner	22/01/2019	05/07/2019	10.000	1.05%
	Surrey County Council	26/09/2018	25/09/2019	20.000	1.15%
	Royal Bank of Scotland	19/08/2018	19/08/2019	5.000	0.96%
	SUB TOTAL			120.000	
6 - 9 Months	Thurrock Borough Council	08/11/2018	08/11/2019	20.000	1.05%
	Newry, Mourne & Down District Council	25/10/2018	25/10/2019	6.000	1.15%
	SUB TOTAL			26.000	
9 - 12 Months	Isle of Wight Council	07/02/2018	07/02/2020	2.000	1.05%
	Middlesbrough Council	26/01/2018	27/01/2020	10.000	1.08%
	East Ayrshire Council	12/03/2019	12/03/2020	5.000	1.20%
	SUB TOTAL			17.000	
> 12 Months	CCLA Lamit Property Fund (POOLED)			5.000	
	CCLA Diversified Income Fund (POOLED)			5.000	
	Payden Absolute Return Bond Fund (POOLED)			10.000	
	Threadneedle Global Equity Income Fund Z (POOLED)			3.000	
	Threadneedle Strategic Bond Fund Z (POOLED)			5.000	
	Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)			8.000	
	Investec Fund Series I Diversified Income (POOLED)			6.000	
	Schroder Income Maximiser Fund (POOLED)			3.000	
	M & G Global Dividend Fund (POOLED)			2.000	
	M & G Optimal Income Fund (POOLED)			2.000	
	M & G UK Income Distribution Fund (POOLED)			3.000	
	M & G Strategic Corporate Bond Fund (POOLED)			4.000	
	SUB TOTAL			56.00	

*MMF balance includes £6m of Pension Fund cash awaiting investments

Appendix 2 – Glossary

Asset Life	How long an asset, e.g. a Council building is likely to last.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial

	institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high

	employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A ‘pool’ of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council’s Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the Council’s high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from

	one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.

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