

Meeting of the

AUDIT COMMITTEE

Tuesday, 14 December 2010 at 7.00 p.m.

A G E N D A

VENUE

ROOM M71, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,
LONDON, E14 2BG

Members:	Deputies (if any):
Chair: Councillor Carlo Gibbs	
Councillor Abdul Asad	Councillor Khales Uddin Ahmed, (Designated Deputy representing Councillors Carlo Gibbs, Abdul Asad, Mizan Chaudhury and David Edgar)
Councillor Craig Aston	Councillor Carli Harper-Penman, (Designated Deputy representing Councillors Carlo Gibbs, Abdul Asad, Mizan Chaudhury and David Edgar)
Councillor Mizan Chaudhury	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)
Councillor Stephanie Eaton	Councillor Bill Turner, (Designated Deputy representing Councillors Carlo Gibbs, Abdul Asad, Mizan Chaudhury and David Edgar)
Councillor David Edgar	
1 Vacancy	

[Note: The quorum for this body is 3 Members].

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Zoe Folley, Democratic Services
Tel: 020 7364 4877, E-mail: Zoe.Folley@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 14 December 2010

7.00 p.m.

1. APPOINTMENT OF VICE-CHAIR FOR THE REMAINDER OF THE MUNICIPAL YEAR 2010/11

To receive nominations for the position of Vice-Chair of the Committee for the remainder of the Municipal Year 2010/2011.

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

	PAGE NUMBER	WARD(S) AFFECTED
3. DECLARATIONS OF INTEREST	1 - 2	
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 Chief Executive.		
4. UNRESTRICTED MINUTES	3 - 10	
To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 21 st September 2010.		
5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION		
5.1 Annual Audit Letter 2009 - 2010	11 - 30	
6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION		
6.1 Quarterly Internal Audit Assurance Report	31 - 66	
6.2 Revised Internal Audit Plan 2010/11	67 - 108	
6.3 Annual Governance Statement for the 2009/10 Accounts Update	109 - 120	

6 .4	Annual Internal Audit Report for Schools - 2009/10	121 - 132
6 .5	Audited Statement of Accounts 2009-2010	133 - 274
6 .6	Treasury Management Activity for Period Ending 31 October 2010	275 - 282

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Agenda Item 3

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

This note is guidance only. Members should consult the Council's Code of Conduct for further details. Note: Only Members can decide if they have an interest therefore they must make their own decision. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending at a meeting.

Declaration of interests for Members

Where Members have a personal interest in any business of the authority as described in paragraph 4 of the Council's Code of Conduct (contained in part 5 of the Council's Constitution) then s/he must disclose this personal interest as in accordance with paragraph 5 of the Code. Members must disclose the existence and nature of the interest at the start of the meeting and certainly no later than the commencement of the item or where the interest becomes apparent.

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- (a) An interest that you must **register**
- (b) An interest that is not on the register, but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of your authority more than it would affect the majority of inhabitants of the ward affected by the decision.

Where a personal interest is declared a Member may stay and take part in the debate and decision on that item.

What constitutes a prejudicial interest? - Please refer to paragraph 6 of the adopted Code of Conduct.

Your personal interest will also be a prejudicial interest in a matter if (a), (b) and either (c) or (d) below apply:-

- (a) A member of the public, who knows the relevant facts, would reasonably think that your personal interests are so significant that it is likely to prejudice your judgment of the public interests; AND
- (b) The matter does not fall within one of the exempt categories of decision listed in paragraph 6.2 of the Code; AND EITHER
- (c) The matter affects your financial position or the financial interest of a body with which you are associated; or
- (d) The matter relates to the determination of a licensing or regulatory application

The key points to remember if you have a prejudicial interest in a matter being discussed at a meeting:-

- i. You must declare that you have a prejudicial interest, and the nature of that interest, as soon as that interest becomes apparent to you; and
- ii. You must leave the room for the duration of consideration and decision on the item and not seek to influence the debate or decision unless (iv) below applies; and

- iii. You must not seek to improperly influence a decision in which you have a prejudicial interest.
- iv. If Members of the public are allowed to speak or make representations at the meeting, give evidence or answer questions about the matter, by statutory right or otherwise (e.g. planning or licensing committees), you can declare your prejudicial interest but make representations. However, you must immediately leave the room once you have finished your representations and answered questions (if any). You cannot remain in the meeting or in the public gallery during the debate or decision on the matter.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON TUESDAY, 21 SEPTEMBER 2010

**ROOM M71, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Carlo Gibbs (Chair)

Councillor Craig Aston

Councillor Rabina Khan (Vice-Chair)

Scrutiny Lead Member, Prosperous
Communities

Councillor Mizan Chaudhury

Councillor Abdul Asad

Other Councillors Present:

Nil.

Officers Present:

Chris Naylor

– Corporate Director Resources

Alan Finch

– Service Head Corporate Finance, Resources

Claire Symonds

– Service Head, Customer Access, Communities
Localities Culture

Minesh Jani

– Service Head, Risk Management

Jill Bell

– Head of Legal Services (Environment), Legal
Services

David Tully

– Interim Head of Finance, Children Schools and
Families

Mark Abrahams

– Interim Service Head Procurement and
Programmes, Resources

Jon Hayes

– District Auditor, Audit Commission

Tony Qayum

– Head of Audit Services, Internal Audit, Resources

Steve Vinal

– Service Manager, D&T PSIA Ltd

Shona Milton

– Audit Manager, Audit Commission

Sally – Anne Eldridge

– Senior Audit Manager, Audit Commission

Andrew Robertson

– D&T PSIA Ltd

Kevin Miles

– Chief Accountant, Resources

Sharon Allen

– Tower Hamlets Homes

Zoe Folley

– Committee Officer, Democratic Services Chief
Executive's

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1. APOLOGIES FOR ABSENCE

Apologies were received on behalf of Councillor Stephanie Eaton.

2. DECLARATIONS OF INTEREST

Councillor Mizan Chaudhury declared a general personal interest in the agenda. The declaration was made on the basis that the agenda contained references to Tower Hamlets Homes and Councillor Chaudhury was a member of the Tower Hamlets Homes Board.

3. UNRESTRICTED MINUTES

RESOLVED that the unrestricted minutes of the meeting held on 13th July 2010 be approved.

- **Matters Arising**

The Chair reported that the Labour Group had now appointed a second Deputy Member to the Committee and it was **Agreed** that this information should be passed on to Democratic Services for action.

Action: Z Folley Democratic Services.

In relation to the issue of additional meetings (Page 3 of the minutes Audit Committee Terms of Reference), it was emphasised that the Committee should try to capture as much work as possible within the existing schedule of meetings.

Members were advised that should they still wish to schedule in extra meetings, then they would need to put any such requests in writing to the Chief Executive showing reasons for urgency.

Members noted the implications of arranging additional meetings and the need to have regard to their terms of reference when suggesting topics for review by the Committee.

In relation the Benchmarking Club Results (Page 6 of the minutes, Internal Audit Annual Report 2009/10) Mr Minesh Jani (Service Head, Risk Management) confirmed that the figures did indeed cover the whole audit function.

4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**5. ANNUAL GOVERNANCE REPORT - COUNCIL ACCOUNTS AND PENSION FUND ACCOUNTS**

Councillor Abdul Asad declared a general personal interest in the agenda. The declaration was made on the basis that the agenda contained references

to Tower Hamlets Homes and Councillor Asad was a member of the Tower Hamlets Homes Board.

Special Circumstances and Reasons for Urgency **Agreed.**

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of the continuation of discussions between the Council and its Auditors regarding items of account which it had been anticipated would be completed in time for publication of the agenda for this meeting of the Audit Committee.
- The Corporate Director Resources recommended that committee note the findings of the annual governance report for 2009/10 to allow the auditors to provide their audit opinion by the statutory deadline of 30th September 2010.

Mr Jon Hayes (District Auditor) presented the Annual Governance Report for both the Statement of Accounts and the Pensions Fund.

Mr Hayes reported that, as the audit was continuing there may be further matters to report to the Committee before the opinion is issued. Members were asked to consider the matters raised in the reports.

Mr Hayes asked Members to take note of the adjustments to the statements, and unadjusted mis - statements and requested that the Chair sign the letters of representation on behalf of the Council for both accounts.

In reply to questions about the THH Pensions Fund cost guarantee, (where there was a recommendation that the liability be raised as a provision), Mr Finch (Service Head, Corporate Finance) explained the reasons for including this within the Council's accounts as per previous years.

There was no reason for treating the two liabilities differently as THH was part of the Council. Besides, making this adjustment would involve an additional charge to the Housing Revenue Account. The accounting treatment of this did not affect the overall General Fund balance. Officers would keep the matter under review.

The Committee stated they were happy for the accounting treatment of the liability to stay the same as per officers' recommendation, whilst the deficit remained at £1.3 million. However should the figure increase, the Committee requested a further report on this matter.

In relation the fixed asset balance sheet, Officers clarified that the errors related to a small number of properties, but this issue would be rectified during the 2010/11 process.

In response to further questions, Mr Naylor (Corporate Director Resources) explained the steps being taken to address the outstanding queries and the reasons for the delays, due the complexity of the process/the pressures arising from this years budget setting process. However, Officers were on target to resolve the issues.

Officer expressed a commitment to review the lessons learnt and to apply these accordingly in the future when finalising the accounts. The Committee expressed a wish to keep a watchful eye over the key issues.

In reply to questions about the saving targets, Officers referred to the need to identify savings whilst protecting key front line services.

RESOLVED:

1. That the Annual Governance Reports for 2009/10 for both the Statement of Accounts and Pension Fund, in particular the points on page 5 of the respective reports be agreed; and
2. That it be noted that if the auditor identifies any further significant issues, then they will bring them to the attention of the Chair of the Committee. The Chief Finance Officer will also brief members of the committee and, if necessary, prepare a formal report to the next meeting of the committee.

6. UNRESTRICTED REPORTS FOR CONSIDERATION

7. QUARTERLY INTERNAL AUDIT ASSURANCE REPORT

Mr Minesh Jani (Service Head, Risk Management) presented the Quarterly Internal Audit Assurance report. The report summarises the work of Internal Audit for the period July to September 2010. The report also set out the assurance rating of each audit finalised in the period and gives an overall assurance rating.

Finding of the individual reports were attached to the report with details of their assurance rating.

In relation to the follow up Audits and the outstanding recommendations, it was reported that relevant Service Heads had been asked to identify a time line for their completion and, where necessary, would be requested to report back to the Committee to address any outstanding issues. Audit issued timely and frequent reminders to ensure recommendations were implemented as agreed, and worked closely with Deloitte to ensure services agreed and understood the implications of the recommendations and what needed to be done. All finalised reports were reported to the Corporate Directors. Members stressed the need for the recommendations to be implemented.

In relation to the individual reports with a nil assurance scores, the Committee noted the following points:

a) Central Foundation Girls Secondary School.

Mr David Tully, (Head of Children's Finance, Children's Schools and Families) reported progress with this Audit. Children's Services had offered the school a

considerable amount of additional support. Officers had been working closely with them to ensure the recommendations were implemented and the National Standards for Schools were applied. They were also working on the idea of 'Health Checks' for Audits in Schools which should be of benefit to the school. In reply to questions, it was reported that the School would automatically be re inspected in six months time by both Audit and Children's Services and that the follow up report would be reported back to the Committee. In reply to questions it noted that it was required that all staff working with children would use the Common Assessment Framework.

b) Contract Management and Monitoring - Corporate Review

Mr Mark Abrahams (Procurement and Corporate Programmes) presented the progress report. He explained the purpose of the Audit designed to test the systems for contract monitoring. The report highlighted the key areas where further work needed to be carried out. Mr Abrahams explained the merits of the Tollgate process and the Competition Board, which it was expected should significantly strengthen levels of control, would address the issues, and generate efficiency savings.

The Committee also noted the role of the Competition Board in testing procurement plans to ensure better value for money.

Ms Jill Bell (Head of Legal Services, Environment) referred to the plans to install a central depository for contracts. Contracts exceeding a certain amount would be held in Legal Services. Officers were also now keeping a Contracts Register to highlight opportunities with other London Boroughs with view to identifying efficiencies and savings. Officers were also exploring the idea of keeping e - copies of contracts. It was intended that Legal Services would be submitting a number of reports to the Competition Board to pursue such innovations.

c) Axis Income Management and e-payments

In reply to questions, Mr Steve Vinnal explained the purpose of the e-payments income management system. Ms Symonds (Service Head Customer Access, Resources) reported that the Capita SBS servers had now completed the Self Assessment Questionnaire. It was also anticipated that the outstanding recommendations would be implemented by October 2010. Officers also reported on their intention to thoroughly test the system and that they would be encouraging people to pay on line and the Resources Department to promote this.

RESOLVED:

That the contents of this report and the assurance opinion assigned to the systems reviewed during the period be noted.

8. SOCIAL HOUSING FRAUD UPDATE

Mr Tony Qayum (Head of Audit Services) presented a report. The report summarised progress with tackling social housing fraud, achieved since March 2010.

Officers reported that discussions had taken place with CMT to consider ways of continuing this initiative given the issues around future funding. Officers acknowledged that, whilst the Housing Fraud Team had made significant progress, there were question marks over the continuation of the government funding for tackling housing fraud. Mr Naylor (Corporate Director Resources) expressed a wish to investigate the cases, listed in the report, (paragraph 4.7) further to establish the profile and circumstance of those involved (i.e. to establish who exactly the property were being unlawfully let out to). A further report looking at this could be brought back to a future meeting. This could look at the methods for gathering evidence and could explore the merits of the tests.

It was also reported that Officers explored good practice and achievements elsewhere to identify innovative ways of tackling social housing fraud. The Council encouraged the practice of whistle-blower. The whistle-blowing policy was well publicised to encourage people to come forward. The Committee discussed way of encouraging more people to come forward. It was also reported that THH routinely carried out tenancy Audits and were working closely with the Social Housing Fraud Team in delivering the results.

The Committee also discussed the exact benefits to the Council of carrying out this work and the Council's legal powers as a Landlord in gaining access to properties.

RESOLVED:

That the content of the report be noted.

9. ANNUAL ANTI FRAUD REPORT 2009-10

Mr Tony Qayum (Head of Audit Services) presented the Annual Anti Fraud Report including a summary of investigations carried out by the Housing Benefits service, the Parking Service and Insurance Services. Following a briefing discussion where Mr Qayum highlighted the key findings and successes, it was:

RESOLVED

That the content of the report be noted.

10. THE NATIONAL FRAUD INITIATIVE 2010-11

Mr Tony Qayum (Head of Audit Services) presented the report. Following a brief discussion where Mr Qayum explained the purpose and background to the National Fraud Initiative and the statutory framework, it was:

RESOLVED:

That the contents of the report be noted.

11. TREASURY MANAGEMENT ACTIVITY FOR PERIOD ENDING 31 AUGUST 2010

Mr Alan Finch (Service Head, Corporate Finance) presented the report which advised the Committee of treasury management activity for the current financial year up to 31st August 2010.

Members noted the current criteria for investment, the investment strategy, and returns for the period which were higher than expected.

In reply to questions, Mr Finch reported that Officers were constantly seeking to maximize returns on investments within the present criteria. The Council reviewed the scheme on a regular basis and frequently held meetings with its Treasury Advisors to consider the strategy. Members noted the merits of minimizing exposure, given current market conditions.

It was noted that the current balance was higher than anticipated at the start of the year. Mr Finch reported that the balance was likely to fall to the levels of previous years, due to the plans to pursue existing housing opportunities.

RESOLVED:

That the content of the report be noted.

The meeting ended at 8.50 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee

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Annual Audit Letter

London Borough of Tower Hamlets

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (page 3); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I gave an unqualified opinion on the Council's financial statements and its Pension Fund on 6 October 2010. I also issued a certificate closing the audit on this date. I found weaknesses in the Council's arrangements for preparing its accounts and supporting the audit process. These led to the opinions being later than planned.

2 I issued an unqualified opinion on the Council's Whole of Government Accounts (WGA) submission to the Department of Communities and Local Government (CLG) on 25 October 2010.

Value for money

3 I issued an unqualified value for money conclusion on 06 October 2010 stating the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources during 2009/10.

Current and future challenges

4 The Council continues to make progress on the transition to accounting under International Financial Reporting Standards. However, challenges remain, particularly in respect of accounting for leases and the restatement of the 2009/10 accounts.

5 There is scope for improvement in the Council's arrangement for the completion of grant claims and returns. In particular, claims and returns should be submitted to the audit team by the appropriate deadlines.

6 The financial outlook for the public sector is challenging. The Council has already taken action to reduce costs and increase efficiency. The Council should now consider the implications of the government's recent spending review and ensure its plans will achieve financial balance in the medium and long term.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 6 October 2010.

Overall conclusion from the audit

Main financial statements

7 I reported the findings from my audit of the Council's main 2009/10 financial statements to the Audit Committee on 21 September 2010 in my annual governance report and in the addendum annual governance report sent to the Chairman of the Audit Committee on 4 October 2010.

8 I issued an unqualified opinion on 6 October 2010. The most important issues arising from my audit, as reported to the Audit Committee, are set out below.

- I experienced delays in getting responses to my audit queries which resulted in me issuing my opinion after the 30 September publication deadline.
- Two material amendments were made to the Council's accounts. In addition a number of non trivial amendments were identified and corrected by management in the final version of the financial statements.
- The draft financial statements submitted for audit were not approved within the required timetable because the 29 June Audit Committee was not quorate. In accordance with the Accounts and Audit Regulations 2006, the draft financial statements were approved by the Council on 14 July 2010.

9 The delays and errors identified were primarily the result of inadequate documentation being retained, unresolved reconciliation differences and an insufficiently detailed internal quality review of the financial statements prior to the audit.

10 The Council has had a significant turnover of staff in the corporate finance team, new appointments have been made and there is now less reliance on contract staff. The Council should use the recent investment in the corporate finance team to strengthen external financial reporting.

Pension Fund financial statements

11 I reported the findings of my audit of the Pension Fund financial statements to the Audit Committee on 21 September 2010 in my annual governance report and in the addendum annual governance report shared with the Audit Committee Chairman on 4 October 2010.

12 A number of issues were reported in the annual governance report, the most significant relating to material errors in the classification and disclosure of investments. These aspects of the Pension Fund accounts are important because they inform the reader about the types of investment activity the Fund is engaged in. A good understanding of the types of investment is necessary to allow Members to make informed decisions about the risk profile associated with the Fund's assets.

Whole of Government Accounts

13 The WGA consolidation pack submission was submitted for audit in accordance with the CLG timescale. However a number of further packs, incorporating the amendments from the audit of the financial statements, were provided for audit during September and October.

14 Although I was able to certify the Council's WGA pack on 25 October 2010 without qualification, the Council's arrangements for the WGA process require improvement in 2010/11.

Recommendation

R1 Use the recent investment in the corporate finance team to improve external financial reporting.

R2 Implement the recommendations in my annual governance report and final accounts memorandum to strengthen the controls in the Council's financial systems.

R3 Approve the draft financial statements in accordance with the statutory timetable.

Significant weaknesses in internal control

15 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. However, I identified important weaknesses in the operation of controls in the Council's financial systems. I reported my findings to the Audit Committee in my Annual Governance Reports.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

16 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

17 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

VFM conclusion

18 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

19 The following table shows a summary of my findings.

Criteria	Adequate arrangements?
<i>Managing finances</i>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<i>Governing the business</i>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<i>Managing resources</i>	
Strategic asset management	Yes
Workforce	Yes

20 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Approach to local value for money work from 2010/11

21 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

22 My work will be based on a reduced number of reporting criteria, specified by the Commission and concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

23 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Future developments

24 The wider financial outlook continues to be challenging for the public sector. At the end of the first quarter of 2010/11 the Council reported a forecast overspend of £890k on its General Fund and a £877k overspend on the Housing Revenue Account. Management are confident that action can be taken to maintain the General Fund expenditure within budget at the year end.

25 In his letter of 20 October to Leaders of Local Authorities in England, the Secretary of State for Communities and Local Government set out the implications of the government's spending review for local authorities. On average, Councils will face a 7.25 per cent loss of grant in real terms each year, over a four year period.

26 Clearly, in such a challenging environment effective financial management becomes ever more critical. The Council's 2010/11 savings plan has identified £4,520k of savings, and at the end of the first quarter the Council is on track to deliver £4,274k of this plan.

27 In October 2010, Mayor Lutfur Rahman was elected as the first Directly Elected Mayor of Tower Hamlets. This change to an elected Mayor and Cabinet form of executive decision making will be a big change for Tower Hamlets. It is important that effective governance arrangements and scrutiny arrangements remain, and are updated, as the new structures develop.

Recommendation

R4 Assess the implications of the spending review and take action to ensure that the Council achieves financial balance in the short and medium term.

R5 Ensure that effective governance arrangements remain in place and are updated moving forward, following the appointment of the Borough's first Directly Elected Mayor.

International Financial Reporting Standards

28 Financial statements will be prepared using International Financial Reporting Standards (IFRS) for the first time in 2010/11. The Council has made progress to date on the transition from UK Generally Accepted Accounting Practice to IFRS. The restatement work that was completed for the 2009/10 financial statements was completed on time and was materially correct.

29 However, challenges remain. The high risk areas for the Council are accounting for property, plant & equipment, leases and employee benefits. The Council has missed internal deadlines for the IFRS restatement work. It is important that revised restatement deadlines are set and achieved. I will assist the Council by undertaking early audit work where possible. I will also continue to provide regular feedback on the Council's progress.

Recommendation

R6 Revise the key milestones for the implementation of IFRS and monitor progress against these.

National Fraud Initiative

30 The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and errors. The NFI 2008/09 found record levels of fraud, overpayments and errors of £215 million across the UK, up 54 per cent from our previous exercise in 2006/07.

31 The Council has submitted data for the 2010/11 NFI round. The data matched will be released in January 2011 and the Council should ensure that resources are in place to investigate matches.

Certification of claims and returns

32 The administration of the Housing and Council Tax Benefit Subsidy Return continues to be managed well. There is however scope for improvement in the administration of the other grant claims the Council is required to submit for certification.

33 To date we have certified six claims and returns of the eleven expected for the year. Three returns were certified without amendment or qualification, two were amended and one was both amended and subject to a qualification. Four of the six claims were certified by the deadline, however the Authority had to request an extension to the deadline for one of the returns.

34 There have been delays in receiving the grants to be certified. Six of the eleven grants were submitted late to my audit team. Combined with delays in receiving responses to audit queries, this increases the risk that certification deadlines will be missed. Income from grants is an important revenue stream for the Council and late certification could result in delayed or reduced payments from awarding bodies.

Recommendation

R7 Implement the recommendations in my 2008/09 Certification of Claims and Returns report to improve the grant certification process.

Closing remarks

35 I have discussed and agreed this letter with the Chief Executive and the Corporate Director, Resources. I will present this letter at the Audit Committee in December 2010. Copies will be provided to all Council Members.

36 Detailed findings, conclusions and recommendations in the areas covered by the audit were included in the reports issued to the Council during the year.

Report	Date issued (Council)	Date issued (Pension Fund)
Audit fee letter	June 2009	June 2009
Certification of claims and returns - annual report	February 2010	n/a
Opinion audit plan	March 2010	March 2010
Annual governance report	September 2010	September 2010
Addendum annual governance report	October 2010	October 2010
Opinion (main financial statements and pension fund financial statements) and VFM conclusion	October 2010	October 2010
WGA opinion	October 2010	n/a
Final accounts memorandum covering the main financial statements and the pension fund financial statements.	November 2010	November 2010

The future of the Audit Commission

37 The Secretary of State for CLG announced in August 2010 the proposed abolition of the Audit Commission. The government has announced its plan to seek legislation in this session of Parliament to effect this.

38 The Audit Commission's Managing Director for Local Government & Community Safety has written to the Chief Executive to confirm there is no immediate change to the audit arrangements for the Council. My focus remains on maintaining the high-quality audit service the Council expects.

39 The Audit Commission is in discussion with CLG about the proposed legislation and the details that will need to be worked through. I will keep the Council informed about progress.

Acknowledgment

40 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Jon Hayes
District Auditor
November 2010

Appendix 1 – Audit fees

Council audit	Actual (£)	Proposed (£)
Financial statements and annual governance statement	310,000	310,000
Value for money	161,500	161,500
Whole of government accounts	8,500	8,500
Total audit fees	480,000	480,000

Pension Fund Audit	Actual (£)	Proposed (£)
Financial statements	35,000	35,000
Total audit fees	35,000	35,000

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, 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.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Use the recent investment in the corporate finance team to improve external financial reporting.

Responsibility Alan Finch

Priority High

Date June 2011

Comments The appointment of the Chief Accountant in May means that we now have a team whose sole responsibility is to ensure quality financial reporting. The Council has now adopted monthly budget reporting to Corporate Management Team and is also considering monthly reporting to Cabinet. Further improvements will be made to internal and external reporting in the coming months.

Recommendation 2

Implement the recommendations in my annual governance report and final accounts memorandum to strengthen the controls in the Council's financial systems.

Responsibility Chris Naylor

Priority High

Date June 2011

Comments Detailed officer responses have been provided to the reports in question.

Recommendation 3

Approve the draft financial statements in accordance with the statutory timetable.

Responsibility Alan Finch/ John Williams (Service Head- Democratic Services)

Priority High

Date June 2011

Comments All efforts will be made to work with Members to ensure the June Audit Committees are quorate in future and consider the draft Statement of Accounts. The process for closing the accounts will be improved to allow more time for quality assurance at the end of the process.

Recommendation 4

Assess the implications of the spending review and take action to ensure that the Council achieves financial balance in the short and medium term.

Responsibility	Chris Naylor
Priority	March 2011
Date	High
Comments	Government announcements are being monitored and the implications of spending review are being integrated within the medium term financial plan and detailed plans have been drawn up to achieve significant savings targets. The Programme Management Office has been enhanced to manage and monitor delivery.

Recommendation 5

Ensure that effective governance arrangements remain in place and are updated moving forward, following the appointment of the Borough's first Directly Elected Mayor.

Responsibility	Kevan Collins
Priority	High
Date	October 2010
Comments	Revised constitutional arrangements are in place and officers are working with the Mayor and his Cabinet to establish day-to-day working arrangements.

Recommendation 6

Revise the key milestones for the implementation of IFRS and monitor progress against these.

Responsibility	Kevin Miles
Priority	Medium
Date	June 2011
Comments	Progress being monitored to implement IFRS. Accounting policies being revised, a large amount of work has been conducted in reviewing leases and property and outline revised balance sheet for 2009/10 will be available in November 2010 (subject to change with issue of further guidance) - final version should be established by end of January 2011.

Recommendation 7

Implement the recommendations in my 2008/09 Certification of Claims and Returns report to improve the grant certification process.

Responsibility	Kevin Miles
Priority	Medium
Date	July 2011
Comments	Officers will liaise with auditors to improve grant claim audit process.

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November 2010

Agenda Item 61

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	14th December 2010			
REPORT OF: Corporate Director, Resources		Quarterly Internal Audit Assurance Report		
ORIGINATING OFFICER(S): Service Head Risk Management				
		Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period October to December 2010.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the content of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

Minesh Jani, 0207 364 0738

3. Background

- 3.1. From April 2005, we have assigned each 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 assigned, 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.

4. Overall Audit Opinion

- 4.1. Overall, based on work performed in the year to date, I am able to give a substantial level of assurance over the systems and controls in place within the authority.

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Committee in September 2010, 22 final reports have been issued. The findings of these audits are presented as follows:
- The chart 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.
 - Appendix 2 provides a brief summary of each audit.
- 5.2. **Members are invited to consider the following:**
- The overall level of assurance provided (para 5.3-5.5).
 - The findings of individual reports. The Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.
- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

(Please refer to the table on the next page).

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	9	4	-	13
	Moderate	-	4	5	-	9
	Low	-	-	-	-	-
Total Numbers		-	13	9	-	22
Total %		-	59%	41%	-	100%

- 5.4. From the table above it can be seen that of the thirteen finalised audits which focused on high risk or high value areas; nine audits were assigned Substantial Assurance and four received Limited Assurance. A further nine audits were of moderate significance and of these, four were assigned Substantial Assurance and five received Limited assurance.
- 5.5. Overall, 59% of audits resulted in an adequate assurance (substantial or full). The remaining 41% of audits have an inadequate assurance rating (limited or nil). A high number of limited assurance during this quarter is primarily due to six out of ten schools receiving limited assurance. A detailed report covering key issues identified in schools audits is contained in the Annual Internal Audit Report for Schools – 2009/10 elsewhere on this agenda.

6. Performance Indicators

- 6.1. At the start of the year, three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Chief Executive's Monitoring process. The table below shows the actual and targets for each indicator for the period:-.

Performance measure	Target	Actual
Percentage of Audit Plan completed up to October 2010	56%	56%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	82% (9 out of 11)
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	82% (9 out of 11)

- 6.2. The table above shows that the proportion of internal audit work completed to November 2010 which is broadly in line with the plan. The target for the year is to complete 100% of the plan.
- 6.3. The percentage of priority 1 recommendations implemented at the follow up stage was around 82%, whereas the percentage of priority 2 recommendations was 82%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of recommendations not implemented are set out in Appendix 3.

7. Comments of the Chief Financial Officer

- 7.1 These are contained within the body of this report.

8. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 8.1. 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 to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit

Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

9. One Tower Hamlets Considerations

9.1 Any equalities issues and links with the Council's strategic plan priorities arising from each audit review were included within the body of each final audit report.

10 . Anti-Poverty Considerations

10.1 There are no specific Anti-Poverty issues arising from this report.

11. Risk Management Implications

11.1 The revised control environment should pick up the areas identified as of concern and reduce the residual risk.

12. Sustainable Action for a Greener Environment (SAGE)

12.1 There are no specific SAGE implications.

Summary of Audits Undertaken

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Corporate Review	Management of Climate Change
	Extensive	Tower hamlets Homes (THH)	Caretaking Service - Systems Audit
	Extensive	Resources	Management of VAT - Systems Audit
	Extensive	Children, Schools and Families (CSF)	Bow Boys Secondary School
	Moderate	CSF	Shapla Primary School
	Moderate	CSF	Olga primary School
	Moderate	CSF	Harry Gosling Primary School
	Moderate	CSF	Rachel Keeling Nursery School
	Moderate	CSF	Stepney Green Boys School
SUBSTANTIAL			
	Extensive	Resources	Control and Monitoring of Purchase Cards
	Extensive	Resources	Pension Fund Investment
	Extensive	Resources	Risk Management
	Extensive	Corporate	Health and Safety at Work - Follow Up Audit
	Extensive	Assistant Chief Executive	Working Neighbourhood Fund - Systems Audit
	Extensive	Development and Renewal	THH Client Monitoring - Follow Up Audit
	Extensive	THH	Performance Management – Systems Audit
	Extensive	CSF	Mulberry Girls School
	Extensive	CSF	George Green’s Secondary School

Summary of Audits Undertaken

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
SUBSTANTIAL	Moderate	CSF	Ian Mikardo Special School
	Moderate	CSF	Bigland Green Primary School
	Moderate	CSF	Purchases of Provisions by the Central Production Kitchen Contract Services
	Moderate	Resources	Emergency Call Out Service - Contract Monitoring

**Summary of Audits Undertaken
Limited Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Climate Change Systems Audit</p>	<p>Sept. 2010</p>	<p>The objective of this audit was to provide assurance that the Council's arrangements for achieving the three key objectives of its Carbon Management Programme viz. to reduce CO2 emissions; to reduce energy costs and improve energy efficiency showing credible leadership in the community with regards to climate change, are sound and secure. The Council has committed to addressing climate change by signing the Nottingham Declaration on Climate Change. A Corporate Framework was approved by the Cabinet in April 2009 but at the time of audit this framework required to be embedded across the Council. The self assessment tool indicated that significant changes were required to embed Carbon Management within the organisation. The Sustainability team have now been successful in ensuring that management of climate change becomes a corporate priority by driving the agenda through the Asset and Capital Management Board taking the strategic ownership and monitoring. It needs to be ensured that all Directorates of the Council are accountable to meet the objectives. While the Council is proactively promoting carbon reduction within the authority, it needs to provide a clear vision and leadership in this area.</p> <p>We have also noted that the Council's Capital Strategy should be revised to include the aim of 'Reducing the Council's Carbon Footprint' and that all new capital schemes should include a Carbon Impact Assessment. Some projects within the Programme have already slipped which can have implications for achieving the ambitious targets. Moreover, the risk associated with potential penalties in the carbon trading league table has not been reflected in all Directorate Risk Registers and Business Plans. All findings and recommendations were agreed with the Service Head, Strategy, Innovation and Sustainability and final report was issued to Corporate Director, Development and Renewal.</p>	<p>Extensive</p>	<p>Limited</p>

Management Comments on Management of Climate Change Systems Audit

Since the audit report, the council has made good progress in reducing CO₂ emissions and has achieved an overall reduction of 5,312 tonnes of CO₂ (13%) from the 2008/2009 baseline. Noticeably a 25% reduction in the use of gas has been achieved through the installations of Automated Meter Readers (AMR). The Carbon Management Board attended by officers representing all directorates continues to meet regularly to monitor progress. An improved data collection and management procedure is in place, CO₂ emissions are reported by Directorates and all directorates are encouraged to make contributions to the reduction targets where they have direct control. Some easy and low cost projects have been completed (e.g. voltage optimiser in Albert Jacob House) and some medium to high cost projects are in the pipeline pending allocation of funding (e.g. thin client).

The risk associated with the Carbon Reduction Commitment – *(DR 0008) financial penalties for not achieving the CRC Energy Efficiency Scheme (CRC)* is now included in the DR risk register, and a Working Group represented by officers from all directorates has been established to manage and monitor the associated risk. The current risk score is 4 (medium) with a target risk score of 2 (low), the detailed risk report is attached for reference.

The carbon management framework has been further embedded across all directorates, and the Sustainable Development Team will work closely with the Carbon Management Board to ensure carbon emissions reduction and the CRC Energy Efficiency Scheme continues to be a corporate priority.

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Caretaking Service Systems Audit</p>	<p>Sept. 2010</p>	<p>The objective of this audit was to provide assurance that there are sound systems in place for managing and monitoring caretaking services, ensuring that services are well planned, managed and controlled in order to achieve key service objectives.</p> <p>Our review found that the systems in place for the caretaking service need significant improvement. Although there is a Team Plan in place which links the organisation’s key business objectives and expected key service improvements for 2010/11, the policy is not underpinned by documented procedures covering the management, controlling and monitoring of the service. The arrangements for checking deliveries and most importantly controlling and monitoring stock levels at the various local stores were weak and must be addressed by management as a matter of priority as the previous years spend in this area was in excess of £400k. We also found examples of procurement which did not appear to have conformed to financial regulations and procurement rules. Due to an absence of some key controls covering the caretaker’s stores, there was an exposure to the risk of error, omission and irregularity occurring.</p> <p>All findings and recommendations were agreed with the Head of Service and final report was sent to the Director of Housing and Customer Services and THH Chief Executive.</p>	<p>Extensive</p>	<p>Limited</p>

Management Comments on Caretaking Services – Systems Audit

Systems are now in place – procedures covering the management, controlling and monitoring of the service have been documented.

A 4 tiered performance management system has been documented and put into place. Following a 'clean' of each block, 100% of the blocks are checked by Team leaders each month, 10% of these are checked by the Senior Officers and 10% of these are checked by the Head of Caretaking. The results are collated and reported to the residents Service Improvement Group. In addition, there is a published schedule of joint monitoring with residents in respect of the cleaning. Where a block fails to achieve a satisfactory grade an action plan is put into effect as part of the performance monitoring system.

A weekly stores stock take is carried out by each team leader and reported centrally. All purchase orders issues through R2P are authorised either by the Head of Caretaking or the Head of Service following sight of the necessary written quotations. All deliveries are checked and signed off with delivery notes being retained to check against the original order.

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of VAT</p> <p>Systems Audit</p>	<p>Aug. 2010</p>	<p>The objective of this audit was to provide assurance that systems and controls in place for management of VAT were sound and secure.</p> <p>Our review showed that VAT control accounts were not being reconciled with the General Ledger on a regular basis. The de minimis limits were not being proactively managed and a robust system needed to be put in place for managing uncertified VAT invoices. There were no documented procedural notes to support the administration functions such as procedures for preparing, checking and approval of VAT Returns and keeping supporting documents/evidence. Audit was satisfied that VAT Returns were submitted on time, but the system relied on a single officer in the preparation, checking, approving and submission of VAT Returns, which can increase the risk of errors and omissions not being identified early. In absence of this single officer, Returns were prepared and submitted by another officer who should have a dedicated password and necessary training on VAT administration. We understand that following the audit report, progress has been made in implementing audit recommendations to improve the control and a follow up audit is currently being undertaken.</p> <p>All findings and recommendations were agreed with the Service Head Corporate Finance and final report was issued to Corporate Director, Resources.</p>	<p>Extensive</p>	<p>Limited</p>

Management Comments on Management of VAT

Management arrangements in the Financial Strategy Team have been changed to ensure that there is cover for the lead officer and that routine tasks are carried out on a regular basis. The technical work of that officer is also supplemented through a subscription service provided by the accountants KPMG. The Council will be meeting with the HMRC client relationship manager shortly to ensure HMRC remains satisfied with the Council's VAT arrangements.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bow Boys Secondary School	Aug. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Our review showed that Controls were adequate in School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There was poor financial planning in the school. The annual budget had been prepared with no references to the School Development Plan. The school had not followed the market testing procedures outlined in the Scheme of Financial Delegation for several procurements. • There was no line by line payroll reconciliation undertaken on a monthly basis to ensure that staff members were paid according to their contracts. • The Head teacher's last pay and performance review was undertaken in 2007/08. In addition the school's Pay Policy needed to be reviewed and approved. • There was no separation of duties between completion and authorisation of the personnel forms - the Bursar processed and authorised new starter and leaver forms. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Management Comments for all Schools with Limited Assurance

All these schools have acted immediately and agreed to complete all actions within a defined timeframe. The schools and their governing bodies are fully committed to the recommendations made in the Audit report by :

- tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate,
- confirming the additional steps the schools are planning to take in light of the audit findings, and
- taking immediate action in mitigating exposure to risks arising from weaknesses in the control environment.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Shapla Primary School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that controls were adequate in Operation of Governance Processes, Accounting of Income and Expenditure, Voluntary Fund and School Journeys, Security of the IT Infrastructure, Disaster Recovery, Data Protection, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Code of Practice for Financial Management & Delegations document had not set financial limits to the Resources Committee or to the Head Teacher or to other staff for authorising expenditure, writing off of debts or disposing of equipment etc. • The Terms of Reference of the Resources Committee and the Standards Committee were last reviewed in November 2007 and do not outline the frequency of meetings to be held. • There was no evidence that the monthly reconciliation statements and VAT returns were checked by an independent officer before being submitted to the LA. • The school had entered in to a contract with a company. However, we noted that payment in full had been made prior to starting the contract without receiving any service. • The Charging Policy and the Pay Policy had not been approved by the full Governing Body. • Payroll reports from the payroll provider were not being checked and reconciled with school's records. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Olga primary School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Controls were adequate in Financial Planning and Budgetary Control, Security of IT Infrastructure, Disaster Recovery and Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Although bank reconciliations were being completed on a monthly basis, examination of the unreconciled items listing for the month of October 2009 identified a number of items which have been outstanding for more than three months. • The school had made purchases for over £5,000 without obtaining the minimum three quotations as per the School's Finance Procedures Policy. Furthermore, these procurements over £5,000 had not been approved by the Finance Committee as per the Scheme of Delegations. Orders had not been raised for any of the ten transactions in the audit sample. • At the time of the audit the school had a list of assets compiled by the external IT consultant. This list was only of IT equipment purchased since September 2008 and of items valued at more than £250. It was noted that a recently purchased digital cameras was not recorded on the inventory along with many other portable and attractive items such as TV/DVD combos, speakers, desktop PCs, monitors, LCD screens. Audit testing established that only 4 out of the 5 items recorded on the asset register were found in the school and out of 5 items selected around the school, none were recorded on the asset register and all nine items sampled were not visibly security marked. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harry Gosling Primary School	Sept. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Controls were adequate in Control and Monitoring of School's Bank Account, Accounting of Income and Expenditure, and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Audit testing identified that declarations of interest had not been obtained from some members of the Governing Body. • Audit identified that the 2009/10 budget which was initially approved by the full Governing Body on 13 May 2009 showed a deficit brought forward balance of £263,785 and a capital surplus of £276,434. It was noted from the contents of the Resources Committee minutes that the deficit had been due to errors in setting the 2008/09 budget. • Monthly payroll reports were not checked with salaries due for all staff members. • The school's Scheme of Delegations needed to be clearly specified. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Rachel Keeling Nursery School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Controls were adequate in Control and Monitoring of the School Bank Account, School Meals, Voluntary Fund and School Journey, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Declaration of business interests had not been obtained from a member of the Governing Body and a number of budget holders who have delegated financial management responsibilities. • Salary assessments had not been issued to teachers in September 2009. • It was noted that the quorum requirement for the Finance Committee meetings had been set for two governors which is less than the requirements as per the Guidance Notes. Furthermore, the Code of Practice for Financial Management & Delegation of Financial Authority had not been approved by the full Governing Body at the time of the audit. • The administration and clerking of the Finance Committee needed to be improved significantly. None of the committee minutes had been signed by the Chair to confirm accuracy. • The school did not have an approved Charging Policy. The school has however produced a draft policy which is due to be presented to the next Finance Committee meeting. • Robust payroll reconciliation procedures were not in place. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and t the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stepney Green Boys School	Sept. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Controls were adequate in Accounting of Income and Expenditure, School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Head Teacher (and Deputy Head Teacher in the Head Teacher's absence) was given unlimited delegations to authorise expenditure and budget virements. This appeared excessive in relation to other schools of similar budgets. While the Code of Financial Practice was reviewed and agreed at the Finance, Premises & Personnel Committee meeting held on 25/11/09 it had not been formally approved by the full Governing Body. The Code of Financial Practice had not stated requirements for obtaining quotations / tenders at appropriate levels. • At the time of the audit the school did not have an approved charging policy. The school's pay policy had not been reviewed and approved by the full Governing Body in the previous 12 months. • Payroll reports from the payroll provider had not been checked and reconciled with the school's records. • There was no documentary evidence of bank reconciliations being performed for the School Fund account. Moreover, the school had not carried out an annual inventory check. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Limited

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Purchase Cards	Nov. 2010	<p>The objective of this audit was to provide assurance that the Council's procedures for controlling and monitoring of expenditure using corporate purchase cards were being complied with.</p> <p>We tested a random sample of 32 purchase card statements across all the Directorates containing a number of expenditure transactions. From this, we found that improvements had been made in the control and monitoring of transactions since the last audit in April 2008. However, we found that some transactions within 4 of the statements had not been approved. We also noted that there were a number of transactions incurred by services like Sure Start Centres, Adult Centres, Children's Centres etc. from a range of supermarkets and shops for items such as fresh fruit, vegetables, bread, milk products and general food provisions. As the Council has competitively tendered for supplies of such products for the School Meals Service, we have recommended that efficiency and cost savings could be made by utilising these contracts in a co-ordinated manner. We also found a few purchase card transactions where expenditure was incurred to provide hospitality to others from funding received from various external sources. We have recommended that the Council's procedures on Hospitality and Gifts should include rules and regulations for 'giving' hospitality.</p> <p>All findings and recommendations were agreed with Service Heads, Procurement and HR, and final report was issued to Corporate Director, Resources.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pension Fund Investment	Oct. 2010	<p>The authority is required to secure and maintain an investment rate of return which will count towards meeting the Council's current and future obligations and liabilities to make pensions payments.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Controls were adequate in governance and roles and responsibilities, valuation and allocation of investment assets, purchases and sales, income, IT access and security. The main weaknesses are identified below:- • The Myners Compliance Statement was not provided to Audit for inspection. Audit was informed that the quarterly monitoring report produced by the Investment Committee provides evidence of the Fund's adherence to the Myners Code of Investment Principles. • In one instance, the statutory return was submitted to the Office for National Statistics 4 working days after the deadline. Additionally, fax transmission confirmations are not always retained by the Authority in evidence of the submission. <p>The findings and recommendations were agreed with the Service Head – Corporate Finance and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management	Oct. 2010	<p>The authority is required to demonstrate good corporate governance by establishing a robust risk management framework which identifies and addresses the key risks affecting the objectives of the organisation.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Controls were adequate in strategy, policies and procedures, risk management process, and risk registers. • The Council's risk management policy states that risk management is an integral element of the LBTH culture. However, there is lack of evidence that the Council monitors or assesses the embedment of risk management in the organisation culture. In particular, we could not find evidence of measurable indicators or success factors that will enable the Council to assess if risk management has been embedded in the organisation culture, and/or to identify areas for improvement. • Directorate risk registers showed that the responsibility for managing some risks has been assigned to a group rather than an individual. There is a risk that there is lack of clear accountability and responsibility for managing these risks resulting in incorrect and/or slow decision making. <p>The findings and recommendations were agreed with the Service Head, Risk Management and reported to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Health and Safety at Work Follow Up Audit	Oct. 2010	<p>The objective of the follow up audit was to assess the progress made in implementing the agreed recommendations made at the conclusion of the original audit in August 2009.</p> <p>The follow up review showed that out of six priority 2 recommendations followed up, three recommendations had been fully implemented. Some progress was made in implementing two more recommendations, but these had not been fully embedded and 1 recommendation was not implemented.</p> <p>We found that although new risk assessments were carried out by the responsible officers, clear programmes/schedules would be required to provide assurance that all buildings were subject to regular risk assessments. The administration of Accidents and Incidents reports showed some improvement, but an instruction required to be issued to all relevant officers to ensure that records of completed Accident and Incident Reports were held on file, and available for examination when required. Moreover, the Directorate H&S Coordinators should be tasked with checking accident / incident recording in Directorate premises as part of routine inspection of those premises. As agreed by CMT, we also recommended that Health & Safety should be a standing agenda item at all DMT meetings.</p> <p>All findings and recommendations were agreed with the Corporate Health and Safety Manager and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Working Neighbourhood Fund Systems Audit	Oct. 2010	<p>The objective of this audit was to provide assurance that there were sound and secure governance and monitoring systems in place to support the delivery of the Working Neighbourhoods Funding Programme. From September 2009, the WNF Programme team within Chief Executive's Directorate assumed the overall responsibility for the WNF programme management together with responsibility for the co-ordination of Directorate based programme and reporting of the WNF programme to the WNF Programme Board.</p> <p>Our audit found that clear criteria and commissioning Strategy had been established for the WNF which was approved by Cabinet. There were clear terms of reference in place for the WNF Programme Board and systems were in place for ensuring that the WNF programme was effectively managed by each Directorate. We found that a standard Commissioning Proposal application was completed by each of the organisations seeking WNF within the audit sample tested. However, only 2 out of 6 commissioning proposals had been duly signed by all parties concerned. Project appraisal and assessments were undertaken by external consultants, but these required to be formally signed-off. We also identified that some improvements were needed in monitoring projects to ensure that the stated outputs and outcomes were being achieved and that monitoring visits were clearly recorded and actions followed up.</p> <p>All findings and recommendations were agreed with the Service Head Performance and Partnerships.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Client Monitoring Follow Up Audit	Sept. 2010	<p>The objective of the follow up audit was to assess the progress made in implementing the agreed recommendations made at the conclusion of the original audit in August 2009. Our follow up review showed that eleven out of the fifteen previous audit recommendations had been implemented and one recommendation was in the process of being implemented. However, of the three outstanding recommendations, two were high priority. The follow up review found that Client Operational meetings were held on a monthly basis between the Council and THH and minutes of the meetings were taken. A formal system had been developed for reporting and escalating poor performance of support services provided to THH under various SLAs. In accordance with our previous recommendation, procedures had been formulated to put in place a clear system for initiating, discussing and approving changes to the Management Agreement. However, these procedures were in draft and needed to be agreed and approved. A methodology for evaluating THH actions and deliverables, including the process for carrying out reality checks had been developed but not yet embedded.</p> <p>In our opinion, the control environment has improved overall since the original audit. However, some key recommendations needed to be progressed and embedded further to demonstrate improvement in the control environment.</p> <p>All findings and recommendations were agreed with the Service Head, Strategy, Innovation and Sustainability and final report was issued to the Corporate Director, Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Performance Management - Tower Hamlets Homes Systems Audit	Oct. 2010	<p>This audit sought to provide assurance over the performance management system in place within THH to ensure that the regime of various targets and measures adequately supports and promotes the achievement of organisation's strategic and business objectives.</p> <p>From our review we have found that the organisation's key strategic aims; objectives and priorities were clearly defined and were set out within the THH three-year Business Plan. A clear performance management framework was in place to drive service improvement. There was a clear annual Service Improvement Plan (SIP) with a set of twenty two published service standards supported by 40 business critical targets which were measured, monitored and reported on a regular basis. Staff PDR process was in place which linked the organisation's objectives to individual staff targets which were being monitored and reviewed on a regular basis. However, our review of a number of PDR's identified the need for greater consistency with regards to establishing VFM and diversity targets. There was some evidence of integration of performance management and risk management processes. The corporate risk register identified risks, some of which related to the risk of not achieving the expected performance targets in key service areas. However, some key risks needed to be reviewed and updated. Performance information was being produced in a timely manner. However, there were a number of stand alone management systems used in the production of performance data which was time intensive and could affect data quality. We have therefore, recommended that consideration should be given to the introduction of an integrated performance management software system or another solution.</p> <p>All findings and recommendations were agreed with the Director of Strategy and Performance and Final report was issued to the THH Chief executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Mulberry Girls School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that controls were adequate in Control and Monitoring of School Bank Accounts, Accounting of Income and Expenditure, Charging Policy, Income Collection and Banking, School Meals, Security of the IT Infrastructure, Disaster Recovery, Data Protection, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • There was an overlap between the Scheme of Delegation to the Head Teacher and that of the Finance and Business Committee, which needed to be reviewed. • Declarations of interest had not been submitted by staff with financial responsibilities. <p>Competitive quotes had not been obtained in some cases.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
George Green's Secondary School	Sept. 2010	<p>The audit was designed to provide assurance over the adequacy of controls over the administration and financial management of the school. Controls were adequate in Financial Planning and Budgetary Control, Control and Monitoring of School's Bank Account, Accounting of Income and Expenditure, School Meals, Voluntary Fund and School Journey, Security of the IT Infrastructure, Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Terms of Reference [TOR] of the Finance & Pay Committee did not outline financial delegated limits and quorum requirements. Furthermore there was no evidence in Governing Body minutes of approval of the TOR of the Finance & Pay Committee. • The Head Teacher's performance review and incremental rise had been reported to the Governing Body by the Chair of Governing Body. However, there were no minutes available of the Finance and Pay Review Committee or in the full Governing Body of any discussions of pay reviews of the other members of the Leadership Group. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Ian Mikardo Special School	Sept. 2010	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. . At the time of the previous audit the school was in special measures and financial delegation was withdrawn. The last Ofsted inspection carried out in March 2009 had awarded the school an “outstanding” report. The school had vastly improved in financial controls under the present Head Teacher who is supported by the Office Manager.</p> <p>Our review showed that controls were adequate in Operation of Governance Processes, Financial Planning and Budgetary Control, Control and Monitoring of School’s Bank Account, Charging Policy, Income Collection and Banking, Personnel and Payroll Management, School Meals, Voluntary Fund and School Journey, Asset Control, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance.</p> <p>However some minor weaknesses in the areas of procurement and raising of authorised purchase orders were identified in the audit report.</p> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bigland Green Primary School	August 2010	<p>The audit sought to provide assurance over the soundness and adequacy of controls over the administration and financial management of the school. Controls were adequate in Operation of Governance Processes, Control and Monitoring of School's Bank Account, Procurement, Accounting of Income and Expenditure, Charging Policy, Income Collection and Banking, Personnel and Payroll Management, School Meals, Asset Control, Security of the IT Infrastructure, Disaster Recovery, Data Protection and Risk Management and Insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Resources Committee meeting minutes did not provide a detailed, comprehensive description over the discussions held surrounding budget monitoring. • There was a lack of documentary evidence relating to how school journeys had been costed. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Purchases of Provisions by the Central Production Kitchen Contract Services	Oct. 2010	<p>This audit was designed to provide assurance over the systems for purchasing, ordering and paying for catering provisions. Our review showed that the contracts for the supply of grocery, meat and fresh fruit and vegetables were all competitively tendered and were in their last year of extension. Currently a re-tendering exercise is being planned. Our testing around the systems of internal control for ordering, receipting and paying for provisions revealed that these were being controlled and monitored adequately. Management information was being provided on a regular basis which allowed the provisions cost per meal for Welfare and School Meals catering to be monitored. There was scope for improving the system for ordering and for ensuring that prices charged on invoices matched with the contract rates.</p> <p>The findings and recommendations were agreed with Service Head, Resources and a copy of the final report was issued to the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Emergency Call Out Service Contract Monitoring Systems Audit	Sept. 2010	<p>This audit sought to provide assurance that the Out of Hours Emergency Service was operating efficiently and effectively and that the contract monitoring arrangements were sound to achieve the objectives and priorities of the Council. On 11th March 2009, the Cabinet approved the signing of an Access Agreement to join the Pan London Out Of Hours service from 1st April 2009. The aim was to offer advantages both in terms of cash savings through economies of scale and in terms of enhanced service provision and resilience.</p> <p>From our review we have found that the contract contained clear work specification and performance standards against which the contractor's performance can be monitored. The contract also has provision for addressing poor performance and triggers for poor performance notices to be issued to the contractor. Some basic monitoring systems were in place. However, there was some scope for improving contract monitoring to ensure that the contractor was brought to account for poor contract performance in some key areas. Furthermore, the contractor's disaster recovery plan needed to be tested and reported to the client on regular basis.</p> <p>The findings and recommendations were agreed with the Service Head , Customer Access and ICT and final report was issued to the Corporate Director, Resources.</p>	Moderate	Substantial

APPENDIX 3

Follow Up Audits – List of Priority 1 Recommendations still to be Implemented

Audit Subject	Recommendation	Service Head	Officer Name
THH Client Monitoring	<p>The current risk assessment should be finalised as a matter of priority. The risk assessment should be carried out on all aspects of the Management Agreement to ensure that all critical areas for monitoring by the client-side have been identified.</p> <p>Furthermore, the required resources should be identified together with the names of those officers responsible for each monitoring activity.</p> <p>Written client monitoring procedures should be developed.</p>	Service Head, Strategy, Innovation and Sustainability	Jon Slade
THH Client Monitoring	<p>The development of the methodology for evaluating THH actions and deliverables, including the process for carrying out reality checks should be finalised and agreed as soon as possible</p>	Service Head, Strategy, Innovation and Sustainability	Jon Slade

Follow Up Audits – List of Priority 2 Recommendation still to be Implemented

Audit Subject	Recommendation	Service Head	Officer Name
THH Client Monitoring	<p>The client monitoring procedures should include the requirement for ensuring that THH has an adequate insurance provision in place on annual basis.</p>	Service Head, Strategy, Innovation and Sustainability	Jon Slade
Health and Safety at Work	<p>The corporate Health & Safety Team should advise the Corporate Directorates that Health & Safety matters are on the agenda item at all DMT meetings</p>	Corporate Health and Safety Manager	Peter Leigh

Agenda Item 62

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	14th December 2010			
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Service Head Risk Management		Revised Internal Audit Plan for 2010/11 Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority and the resources available to perform audit work.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to endorse the revised 2010/11 internal audit plan and the supporting Audit Strategy and Terms of Reference.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

Minesh Jani, 0207 364 0738

3. Background

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for endorsement in March 2010. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised. Details of the governance based Audit Assessment methodology, Audit Strategy and Internal Audit Terms of Reference are attached at Appendix 3. The audit plan also made provision for review of key financial systems, proactive fraud work and reactive fraud work.
- 3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:
- Requests from officers to perform audits that were not originally planned;
 - Requests from officers to increase the scope of audits which has resulted in higher allocation of audit days;
 - Requests from Chief Officers to defer audits due to service restructuring and/or changes made to existing systems and the need to allow a period of bedding in;
 - Make use of days provided in the original plan that had not been allocated to specific audits;
 - To avoid duplication of work with either the external auditor or other assurance provider; and
 - Additional commitment to unplanned work.

4. Updated Internal Audit Plan for 2010/11

- 4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. Appendix 2 shows the updated internal audit plan following the changes and provides for provision of unallocated days which could be used for specific audits at the request of Directorates, thus retaining some flexibility in the plan. The summary below shows how the plan has changed.

Number of days originally planned	1,878
Plus: Additional audits added to the plan (Please refer to Appendix 1)	210
Less: Use of previously Unallocated days to specific audits	155
Less: Audits to be considered as part of 2011/12 Audit Plan (Please refer to Appendix 1)	55
Number of days per the amended plan	1,878

4. Comments of the Chief Financial Officer

- 4.1 Any financial implications arising from this report are contained within the body of the report.

5. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 5.1. 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 to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

6. One Tower Hamlets Considerations

- 6.1 Each audit activity within the revised audit plan provides a link with the Council's corporate and strategic plan priorities including that of One Tower Hamlets.

7. Anti-Poverty Considerations

- 7.1 There are no specific Anti-Poverty issues arising from this report.

8. Risk Management Implications

- 8.1. The revised audit plan should pick up some of the key areas of risk exposure to the Council and audit reviews of these areas should provide a source of assurance to those charged with governance.

9. Sustainable Action for a Greener Environment (SAGE)

- 9.1 There are no specific SAGE implications.

A Summary of Changes to the Internal Audit Plan – 2010/11

Auditable Area	Directorate	No. of days
<i>Audits Added / Amendments to the Original Plan</i>		
Establishment Control	Corporate	15
Purchase Cards	Corporate	10
Registrars (additional days required to accommodate change of scope))	Assistant Chief Executive (Legal Services)	10
Grant Certification audits	CLC	15
Establishment Control	Adults, health and Wellbeing	10
Financial Systems (additional days)	Resources	12
Management Requests	All Directorates	138
Sub Total		210
<i>Audits to be considered as part of 2011/12 Audit Plan</i>		
Asset Management		15
Management of Overtime		20
Management of Members' Enquiries		10
Purchases of Library Books		10
Sub Total		55
Use of Unallocated days	Resources	20
Use of Unallocated days	Corporate	35
Use of Unallocated days	CLC	20
Use of Unallocated days	CSF	20
Use of Unallocated days	AHW	20
Use of Unallocated days	ACE	20
Use of Unallocated days	D&R	20
Sub Total		155

London Borough of Tower Hamlets 2010/11 Internal Audit Plan

	Audit Days	Pages
Corporate Systems and Council-wide reviews	175	6-8
Assistant Chief Executive's	60	9
Children, Schools and Families	325	10-12
Communities, Localities & Culture	80	13-14
Tower Hamlets Homes	145	14-17
Development & Renewal	95	17-19
Adult, Health and Wellbeing	90	20-21
Resources & core financial systems	210	22-24
Contract audit	50	25
Information Technology audits	100	25
VFM, Pro-active fraud and various Management Requests	198	26
Follow up, management and reactive fraud provision	350	26
Total Provision	1,878	-

INTERNAL AUDIT PLAN – 2010/11

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Cross-Cutting Systems</u>					
Core Management Processes <i>(Scheduled in quarter 4)</i>	This audit will review core people management processes such as managing attendance, managing performance, managing conduct and managing learning and development. The objective is to provide assurance that corporate people management processes are being complied with resulting in good governance.	M	20	Management request	One Tower Hamlets Working efficiently and effectively as One Council
Management of Efficiency Programme <i>(Scheduled in quarter 4)</i>	This review will provide assurance that efficiency programmes to take account of the likely reduction in future funding have been developed and controls are in place to monitor their delivery across the Council.	H	20	Strategic Risk Register ref. RSB0011	One Tower Hamlets Working efficiently and effectively as One Council
National Performance Indicators <i>(Completed)</i>	The objective of this work will be to audit and verify data quality of a sample of high risk national performance indicators prepared by the Council for submission to the Audit Commission.	H	40	Working with the Council's External Auditors	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Cross-Cutting Systems</u>					
Recruitment <i>(Scheduled in quarter 3)</i>	This audit will review systems for recruiting staff to established posts ensuring that corporate procedures are complied with and that satisfactory pre-recruitment checks are carried out.	H	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management of Leavers <i>(Completed)</i>	This audit will evaluate systems for managing and controlling leavers to ensure that staff who leave the service of the Council are promptly notified to HR and Payroll to mitigate risks.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Financial Regulations and Waivers <i>(Completed)</i>	This review will examine the Council's Financial Regulations to provide effective financial control and monitoring. The system for controlling Waivers to the Regulations will be reviewed.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
RIPA Compliance <i>(Scheduled in quarter 4)</i>	To provide assurance over the Council's arrangements for compliance with the Regulation of Investigatory Powers Act 2000	H	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Auditable System	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Corporate Cross-Cutting Systems</u>					
Corporate Governance <i>(Completed)</i>	This generic review will incorporate the preparation and validation of the Annual Governance Statement and provide assurance on the progress made in improving controls around those specific governance issues reported within the AGS.	H	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Establishment Control <i>(Completed)</i>	To review systems and controls for controlling establishment levels.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Purchase cards <i>(Completed)</i>	To carry out compliance testing on the use and monitoring of corporate Purchase cards.	M	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Assistant Chief Executive's</u>					
Registrars <i>(Completed)</i>	This will be a regularity audit to the Registrars office to provide assurance that systems for controlling income, expenditure, controlled stationery, assets and information are sound and secure.	M	20	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Information Security Incident Management <i>(Scheduled in quarter 3)</i>	The objective of this audit will be to review the systems in place for reporting, investigating and managing incidences of breaches in information security procedures.	H	10	Strategic Risk register RSC0004 and Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Local Area Agreements <i>(Completed)</i>	This audit will review the Council's and its partner's arrangements for delivering the outcomes of the Local Area Agreements	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Performance Management <i>(Scheduled in quarter 4)</i>	The objective of this audit is to provide assurance over the Council's systems for managing and monitoring performance of its key services to ensure that the delivery of the strategic priorities of the Council are managed and monitored effectively.	H	15	Directorate Risk register CSF0003 and Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>					
Youth Service Contract Monitoring <i>(In progress)</i>	This audit will review systems for managing and monitoring the youth service contracts to ensure that the contracts deliver value for money and outcomes required by the Council.	H	20	Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.
Offending Youth <i>(Scheduled in quarter 3)</i>	This review will focus on the Council's 'Reducing re-offending programme' arrangements to prevent and reduce youth re-offending. In addition systems for issuing Rehabilitation orders and for preparing and monitoring 'supervision plans' will also be audited.	M	15	Directorate Risk register CSC0002	A Safe and Supportive Community Tackle and prevent crime
Implementation of Laming Recommendations <i>(Scheduled in quarter 4)</i>	This audit will provide assurance over the implementation of recommendations arising from Laming Review	H	15	Strategic Risk register CSD0009 and CH&AD0001	A Safe and Supportive Community Focus on Early Intervention Empower older and vulnerable people and support families

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>					
Prevention and Early Intervention Strategy <i>(Scheduled in quarter 3)</i>	This audit will review systems and procedures for prevention and early intervention to provide assurance that the key objectives of the Council's Strategy are being achieved and monitored.	M	15	Audit needs analysis	A Safe and Supportive Community Focus on Early Intervention
Schools' Regularity Audit <i>(Ongoing)</i>	School visits are undertaken using a risk based approach to review mainly the arrangements for school governance, budget planning and control, accounting and financial control, purchasing, personnel/payroll administration and control, IT Security and asset management.	H	150	From Audit Needs Assessment	A Prosperous Community Support lifelong learning opportunities for all. One Tower Hamlets Working efficiently and effectively as One Council
Financial Management Standards for Primary and Secondary Schools <i>(Ongoing)</i>	We plan to visit the respective number of primary schools during the year and integrate the DCFS's financial management standards into our audit programme for schools.	H	75	DCFS regulation on financial management standards at schools in line with the DCFS toolkit.	A Prosperous Community Support lifelong learning opportunities for all. One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Children, Schools and Families</u>					
Procurement of supplies and provisions for Central Kitchen <i>(Completed)</i>	This audit will examine systems for procurement of supplies and provisions for Central Kitchen to ensure that best value is obtained from the procurement and the use of provisions is controlled and monitored effectively.	M	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Procurement <i>(Completed)</i>	The Council's Procurement procedures make provision for the Directorate to make arrangements for obtaining and accepting competitive offers and quotes for goods, services and works below EU Thresholds. This audit will examine and evaluate systems at the Directorate level.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities, Localities and Culture</u>					
Commercial Waste <i>(Scheduled in quarter 4)</i>	This audit will examine systems for managing commercial waste by the contractor to ensure that controls over income and expenditure are sound and adequate and the contract is robustly monitored.	M	15	Audit needs analysis	A Great Place to Live Improve the environment and tackle climate change
Environmental Protection <i>(Scheduled in quarter 4)</i>	This audit will review compliance with the Council's statutory requirements in relation to environmental protection and pollution control.	M	15	Audit needs analysis	A Great Place to Live Improve the environment and tackle climate change
Grant certification – Illegal Money Laundering and Olympics <i>(Completed)</i>	To provide assurance work and certification of grant claims	H	15	Certification work	One Tower Hamlets Working efficiently and effectively as One Council
CCTV Control Room and Management <i>(Completed)</i>	This audit will provide assurance that systems and procedures around the efficient and effective operation of the CCTV room are sound and secure.	M	10	Directorate Risk register CL0017 and Audit needs analysis	A Safe and Supportive Community Tackle and prevent crime
Leisure Management – Contract monitoring <i>(In progress)</i>	This audit will review systems and controls for managing and monitoring the contract to ensure that contractor's performance is monitored.	M	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Communities. Localities and Culture</u>					
Procurement <i>(Completed)</i>	The Council's Procurement procedures make provision for the Directorate to make arrangements for obtaining and accepting competitive offers and quotes for goods, services and works below EU Thresholds. This audit will examine and evaluate systems at the Directorate level.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
<u>Tower Hamlets Homes</u>					
Gas Repairs and Maintenance <i>(Completed)</i>	This audit will seek to provide assurance over the systems and controls in place around gas repairs and maintenance repairs ensuring that key contract objectives are achieved and works paid for are carried out efficiently and effectively.	M	15	THH Risk register THH010017 and Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Leaseholder Income Collection <i>(Completed)</i>	This audit will examine systems and controls in place for collecting and recovering income due from Leaseholders.	M	10	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Financial Systems <i>(Scheduled in quarter 4)</i>	This audit will review the key financial systems as part of the annual assurance over the soundness of financial control across THH.	H	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Caretaking Service <i>(Completed)</i>	The scope of this audit will be to examine systems for managing and monitoring caretaking services ensuring that the services are well planned, managed and controlled to achieve the key objectives.	M	15	THH Risk register THH010028 and Audit Needs analysis risk register	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Implementation of the Service Improvement Plan <i>(Scheduled in quarter 4)</i>	This review will seek to provide assurance that systems and procedures for effective implementation of the Service Improvement Plan are sound.	H	10	Audit Needs analysis and Risk register THH 010022	A Great Place to Live Provide affordable housing and develop strong neighbourhoods

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Systems Development work <i>(On-going)</i>	The objective of this work will be to advise management on procedures and controls during the systems development stages.	H	10	Audit Needs analysis risk register	One Tower Hamlets Working efficiently and effectively as One Council
Contract Audits <i>(On-going)</i>	A sample of building contracts will be selected to test the arrangements for administering and managing these contracts to provide assurance on cost and programme control.	H	15	Audit Needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Health and Safety <i>(Completed)</i>	This audit will provide assurance that there are sound systems and procedures for management of Health and Safety at work across THH.	H	10	Audit Needs analysis and Risk Register THH010009	One Tower Hamlets Working efficiently and effectively as One Council
Effectiveness of Probationary Tenancies <i>(Scheduled in quarter 4)</i>	This audit will provide assurance over the effectiveness of the current systems and controls over the granting of probationary tenancies.	M	10	Management Request	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Management of garages, sheds and estate parking spaces <i>(In progress)</i>	This audit will examine systems and controls for managing and monitoring income and expenditure relating to garages, sheds and estate parking spaces in all Housing areas to ensure that systems are sound and secure.	M	15	Audit Needs analysis and Management request.	A Great Place to Live Provide affordable housing and develop strong neighbourhoods

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>					
Follow Up Audits <i>(On-going)</i>	We will carry out follow up audits to ensure that recommendations made are progressed and implemented.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
<u>Development and Renewal</u>					
Housing Property Buy Back <i>(Completed)</i>	The objective is to provide assurance over the management and control of the buy back scheme to ensure that the systems are efficient, effective and achieve the objectives of the Council.	H	10	Audit needs analysis	A Great Place to Live Provide affordable housing and develop strong neighbourhoods
Planning fees and charges <i>(Completed)</i>	This audit will examine systems for managing and controlling the collection and banking of planning fees.	H	10	Audit Needs analysis and Directorate Risk Register DRP0005	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Building Schools for the Future <i>(Scheduled in quarter 3)</i>	Building contract audits will be carried out on the building works at the non-sample schools in the BSF programme to provide assurance that cost and programme controls are adequate during the currency of the contract. Post contract audits will be carried out on completed sample schools to provide assurance that objectives of the building programme have been achieved, final accounts audited and lessons learnt are factored into the future development work.	H	25	Strategic Risk register CSG0005 and Audit needs analysis	A Prosperous Community Support lifelong learning opportunities for all.
Programme and Project Management <i>(Scheduled in quarter 3)</i>	This audit will review the Directorate's compliance with the Corporate Programme and Project Management procedures. A sample of strategic projects will be selected to test compliance.	H	10	Directorate Risk register DRC0003 and Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Community Building Portfolio Management <i>(Scheduled in quarter 4)</i>	The objective is to provide assurance over the management and control in relation to the Council's Community Building Portfolio.	M	15	Directorate Risk register DRD0001	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development and Renewal</u>					
Procurement <i>(In progress)</i>	The Council's Procurement procedures make provision for the Directorate to make arrangements for obtaining and accepting competitive offers and quotes for goods, services and works below EU Thresholds. This audit will examine and evaluate systems at the Directorate level.	H	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Repairs and Maintenance of Administrative Buildings <i>(Scheduled in quarter 4)</i>	To review systems for procuring, ordering, paying and contract managing repairs and maintenance contracts	M	15	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Community Equipment Store <i>(Scheduled in quarter 3)</i>	The objective of this audit is to provide assurance over the systems and procedures in place for ordering, paying and controlling OT equipment.	M	10	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People and support Families
Contract management and monitoring <i>(In progress)</i>	This audit will examine systems for managing and monitoring a sample of contracts awarded by the Directorate to ensure that there are sound and secure contract monitoring arrangements in place at the Directorate level.	H	15	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People and support Families
Integrated Commissioning of Mental Health <i>(Scheduled in quarter 4)</i>	This audit will review the systems and controls for commissioning mental health services for adults using the integrated commissioning approach.	H	15	Directorate Risk register AH0014	A Healthy Community Support Mental Health services to improve mental health

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Adults, Health and Wellbeing</u>					
Implementation of Personalisation Agenda <i>(Scheduled in quarter 3)</i>	This audit will provide assurance that there are sound systems in place for implementing the personalisation agenda.	H	15	Strategic Risk Register AH0009 and AH0010	A Safe and Supportive Community Empower Older and Vulnerable People
Out of Hours Social Care <i>(Scheduled in quarter 3)</i>	To examine systems and procedures for managing and controlling out of hours social care, ensuring that systems are sound and secure.	M	15	Audit needs analysis	A Safe and Supportive Community Empower Older and Vulnerable People and support Families
Quality Assurance <i>(In progress)</i>	This audit will review the Directorate's quality assurance systems to ensure that the procedures are sound and secure and recommendations made by the team are implemented.	M	10	Audit needs analysis	One Tower Hamlets Working efficiently and effectively as One Council
Establishment Control <i>(Completed)</i>	To review systems and procedures for controlling and monitoring establishment levels.	M	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Resources</u>					
Housing and Council Tax Benefit <i>(Scheduled in quarter 4)</i>		H	15	}	One Tower Hamlets Working efficiently and effectively as One Council
General Ledger incl. Budgetary Control <i>(Scheduled in quarter 3)</i>		H	10		
Cashiers / Cash income <i>(Scheduled in quarter 3)</i>		H	10		
Council Tax <i>(In progress)</i>		H	10		
Sundry Debtors including Recovery and Write offs (testing) <i>(Scheduled in quarter 3)</i>	Reviews of key financial systems to provide assurance to management in preparing in the annual statement of accounts and to support the authority's "managed" audit approach.	H	15		
				Audit needs analysis	

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Creditors and R2P (Full systems) <i>(Scheduled in quarter 4)</i>		H	20		
Capital Accounting <i>(Scheduled in quarter 3)</i>		H	7		
Pensions <i>(Scheduled in quarter 3)</i>		H	8		
N.N.D.R. <i>(In progress)</i>		H	10		
Personnel/Payroll (Systems) <i>(Scheduled in quarter 4)</i>		H	15		
Housing Rents (testing) <i>(Scheduled in quarter 4)</i>		H	10		
Treasury Management (systems) <i>(Scheduled in quarter 4)</i>		H	10		
Competitive tendering <i>(In progress)</i>	This review will seek to provide assurance over the soundness and adequacy of the Council's competitive tendering arrangements for procuring works, goods and services.	H	20	Audit Needs analysis	One Tower Hamlets Working efficiently and effectively as One. Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
Grant Claim - Teachers Pensions Return <i>(Completed)</i>	This is an annual audit which will examine the deduction, processing and payment of teachers' pensions contribution to provide assurance to the Audit Commission certifying the Grant Claim.	H	15	Audit Commission requirement	One Tower Hamlets Working efficiently and effectively as One Council
Payments by CHAPS <i>(Completed)</i>	To provide assurance that these systems for making and approving these payments are sound and secure to protect Council's assets and interests.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Payments By BACS <i>(Completed)</i>	To provide assurance that these systems for making and approving these payments are sound and secure to protect Council's assets and interests.	M	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Out of Hours Emergency Service <i>(Completed)</i>	This audit will provide assurance that the out of hours emergency service is operating efficiently and effectively to achieve the objectives and priorities of the Council.	H	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Contract Audit</u>					
Contract Audit Reviews <i>(On-going)</i>	These audits will examine sample capital and revenue contracts to ensure that required works/services are carried out and provided and that payments made were in line with the contract obligations.	H	50	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
<u>Information Technology Audits</u>					
To be determined from operational risk analysis / management consultation	A separate Computer Audit Plan will be devised following the review of the computer audit strategic plan. The plan will include application reviews encompassing the key financial systems.	-	100	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council.

INTERNAL AUDIT PLAN – 2010/11

Audit Name	Broad Scope	Priority	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Value for Money Audits</u>					
Translation Service <i>(Scheduled in quarter 4)</i>	Directorates of the Council use various providers to deliver translation services. Our review will focus on the present arrangements for translation services and whether these provide value for money	M	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One. Council
<u>Proactive Fraud Work</u>					
	A provision of fraud awareness and anti-fraud activities. A separate anti-fraud plan has been devised.	H	50		One Tower Hamlets Working efficiently and effectively as One.
<u>Management Requests</u>					
	A provision for servicing various management requests for advice and other systems development work.	H	138		One Tower Hamlets Working efficiently and effectively as One.
<u>Follow Ups</u>					
	Follow-up of reviews carried out in 08/09 to ensure implementation of audit recommendations.	H	150		One Tower Hamlets Working efficiently and effectively as One.
<u>Management Time</u>					
	This is a provision for management time required to direct, control and monitor the work of the audit team.		100		
<u>Reactive Fraud</u>					
	A provision for work carried out on investigating and reporting upon reported irregularities and fraud	H	100		

Governance-based Audit Assessment Methodology

Assessment Categories

The Risk Assessment model takes account four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the proposed four assessment categories and what each is intended to measure.

Assessment Category		Measure
A	Corporate Importance – Objectives/Priorities	Corporate materiality
B	Corporate Sensitivity – Impact	Reputational materiality
C	Inherent Risk	Inherent vulnerability
D	Control Risk	Control effectiveness

The full definition for each category and the scoring criteria are described below.

Assessment Process

Assessment was based on professional judgement after careful consideration of the key risks to the authority with the Executive Directors and other key officers, a review of current and previous audit plans and strategic issues facing the authority. The following steps were followed in performing the risk assessment:

Step	Action
1	Select the System and Corporate Controls to be risk assessed, to ensure a clear and unambiguous understanding of the area under review. This is normally called the Auditable Area
2	Select the most appropriate assessment criterion and therefore the score in each assessment category
3	Record the scores.
4	Compute the risk index by reference to the following section

Calculation of the Audit Risk Index

Internal Audit risk is the product of risk and materiality. In valuing materiality it is appropriate to add the constituent assessments of Corporate Importance and Corporate Sensitivity to generate a Materiality Factor on a scale of 100.

Total Risk is the product of inherent and control risk. For the purposes of simplicity in this model Inherent Risk is assessed on a scale of 5-10 and Control Risk on a scale of 2-10. The minimum Risk Factor is produced by multiplying these components is therefore 10% (2 x 5).

The Audit Risk Index for each auditable area is, therefore, the Materiality Factor multiplied by the Risk Factor.

Results of the Audit Risk Assessment

The structured list of auditable areas with illustrative assessment scores is recorded and the summarised scores used to give the Risk Factor and Materiality Factor and the resultant Audit Risk Index.

The list of auditable areas is then ranked by reference to the Audit Risk Index and grouped as high, medium or low priority. The top third are considered to be high priority, the next medium priority, and the bottom third low priority.

Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.

Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	or	Minor inconvenience	or	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	or	Difficult to recover	or	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	or	Permanent loss of data	or	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	or	Unable to restore system	or	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	or	Organisation unable to function	or	Over 50% of total operating income or net assets

Internal Audit Risk Assessment Matrices

B Corporate Sensitivity This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.

Score	Risk to Public Image		Risk of Adverse Publicity		Risk to Accountability		Risk of non-legal Compliance
10	Negligible consequences					or	No regulatory requirements
20	Some public embarrassment but no damage to reputation or standing in the community	or	Information would be of interest to local press			or	Minimal regulatory requirements and limited sensitivity to non-compliance
30	Some public embarrassment leading to limited damage	or	Information would be of interest to local MPs			or	Modest legal and regulatory requirements
40	Loss of credibility and public confidence in the service concerned	or	Incident of interest to National Press	Or	Incident potentially leading to the dismissal or resignation of the responsible functional manager	or	Extensive legal and regulatory requirements with sanctions for non-compliance
50	Highly damaging with immediate impact on public confidence	or	Incident of interest to the Audit Commission, government agencies	Or	Incident potentially leading to the resignation or dismissal of a Chief Officer	or	Possible court enforcement order for non-compliance

Internal Audit Risk Assessment Matrices

C Inherent Risk This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability		Risk of Error due to System Complexity		Risk resulting from Pace of Change		Risk to Asset Security
5	Low vulnerability		Simple system with low risk of error	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	Highly desirable assets exposed to high risk of fraud or loss

Internal Audit Risk Assessment Matrices

D Control Risk This aspect assesses the level of control risk based upon the results of past audits of the control environment under review. This aspect also takes into account of the operating history and condition of systems and processes and knowledge of management controls to minimise exposure to risk. CRSA and extensive Control Risk Workshops under the leadership of the Council’s Risk Manager could support evaluation.

Score	History of Risk Management Success		Management Risk and Control Environment		Condition of Risk Management Controls
2	No history of control weakness	or	There is effective risk management in place and adequate controls operated by risk-aware management	or	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	or	Good management risk and control environment	or	Stable system with history of reliability and controls. Risk management issued considered regularly.
6	No high risk issues outstanding from the previous audit/investigation/best value/external review	or	No knowledge of management risk and control environment	or	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	or	Some significant concerns have been expressed by management (through Controls Risk Workshops)	or	Technical health of system of risk management and controls in doubt.
10	Major weaknesses in risk management and controls were identified and are known to be outstanding	or	Major concerns have been expressed by management (through Controls Risk workshops)	or	Obsolete system with history of problems and ineffective control. Little or no work undertaken on risk management.

Internal Audit Strategy

Introduction

What is Internal Audit?

Internal Audit is a review function within an organisation. Essentially it exists to perform the following roles:

- review systems of risk management, internal control and governance to ensure that these are sound and effective.
- to provide an assurance opinion on the soundness of the organisation's risk management and internal control frameworks.
- to add value to the organisation's operational activities by recommending enhancements to systems and identifying potential efficiencies.

Perhaps the most succinct definition of Internal Audit is provided by the Institute of Internal Auditors – UK and Ireland (IIA-UK), as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Authority's Internal Audit Charter defines the function of Internal Audit, with specific reference to its role within the Authority, in the following way:

Internal Audit is an independent review function established as a service to Members, the Audit Committee and all levels of management. The Internal Audit Service is responsible for the independent assessment of the adequacy and effectiveness of the procedures and controls within systems operating within all of the Council's activities. It also has a responsibility to provide assurance to management that the Authority's risk management and corporate governance arrangements are satisfactory.

Why do we need an Internal Audit Strategy?

An Internal Audit Strategy outlines the means by which Internal Audit seeks to achieve its stated aims and objectives. The strategy is the plan for the effectively delivery of the Internal Audit service.

This document sets out Internal Audit's strategic approach, which should facilitate:

- on an annual basis, the provision to the S151 officer of an overall opinion on the Authority's risk management, control and governance, to support the preparation of the Statement of Internal Control;
- audit of the Authority' risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Authority's objectives and risks;

- improvement of the Authority's risk management, control and governance by providing line management with recommendations arising from audit work;
- the identification of audit resources required to deliver an audit service which meets the CIPFA Code of Practice 2006 for Internal Audit in Local Government;
- effective co-operation with external auditors and other review bodies functioning in the Authority; and
- provision of assurance and consultancy services by Internal Audit.

The Role and Purpose of Internal Audit

The role of Internal Audit is to understand the Authority's key risks, and to review and evaluate the adequacy and effectiveness of the systems of internal control, risk management and corporate governance that are in operation at the Council, to ensure that they are sufficient for the purposes of mitigating risk.

It is a statutory requirement for Local Authorities to have an internal audit function, under S151 of the Local Government Act 1972. The Act also stipulates that Internal Audit should have unrestricted access to all information and records retained by the Authority. This enables Internal Audit to comprehensively review, appraise and report on the authority's functions as outlined in the Audit Charter.

Strategic Aims

Internal Audit exists to support the Council in the achievement of its corporate objectives. In particular:

- Internal Audit will support the Authority's aim to provide quality public services, by evaluating and reporting on the standard of systems of internal control in Council service areas;
- Internal Audit will support the Authority in working to the values set out in its corporate plan by providing the Head of Risk Management, the Director of Resources and the Audit Committee with reports on the extent of compliance with the Authority's Code of Corporate Governance;
- Internal Audit will contribute to the delivery of the Authority's community aims through professional audit reviews and effective recommendations for improving systems that support the Council's organisational aims;
- Internal Audit will assist the Director of Resources in the discharge of his statutory responsibilities for ensuring the proper administration of the Authority's financial affairs and will contribute to the Authority's aim of maximising and making best use of its financial resources through:
 - Risk based reviews of financial systems;
 - Advice on the adequacy and effectiveness of controls in new and developing systems;
 - Promotion of best practice across the Authority;
 - Advice on the prevention and detection of fraud affecting the Authority and investigation of waste or abuse within the Council systems.

Internal Audit & Risk Management

Risks are potential events or occurrences that may have an adverse effect on the organisation's ability to achieve its objectives. Risk Management is the process of identifying, evaluating and responding to risks in order to mitigate them. Risk Management is not the responsibility of Internal Audit. However, Internal Audit will use the authority's risk management framework to focus its work by concentrating on those areas that are most critical to the authority. Consequently, Internal Audit will review the authority's risk registers on a six monthly basis and where necessary amend the internal audit plan to ensure audit resources are continually focused on areas identified by management where the objectives may not be achieved.

Dimension 4 from the CIPFA/SOLACE report on good governance highlights Risk Management as being an integral part of good governance. Internal Audit will therefore also examine the authority's risk management arrangements annually and in so doing, also fulfil the requirements of the CIPFA Code of Practice 2006 for Internal Audit in Local Government to report formally on the authority's arrangement for Risk Management.

Identifying Audit Coverage

In order to identify the auditable systems and establish the areas of risk or specific importance within the authority, Internal Audit will adopt an approach involving discussion and review of the current position. Information will be gathered by meeting key officers within the authority including Corporate Directors and Finance Managers, the Chief Executive and other key officers within the authority. Internal Audit will also discuss the requirements of the External Auditors and the requirements of the "managed audit" approach to ensure those areas upon which our external auditors would seek to place reliance on the internal audit work are included within the internal audit programme. Details of the "Governance" Based Strategic Planning are attached to this paper for information.

In compiling its work programme, Internal Audit will make use of information available within the authority to identify auditable systems, such as

- the authority's risk registers, to ensure risks are being managed properly;
- background information obtained from previous audits and our discussions to date with the authority;
- experience of issues raised at other public sector organisations after carefully considering key risks to the authority; and
- current and previous audit plans and strategic issues facing the authority.

For each auditable system, Internal Audit will classify the systems into one of three risk bands according to the system's significance to the authority: High (H), Medium (M) or Low (L). It is recognised and appreciated that Internal Audit cannot review all auditable systems within the authority each year as both financial and human resources are limited. Internal Audit will therefore seek to use the resources available to review those auditable systems that are most significant to the authority. Hence, all systems highlighted as being highly significant will always be included within the annual audit plan. A proportion of medium significance audits will also be included in the plan. In deciding which medium-significance auditable system to review, we will use our assessment of the system and discuss with management those areas that will add value. It is highly unlikely the resources will permit the inclusion of auditable units that are of low significance to the authority and therefore these auditable units will feature on the Internal Audit plan unless specifically requested by management.

Delivering the Strategy

The strategic internal audit plan will be compiled annually for each financial year and only comprise those systems due for review in that year. The strategic plan will therefore relate to one financial year and be subject to a formal six monthly review.

Internal audit will primary perform risk based audits, all exceptions to this will require prior agreement from the Head of Risk Management. The risk based approach entails examining the objective of the auditable system, the risks relating to the delivery of those objectives and an assessment of the adequacy and effectiveness of the control framework to achieve the desired objectives.

Audit Reporting

The reporting arrangements for Internal Audit are detailed in the Internal Audit Charter under “Reporting”.

Quality

All internal audit work will be subject to rigorous review and quality assurance procedures. This will entail:-

- planning the scope of the audit to ensure focus on areas of risks and concerns;
- supervision of audit work by the Audit Managers;
- a formal review and sign off of the audit report and audit file by the Audit Managers;
- further formal reviews of all reports and sign off for issue to auditee by the Partnership Manager;
- obtaining feedback and comments from the auditees and Directors;
- seeking feedback from the external auditors; and
- bench marking Internal Audit quality control procedures with other similar organisations.

LONDON BOROUGH OF TOWER HAMLETS

INTERNAL AUDIT TERMS OF REFERENCE

1. Introduction

- 1.1 The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires that a “relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”. These regulations also require that provision for Internal Audit must be made in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.
- 1.2 “Proper internal audit practices” is defined in the additional guidance to the Accounts and Audit Regulations as compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the CIPFA Code of Practice). Standard 1 of the Code of Practice refers to the scope of internal audit and the need to formally define this role in its Terms of Reference.
- 1.3 The CIPFA Code of Practice covers the following:
- Scope of internal audit
 - Independence
 - Ethics for internal auditors
 - Audit committees
 - Relationships
 - Staffing, training and continuing professional development
 - Audit strategy and planning
 - Undertaking audit work
 - Due professional care
 - Reporting
 - Performance, quality and effectiveness
- 1.4 Internal Audit activity at LBTH is carried out in accordance with the CIPFA Code of Practice, and the Borough’s Financial Regulations and Procedures. The Institute of Internal Auditors provides authoritative standards and guidance for the internal audit profession via its Professional Practices Framework, and these are used to supplement the CIPFA Code of Practice and Financial Regulations and Procedures as appropriate.

2. Definition

- 2.1 The CIPFA Code of Practice defines the internal audit function as, “an assurance function that provides an independent and objective opinion to the organisation on the control environment (comprising the systems of risk management, internal control and governance) by evaluating its effectiveness

in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

2.2 The control environment comprises the Council's systems of governance, risk management and internal control. The key elements of the control environment include:

- Establishing, and monitoring the achievement of, the Council's objectives;
- The facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- The financial management of the organisation and the reporting of financial management; and
- The performance management of the organisation and its reporting of financial management.

3. Independence and Scope

3.1 The Internal Audit Service is part of the Resources Directorate and operates independently of the activities that it audits in order for it to make impartial and effective professional judgments' and recommendations. In order to ensure that it can deliver on these terms of reference, an annual risk assessment is undertaken with input from all Directorates and the Council's External Auditors to determine a risk based programme of assurance and other work. This programme is compared to the resources available to deliver it, in order to ensure that it can be achieved within the approved level of Internal Audit resources.

3.2 The scope of Internal Audit allows full access to all of the Borough's activities, including both financial and non-financial systems of internal control. Internal Audit can also, where resources and skills exist, provide independent and objective services, including consultancy and fraud-related work.

3.3 Where Internal Audit staff have been consulted during system, policy or procedure development, they will be precluded from reviewing and making comments during routine or future audits in those areas.

4 Responsibilities and Objectives of Internal Audit

4.1 Internal Audit is responsible for:

- Agreeing an audit strategy with the Audit Committee;
- Agreeing an annual audit plan with the Audit Committee and carrying out the agreed work in line with appropriate professional standards;
- Providing assurances, advice, opinions and making recommendations to improve processes and systems where appropriate;
- Investigating as appropriate fraud and financial irregularities, whilst acknowledging that managing the risk of fraud and corruption is the responsibility of management;

- Reporting to the Audit Committee and the s151 Officer any significant business risks, serious control weaknesses, significant fraud or other major control breakdown;
- Complying with requests for information from the s151 Officer, Audit Committee, or the Borough's External Auditors;
- Liaising with External Audit and other external bodies as appropriate;
- Maintaining effective communication with the Borough's managers;
- Offering advisory services without assuming management responsibility or jeopardising achievement of the audit plan;
- Providing performance measures to demonstrate effectiveness of the Internal Audit service;
- Producing an annual report for the Audit Committee, giving an opinion of the Borough's control environment; and
- Contributing to the production of the Council's Statement of Internal Control.

4.2 The objective of Internal Audit is to provide a professional high quality and effective audit service that is responsive to the needs of all stakeholders. The work of Internal Audit will add value to the services provided by the Council by identifying areas for improvements and by offering advice and assistance to Management.

5. Access

5.1 There are no limitations in Internal Audit's right of access to Borough officers, records, information, or premises which it considers necessary to fulfil its responsibilities. These rights of access are set out in the Borough's Constitution.

5.2 The Head of Audit has a right of direct access to the Chief Executive and the Chair of the Audit Committee. In turn, Internal Audit agrees to comply with any requests from the External Auditors and other relevant external bodies for access to any information, files or working papers obtained or prepared during audit work that they need to discharge their responsibilities.

5.3 Where key services are to be provided to the Council by other contractors or through a partnership, in order for Internal Audit to form an opinion on the controls operating, a right of access to relevant information and documents should be included in contracts or agreements concerned. In order to obtain assurance regarding the control environment within each partnership that provides a key service, the Head of Audit in consultation with all relevant parties, whether Internal Audit staff conduct the work to derive necessary assurance or if reliance (or partial reliance) can be placed on the work of other auditors.

6. Approach

6.1 Internal Audit employs a risk-based, systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes by assessing the:

- Identification and management of business risks;
- Soundness, adequacy and application of the internal control systems;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets from fraud, irregularity or corruption; and
- Compliance with laws, regulations, contracts and established policies, procedures and good practice.

6.2 The provision of the Internal Audit is managed by:

6.3 The provision of the Internal Audit is managed by:

- Preparing an audit plan for the Council's key financial systems and a risk-based annual audit plan for agreement by the Audit Committee;
- Ensuring audit work is supervised, recorded and reported; and
- Preparing an annual report on the work of internal audit for submission to the Audit Committee, giving an overall opinion on the reliability of the system of internal control.

7. **Consultancy and Advice work**

7.1 Internal Audit can provide support and advice to managers, particularly regarding the interpretation and application of Contract Standing Orders and Financial Regulations.

7.2 Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

8. **Fraud**

8.1 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.

8.2 Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

8.3 The Head of Internal Audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

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Agenda Item 63

REPORT TO: Audit Committee	DATE 14th December 2010	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Annual Governance Statement for the 2009/10 Accounts Update		
ORIGINATING OFFICER(S): Service Head Risk Management				
		Ward(s) Affected: N/A		

1. Summary

- 1.1 This report updates the Audit Committee of the progress made in dealing with the significant issues identified within the annual governance statement.

2. Recommendation

- 2.1 The Audit Committee is asked to note the action in dealing with the issues raised on the annual governance contents of the report.

3. Background

- 3.1 The Accounts and Audit Regulations 2003 and its subsequent amendment by regulation 4(2) in 2006 require the Council to conduct a review, at least annually of the effectiveness of its governance arrangements and to publish an Annual Governance Statement (AGS) with the annual financial statements. The Statement of Recommended Practice requires the AGS to be approved by the committee approving the accounts, which at Tower Hamlets is the Audit Committee.
- 3.2 The statement for the year ending 30 June 2010 was presented at the CMT on 15th June 2010 and subsequently to the Audit Committee on 13th July 2010. The statement was signed by the Chief Executive and the Leader following completion of the external audit of the annual financial statement.
- 3.3 The table appended to this report outlines the governance issue raised on the AGS, the agreed action and progress to date. The table also refers to directorate or corporate plans to link the actions with the Council's performance management framework.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

Minesh Jani, 0207 364 0738

4. Comments of the Chief Financial Officer

- 4.1 The comments of the Chief Financial Officer are contained within the report of which he is the author.

5. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 5.1. The Council is required under the Accounts and Audit Regulations 2003 to ensure adequate and effective financial management and a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. This must be reviewed at least once each year and a report provided to committee, which must approve a statement on internal control. It is consistent with the maintenance of a sound system of internal control, that the Council should produce an Annual Governance Statement and monitor performance against that.
- 5.2. The Council's Constitution provides that it is the function of the audit committee to be satisfied that the annual governance statement properly reflects the risk environment and any actions required to improve it. It is entirely proper that the audit committee should receive reports on progress against issues identified in the statement.

6. One Tower Hamlets Considerations

- 6.1 This progress update on significant issues from the Annual Governance Statement on 2009/10 Financial Year should allow the Audit Committee to focus on management action taken to date to improve risk management and control in order to provide strong leadership and inclusive services.

7. Anti-Poverty Considerations

- 7.1 There are no specific Anti-Poverty issues arising from this report.

8. Risk Management Implications

- 8.1. The progress update on significant governance issues should provide assurance to members that key risks associated with progressing these issues are being addressed and managed.

9. Sustainable Action for a Greener Environment (SAGE)

- 9.1 There are no specific SAGE implications.

4. Progress Update on Significant Issues from the Annual Governance Statement 2009/10

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>To model an efficiency programme to take account of the likely reduction in future funding across public sector.</p>	<p>The authority has identified a savings target of £18m a year the next three years arising from the Government action likely to be necessary to tackle the UK's public spending deficit. This is much greater than the target in previous years and the incremental approach adopted in the past does not lend itself to this scale of problem.</p> <p>The authority has established a Service Options Review which will examine the strategic opportunities for delivering the savings. A clear savings target has been set of £55m over the next three years.</p> <p>Directorates have been challenged to identify savings to the scale required and this information has been fed into the review. The Review will go on to supplement the proposals brought forward by Directorates and identify strategic savings opportunities, likely to include some of a transformational nature, which will be governed through the Council's Transformation Board. A key component of the programme will be to ensure that a system is in place to secure the financial benefits of the transformation in the form of cashable savings.</p> <p>{Priority 1.2 (5) Strategic Plan and priority 5 – Resource's Directorate Plan}.</p>	<p>The Service Options Review was completed as set out. In the light of successive Government announcements in relation to funding, the Medium Term Financial Plan projection has been kept under review in order to identify the need for further savings as early as possible if necessary. Strategic opportunities for savings have been identified and are now in course of implementation assisted by a remodelled Programme Management Office and refreshed governance arrangements led by CMT Transformation Board.</p>	<p>Corporate Management Team</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Optimise asset management across public services to enable Council assets to be utilised in the most effective way.</p>	<p>Partners such as the Metropolitan Police and NHS Trusts are now members of the Council's Capital and Asset Management Board and are also involved in the development of the Asset Strategy Pilot in LAPS 1 & 2. The Asset Strategy is now fully aligned with the service integration/localisation agenda, which fully involve partners. The Pilot is dependent on progress with localisation but is expected to be ready in draft by December 2010 {Priority 6 – Strategic Plan}.</p>	<p>In January 2011 Cabinet will be asked to approve a programme for the sale of surplus assets and a new Asset Strategy.</p> <p>A “Better Asset Management” programme has been established as part of the Transformation Programme that will specifically look at better use of assets through reducing running costs, increasing income and selling surplus property.</p> <p>The pilot in LAPs 1 & 2 is well advanced and tied in with the work of Localisation Board. Initial conclusions from this pilot, with details of existing costs and a possible “blue print” for future properties will be concluded by the end of 2010.</p>	<p>Corporate Directors Resources and Development and Renewal</p>

Governance Issue	Action taken and next steps - June 2010	Progress Made To Date	CMT Lead
To further enhance particularly in relation to disaster recovery	The authority has a framework for business continuity planning and management. However, further enhancements will be made to ensure the authority can respond to a catastrophic disaster and its ability to access all essential IT applications {Priority Res011 – Resources Directorate Plan}.	<p>Work to enhance the Council's Disaster Recovery capability to meet minimum requirements has been approved and is in-progress. To date the critical Council IT Services and their relative recovery priority has been agreed and communicated. A GAP analysis for the supporting Disaster Recovery Contract and documentation has been carried out to identify shortcomings. In line with this analysis changes to the existing Disaster Recovery contract have been identified and will be implemented by the end of November 2010.</p> <p>In addition to the above work a detailed CICT Disaster Recovery plan has been produced with documented assumptions and responsibilities. In order to validate the assumptions and ensure that supporting documentation is in place and fit for purpose the regular 6 monthly ICM D/R tests (starting with the one scheduled for 29/11/10) will be used to deliver fully documented Disaster Recovery tests verifying the planning assumptions associated with the D/R plan and ensuring that the supporting documentation is complete and up to date. The initial focus is on the critical line of business applications including Framework-I, JD Edwards One World, iWorld Benefits and Housing, ResourceLink as well as core services including Email.</p>	Corporate Director Resources and Corporate Director, Communities Localities and Culture

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars.</p>	<p>Following a mock inspection of the Council's Arms Length Management Organisation (Tower Hamlets Homes) in June 2009 a Service Improvement Plan was developed. This was refreshed in February 2010 and agreed with the Council as one of the suite of documents which govern the operations of the ALMO under the terms of the Management Agreement. This allows the ALMO and the Council to focus on those areas where there is the greatest risk at inspection and where the need for a stronger customer focus is most intense.</p> <p>The clienting procedures within the Council have also been strengthened in recognition of the importance of the need to drive change in the ALMO</p> <p>As a Round 6 ALMO funding for this scheme is not fully committed at this stage. Discussions continue with the HCA and the need for such investment has been prioritised in the draft Borough Investment Plan which will be agreed with the HCA by September 2010.</p> <p>Other regeneration opportunities have been progressed and the Ocean estate scheme has achieved start on site and 40Million funding from HCA. {Priority 14 – Strategic Plan and 2.1.4.2 Directorate Plan}.</p>	<p>Audit Commission Inspection is scheduled for 22/11/10. There is a full programme of Inspection Readiness delivered by LBTH and THH. Inspection Readiness Checks are made on a quarterly basis. A balanced scorecard approach will be adopted, focusing on:</p> <ul style="list-style-type: none"> • Outcomes and evidence (against the KLOEs); • Performance/benchmarking; • Service Improvement Plan (SIP) delivery; • Value for money and financial performance. <p>The HCA have agreed the Business Improvement Plan (BIP) in Oct 2010. Funding negotiations will now move on to the Borough Investment Agreement. Recent HCA announcement on ALMO funding (Nov 10th 2010) will result in a review of the ALMO's Decent Homes procurement plans.</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Arrangements for Safeguarding Children / Child Protection.</p>	<p>Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council has reviewed referral and safeguarding arrangements with social care and where necessary strengthened current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children's Services and enhancing the use of Framework I, the Council's case management system. The next steps involve implementing all appropriate remaining recommendations, in particular, assessing potential increase in social worker requirements and taking heed of further guidance. {Priority 60, Strategic Plan}.</p>	<p>Considerable focus remains on this area of work. Currently central government have commissioned Professor Eileen Munro to further review the approach to child protection. The final report is due in April 2011 (this follows on from the Laming review and will replace the laming revisions) . Locally, Tower Hamlets has volunteered to be a journey authority to assist with this Munro review.</p> <p>Tower Hamlets local safeguarding children's board continues to undertake a range of initiatives to support challenge and governs this complex area of intervention in family life.. The significant operational pressures currently experienced within children's social care services have been raised with both the corporate safeguarding board and corporate management team.</p>	<p>Corporate Director, Children, Schools and Families</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Improve information governance across the authority.</p>	<p>A number of steps are to be taken to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords. A Project is now in place to implement full encryption for all mobile devices. This will be implemented for the most vulnerable devices first and all remaining devices by September 2010 {Priority Res011 – Resources Directorate Plan}.</p>	<p>This project has been implemented and is ongoing. 110 laptops are fully encrypted, 800 laptops are undergoing encryption under the programme due to finish in January 2011.</p> <p>180 laptops are too old and need replacing but remain with secure Bios protection until they are replaced.</p>	<p>Assistant Chief Executive (Legal)</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts</p>	<p>Guidance is already available through the contracting toolkit. Work is underway to broaden and strengthen our approach and this will be submitted to Competition Board for approval in September. A proposal for a standard self-assessment approach to contract management is currently being developed, for approval by Competition Board and subsequent roll-out across the Council.</p> <p>Systems have been improved for recording and filing contract documentation. Work is underway with Legal for setting up a repository of contract documents. This will be finalised by end June 2010.</p> <p>Unauthorised contract extensions have largely been addressed through revision of the Procurement Procedures in 2009. The updating of the contracts register, which will be completed by end May 2010, will provide the assurance to prevent unauthorised extensions.</p> <p>{Priority 8 – Resource’s Directorate Plan}.</p>	<p>A proposal with regards to procurement training has now been tabled to the Planning Forum, which has then been taken to the Competition Planning Forum. This work has included a proposal for Contract Management training.</p> <p>A purpose built storage system has been installed in a dedicated area to create a contract repository. This will be complimented with a new system for numbering all contracts held. The filing cabinets are locked, have restricted access and Officers requiring to view contracts will have to sign for them, and not be allowed to take them away. There will be strong correlation between the Contract Register and the Repository to ensure contracts are accounted for.</p> <p>A proposal for reviewing the Contracts Register has been agreed by the Competition Board. This will ensure that the Officers requiring training in Contract Management techniques.</p>	<p>Corporate Director, Resources</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
Termination of Chief Officer's employment.	Responding to the Audit Commission's recommendation the process will be clarified by introducing a protocol referred to in the Constitution by July 2010. This makes the responsibilities of officers and members clear when the termination of a Chief Officer's employment is being considered. {Priority within Chief Executive Directorate Plan}.	The change to the Constitution was agreed at Council in November and is now being implemented.	Assistant Chief Executive (Legal)

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>Pupil Place Planning - expanding school provision to meet rising demand for places.</p>	<p>Action has been taken to identify short term primary place needs (for 2010/11 School Year) and develop technical feasibility of temporary school expansion. The pupil projections model has also been enhanced to ensure pupil place planning is based on robust data.</p> <p>Work is underway with the Development and Renewal directorate to integrate two planning models to provide one single comprehensive projection model by September 2010 and have in place strategic provision of additional primary school places to 2019/20 school {Priority CYPP, ECS – Children Schools Family Directorate Plan}.</p>	<p>Report to Cabinet in August 2010 on School Estate Strategy (primary and secondary) and further report to Cabinet in December 2010 seeking agreement to possible site identification.</p> <p>Work with the Development and Renewal Directorate on pupil projection model continuing to confirm validity of output.</p>	<p>Corporate Director, Children, Schools and Families</p>

Governance Issue	Action taken and next steps as at June 2010	Progress Made To Date	CMT Lead
<p>To review and ensure the delivery of additional housing to reduce overcrowding.</p>	<p>The council is committed to providing high quality housing in line with the needs of the community. An Overcrowding Strategy has been agreed, which involves all partner RSLs in the borough as well as Tower Hamlets Homes. A programme has been developed to acquire and new build properties to reduce overcrowding {Priority 2.1 (1) – Strategic Plan}. A Right to Buy Buyback programme purchased more than 80 properties of three beds or larger, and despite the recession the Affordable Housing new build target (NI155) was achieved in 2009/10. Responsibility for addressing overcrowding within the Council's own stock has also been formalised with the Council dealing with those tenants who are two or more bedrooms short of need and Tower Hamlets Homes arranging a programme of visits to tenants who are 1 bedroom short of need using an Overcrowding Toolkit which has been developed to standardise the approach to overcrowding, {Priority 15 – Strategic Plan}.</p>	<p>By letting the properties from the buyback programme we have subsequently let a further 154 empty properties to overcrowded families, which means that to date we have helped re-house approximately 230 overcrowded families.</p> <p>(NI155) 132 units completed for Q2 this year.</p> <p>THH have also now completed their Overcrowding Strategy</p>	<p>Corporate Director, Development and Renewal</p>

Agenda Item 64

REPORT TO: Audit Committee	DATE 14th December 2010	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Service Head Risk Management		Annual Internal Audit Report for Schools – 2009/10 Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2009/10.
- 1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by audit. It is envisaged this assessment will be used by the Local Authority in enhancing the governance framework around schools.
- 1.3. During financial year 2009/10, audit visits were carried out to 32 schools. Each audit visit involved compliance testing of systems and procedures in 12 areas of control in accordance with a pre-agreed audit programme. This was then followed by an external assessment of each school's compliance with Financial Management Standards in Schools (FMSiS) required by the then Department for Children, Schools and Families (DCSF). With effect from December 2010, the government has abolished the requirement for each school to be externally assessed once every three years for compliance with the FMSiS.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the content of this report and to take account of the matters raised by audit in each of the 12 areas examined.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

Minesh Jani, 0207 364 0738

3. Comments of the Chief Financial Officer

- 3.1 Any financial implications arising from this report are contained within the body of the report.

4. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 4.1. The Council is required by the Accounts and Audit Regulations 2003 to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. Under the Council's Constitution, the Audit Committee is given the function of reviewing internal audit findings.

5. One Tower Hamlets

- 5.1 The issues raised in the Annual Report have been reported to the Corporate Director, Children, Schools and Families who has put necessary arrangements in place to ensure that the standard of financial management and control is improved and monitored across all the schools in the Council.

6. Anti-Poverty Considerations

- 6.1 There are no specific Anti-Poverty issues arising from this report.

7. Risk Management Implications

- 7.1. The risks involved in each of the control area reviewed by audit are incorporated within the body of the Annual Report.

8. Sustainable Action for a Greener Environment (SAGE)

- 8.1 There are no specific SAGE implications.

CONFIDENTIAL

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDREN, SCHOOLS AND FAMILIES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2009/10**

DATE: OCTOBER 2010

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REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2009/10

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2009/10.
- 1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring of the Borough's schools.
- 1.3. During the 2009/10 financial year, Internal Audit carried out probity audit visits to 15 secondary schools and 17 primary schools. An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.
- 1.4. The 12 control areas examined during the audit are:-
 - Operation of Governance Processes;
 - Financial Planning and Budgetary Control;
 - Control and Monitoring of Schools Bank Account;
 - Procurement, including large single purchases, tendering and Value for Money;
 - Accounting of Income and Expenditure;
 - Charging Policy, Income Collection and Banking;
 - Personnel and Payroll Management;
 - School Meals;
 - Voluntary Fund and School Journey;
 - Asset Controls and Security of Assets;
 - Security of the IT Infrastructure, Disaster Recovery and Data Protection;
 - Risk Management and Insurance.
- 1.5. Thirteen schools were assigned a Substantial assurance, seventeen schools assigned a Limited assurance and two schools assigned a No assurance as a result of the 32 probity visits conducted during 2009/10.

2. Most Common Findings

- 2.1. All schools visited during the year had governing bodies collectively responsible for the overall direction and strategic management. There is a general improvement in Governance as required by the Financial Management Standards in Schools, and this was observed during the probity audits this year.
- 2.2. However, the effectiveness of school governance could be improved to ensure that the Governing Body have properly set appropriate sub-committees and that clear Terms of References have been compiled for these sub-committees. Terms of References often did not clearly outline quorum requirements and the frequency of meetings.
- 2.3. An essential criteria of the Financial Management Standards in Schools is for Governing Bodies to approve financial procedures and delegation policies. Inconsistencies were regularly identified within such policies during the probity audits. Gaps and overlaps were identified in financial delegations to the Governing Body, Finance Committees, Head Teachers and finance staff.
- 2.4. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and all staff with financial management responsibilities.
- 2.5. Un-reconciled items older than six months had not been investigated in a prompt manner. Bank reconciliations were not always signed by both the individual performing and the individual carrying its independent review.
- 2.6. Formal tendering processes were not undertaken as required in some cases and there was no evidence of best value being achieved for some high value purchases. Official orders were not raised by all schools as required to support purchases and there was a lack of documentary evidence that the goods and services received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 2.7. Governors have not always approved a documented charging policy. Where in place, the policy was not always up to date. Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income has been received, the date of receipt, the amount received and the date the income was banked.

- 2.8. The Governing Body has not always approved a pay policy and where these were in place they were often not maintained up to date.
- 2.9. Schools did not have adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools did not retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner.
- 2.10. Inventory records were not consistently maintained and where such processes were in place the format and level of information recorded was often inadequate. Annual inventory checks are not performed consistently across all schools, and where performed, the results of these inventory checks are not always reported to the Governing Body. Portable, attractive and valuable assets were, in many cases, not visible and indelibly security marked by the school. Furthermore equipment loan registers did not generally specify employees' liability/responsibility for equipment.

3. Key Findings by Audit Area

3.1. Operation of Governance Processes

- 3.1.1 All schools had in place a Scheme of Delegation and Finance Procedures policy and this was generally up to date with evidence of regular review. Inconsistencies in delegations were identified, resulting in schools not being compliant with Financial Management Standards in Schools. The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been approved and signed off by the appropriate Chair.
- 3.1.2 Decisions made and papers laid in the full Governing Body meetings are clearly documented within the minutes and the minutes usually made reference to budget monitoring.
- 3.1.3 Where the Governing Body has set up sub committees the Terms of Reference have not been compiled for these sub-committees in all cases. Furthermore completed Terms of References did not outline quorum requirements, frequency in which meetings were to occur and financial limits where appropriate.
- 3.1.4 The Governing Body have put in place a Register of Business Interests of Governors. Instances were found where the Register was not up-to-date at the time of the audit with missing declarations, but schools were prompt to implement this recommendation in order to demonstrate compliance with the Financial Management Standards in Schools. The

opportunity to declare interests is a standing item on most agendas of the Governing Body meetings.

3.2. Financial Planning, Budget Setting, Monitoring and Forecasting

- 3.2.1 Schools have produced comprehensive School Development Plans which include 3 year targets. The plan is produced and reviewed each financial year to ensure resource implications are considered in the budget setting process. Governors are regularly updated on the progress against targets within the plan. However, in several instances approval of the plan was not minuted.
- 3.2.2 The Chair of Governors and the full Governing Body approved the budget plans in a timely manner and are kept informed of budget monitoring outcomes.
- 3.2.3 Income is profiled as part of budget planning and the results of budget monitoring are reported to the Finance sub-committee. Budget monitoring is usually undertaken monthly or as a minimum on a quarterly basis and generally material variances are investigated and corrective action identified.
- 3.2.4 Any virements are generally agreed and approved within the school's framework for delegated authority and are approved or reported to the Governing Body or delegated sub-committee. Approved virements are mostly updated on the school's financial accounting system and notified to the LEA.

3.3. Control and Monitoring over School Bank Accounts

- 3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in a significant number of cases. Several schools also did not retain on site, an up to date bank mandate for both disbursement and unofficial accounts.
- 3.3.2 Adequate arrangements have been established to support separation of duties over cheque production and cashing cheques. Safe security and printed cheque security procedures were adequate in most cases.
- 3.3.3 Bank reconciliations were generally complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. In some cases schools had not investigated un-reconciled items in a timely manner. Furthermore in most instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review.

3.4. Procurement (including large single purchases, tendering & VFM)

- 3.4.1. Schools in general have procedures for obtaining competitive prices and quotations for the purchase of goods and services. Pre-defined limits are identified above which prior approval from the Governing Body is required. In practice however, formal tendering processes were not undertaken as required in some cases. There was no evidence of best value being achieved for some high value purchases.
- 3.4.2 Official orders were not raised by all schools as required to support purchases therefore it was unclear whether the availability of budget was checked prior to purchasing or that purchases were authorised by appropriate individuals in accordance with approved financial delegations. There was a lack of documentary evidence that the goods received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 3.4.3 In the majority of cases, invoices sampled were arithmetically correct and had been certified as approved for payment by an officer with delegated financial authority. The level of segregation of duties for procurement was generally adequate.

3.5. Accounting of Income and Expenditure

- 3.5.1 In the majority of cases, direct credits and debits are posted in a timely manner and journal entries on the financial accounting system were reasonable.
- 3.5.2 There were several instances where weaknesses in the petty cash process were identified. These related to vouchers not being completed fully or being supported by valid receipts.

3.6. Charging Policy and Income Collection and Banking

- 3.6.1 Governors have not always approved a documented charging policy. Where one was in place, the policy was not always up to date.
- 3.6.2 Official receipts were used where appropriate and where receipts were not being issued, compensatory records were generally adequate and reliable.
- 3.6.3 Most schools had a documented lettings policy, which includes the terms and conditions for hiring the premises. Agreements were signed between the school and persons / groups hiring the use of the premises and lettings were authorised by the Head Teacher; charges are made in compliance with an approved rate.

- 3.6.4 In the majority of cases income was regularly and fully banked and bankings were periodically reconciled to the cash-book within the school's financial accounting system.
- 3.6.5 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income has been received, the date of receipt, the amount received and the date the income was banked.

3.7. *Personnel and Payroll Management*

- 3.7.1 Where the Governing Body has approved a pay policy, these were not maintained up-to-date in several schools. Where they had been reviewed annually by a delegated committee, they were not consequently approved by the Governing Body.
- 3.7.2 Evidence of pre-recruitment checks are not always maintained, such as CRB checks, identity checks, references, medical checks, and qualifications checks.
- 3.7.3 Payroll reconciliations are undertaken and authorised for most schools. Adequate remuneration authorisation evidence was not maintained in two schools. There was often a lack of evidence to demonstrate the Governing Body compliance with the Teachers Pay and Conditions Document 2000, by annually approving the remuneration of the Head Teacher, Deputy Head Teacher and Assistant Head Teacher(s) following their performance management reviews.

3.8. *School Meals*

- 3.8.1 A third of schools did not have adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools did not retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner. Income due from pupils for school meals is generally properly recorded and accounted for and records identify arrears and credits.

3.9. *Voluntary Fund and School Journey*

- 3.9.1 The Governing Body has not always approved the Objectives of the Voluntary Fund account. Adequate records were always maintained to document income and expenditure through the unofficial fund. The accounts for the school fund were not independently audited for eight schools by a person who is not involved in the day to day administration of the account.

3.9.2 Schools did not always maintain evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.

3.9.3 The Governors have approved a documented Grants Policy in the majority of cases and these usually defined the criteria under which subsidies may be approved.

3.10. Asset Controls and Security of Assets

3.10.1 This area remains an area of weakness and represents one of the most consistent findings in audit reports. Inventory records are not always maintained and where in place the format and level of information recorded was inadequate in several cases.

3.10.2 Inventory checks are not always performed and the results of the Inventory check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment.

3.11. Security of the IT Infrastructure, Disaster Recovery, Data Protection

3.11.1 Most schools had proper registration under the Data Protection Act. Anti-virus software had been installed on financial and administration systems and most schools had adequate computer back up procedures.

3.12. Risk Management and Insurance

3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School Journey, and Health and Safety was appropriate. School's generally have adequate arrangements for insurance in place.

4 Conclusions

4.1. Most schools audited during the financial year underwent their second round of the Financial Management Standards in Schools Assessment. In general, schools met the minimum standard of financial control and management, with notable improvements from their previous audits in 2006/07 for several schools. However, improvements were required in the areas of operation of governance processes; financial planning; accounting for income and expenditure; procurement; personnel and payroll management; and asset control including security of assets. Addressing the issues within the first two of these areas will minimise the number of issues flagged up within the FMSIS visits.

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Agenda Item 65

COMMITTEE Audit Committee	DATE 14th December 2010	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Chris Naylor – Corporate Director of Resources		TITLE: Audited Statement of Accounts 2009-2010		
ORIGINATING OFFICER(S): Alan Finch – Service Head, Corporate Finance		Ward(s) affected: N/A		

1. SUMMARY

- 1.1 This report presents the Authority's audited Statement of Accounts for the financial year ending 31st March 2010.
- 1.2 There were some changes to the draft accounts tabled to Full Council in July. Section 18(4) of the Accounts and Audit Regulations 2003 require that Members receive details of any material adjustments to the accounts. Appendix 1 to the auditor's Annual Governance Report addendum (appendix B to this report) includes a summary of changes to the Council's main statement of accounts. Appendix C contains the auditor's Pension Fund annual governance report. Further explanations are included within paragraphs 4.7 to 4.10 of this report. The usable resources of the Council are unchanged from the draft accounts.

2. RECOMMENDATIONS

Audit Committee is recommended to note the final Statement of Accounts for the financial year ending 31st March 2010 and the changes made from the draft accounts.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97) LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

<i>Brief description of "background papers"</i>	<i>Name and telephone number of holder</i>
<i>Closure of Accounts Working Files</i>	<i>Kevin Miles, Ext. 6791</i>
<i>Accounts & Audit Regulations 2003 Approval of Accounts (as amended)</i>	<i>Kevin Miles, Ext. 6791</i>
<i>Best Value Accounting Code of Practice</i>	<i>Kevin Miles, Ext. 6791</i>
<i>Annual Governance Report</i>	<i>Audit Commission, Ext 4784</i>
<i>HRA Closure of Accounts Working Papers</i>	<i>Paul Leeson, Ext. 4995</i>
<i>Capital Working Papers</i>	<i>Alison Gebbett, Ext. 3360</i>

3. BACKGROUND

- 3.1 The auditors have conducted their annual review of the Council's Statement of Accounts including the pension fund and provided an audit certificate giving an unqualified opinion on the 6th October 2010.
- 3.2 This report is to table the audited Statement of Accounts for 2009/2010 to Members of the Audit Committee. The usable reserves and overall assets within these accounts are unchanged from those in the draft accounts.
- 3.3 The auditor's tabled their initial annual governance report at the September committee meeting and provided an addendum to the report to the Committee Chair. This report addendum is being tabled under separate cover.

4. STATEMENT OF ACCOUNTS 2009/2010

- 4.1 The audited Statement of Accounts is attached to the report as **Appendix A**.
- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Statement of Recommended Practice" published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.3. The accounts are an important aspect of the financial management of the Council as they set out the Council's financial position, including its main assets and liabilities on a year-by-year basis as well as summarising the transactions of the Council during the year. The accounts influence the Council's financial plans because balanced budgets and sustainable medium term planning depend upon a healthy overall financial position. If an authority finds itself in a position in which it needs to set money aside in its accounts to cover existing liabilities or future risks, for example, these items are the first call on the budget.
- 4.4. The accounts provide some important information about the Council's finances which Members will wish to bear in mind for the future.

Income and Expenditure Account (<i>Page 17</i>)	The Income & Expenditure Account summarises the revenue activities of the Council during 2009/10 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.
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	<p>The accounts show that in 2009/10, the Council spent £1,280 million on services, most of which was funded from income which comes in the form of specific grants, rents, fees and charges for services. General Fund levels are almost unchanged at £27.133 million.</p> <p>Any surplus or deficit on the Income and Expenditure Account is carried to the Statement of Movement on the General Fund Balance.</p>
<p>Housing Revenue Account (Pages 56 to 61)</p>	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the provision of Social Housing by the Council.</p> <p>The HRA balance as at 31st March is £12.978 million; this was a reduction of £10.323 million. The reduction included the use of £4.2 million from Housing Choice reserves, £1.95 million of HRA balances towards the overcrowding strategy and £2.35 million from when the budget was set. The reserve balance of £12.978 million is in excess of the £12.169 million expected when the 2010/11 budget was set. These balances are unchanged from the draft accounts.</p>
<p>Group Accounts (Pages 65 to 70)</p>	<p>The Group Accounts show the financial position of the Council's 'Group'- comprising the Council itself plus its share of any controlled Companies. The Council incorporates Tower Hamlets Homes (THH) within its group accounts. THH is 100% owned by the Council and does all of its business with the Council. For this reason the Group Accounts are not substantially different from the Council's own accounts at this stage.</p>
<p>Reserves & Balances</p>	<p>Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes or services. The level of earmarked reserves stands at £98.889m, a decrease of £2.976m over the previous year. The detail is set out in Note 46 to the Accounts (Pages 46 to 48). Most of</p>

	<p>the decrease is explained by application of the decent homes reserve. The earmarked reserves are set aside against specific risks.</p> <p>The level of the General Fund balance stands at £27.133m (Page 18). This is the amount which is generally available for use in unforeseen circumstances. The amount is being held at a relatively high level at the moment in view of the risks to the authority's expenditure and income arising from the economic downturn and the consequential squeeze on public spending. This balance is unchanged from the draft accounts.</p>
<p>Balance Sheet (<i>Page 20</i>)</p>	<p>The Balance Sheet shows the various assets and liabilities of the Council as at 31st March 2010. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include land and buildings, equipment and vehicles, cash and investments held by the Council, and any debts owing to the Council.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £2.178 billion (as per the draft accounts), which was a slight increase from 31st March 2009 when the figure was £2.097 billion. The main reason for the increase is that fixed asset values have increased.</p> <p>The increase in value has no immediate impact on the Council but may indicate increased opportunities to increase income from the disposal of surplus fixed assets.</p>
<p>Collection Fund (<i>Pages 62 to 64</i>)</p>	<p>The Collection Fund is a separate account detailing local taxes collected by the Council on behalf of itself, the Greater London Authority (GLA) and the Government. The account shows the distribution of the amount of Council Tax</p>

	<p>collected between the Council and the GLA and the payment of non-domestic rates to the Government pool.</p> <p>Any surplus on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund, and any deficit is similarly distributed. The Fund shows a surplus of just over £6 million in 2009/10. The additional income collected arises from the fact that so far, housing completions in Tower Hamlets have been affected less than anticipated by the recession.</p>
<p>Cash Flow Statement (Page 21)</p>	<p>The Cash flow Statement is an alternative way of showing the financial activity of the Council in terms of payments made and received during the year. It gives quite a good idea of the scale of the financial operations of the Council, showing where its money comes from and how it has been spent.</p>
<p>Pension Fund Accounts (Pages 71 to 77)</p>	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the expenditure and income, assets and liabilities of the Pension Fund provided by the Council under legislation for the benefit of its employees and pensioners, and those of admitted bodies. They are audited at the same time as the Council's accounts but are subject to a separate audit opinion. The market value of the assets of fund at the end of the year was £752.5m, an increase of 33.8% from March 2009 largely reflecting the market conditions affecting investments over the last year.</p> <p>However the current valuation could Impact the next valuation of the Fund, which is due in 2010 and sets the Council's contributions to the Fund for the following three years.</p> <p>The Pensions Fund accounts were also considered by the Pensions Committee on 10th June.</p> <p>The value of pension fund assets were unchanged from the draft accounts, however some disclosure changes were</p>

	required.
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- 4.6. The Statement of Accounts also incorporates the Annual Governance Statement.
- 4.7. **Changes to draft accounts** – a full schedule of changes to the draft accounts are included as appendix 1 to the Annual Governance Report addendum included as appendix B to this report.
- 4.8. The September Audit Committee considered a number of amendments to the draft accounts, such as the changes in the accounting treatment of Tower Hamlet’s Homes FRS17 pension deficit since the first draft – this required the inclusion of the ALMO’s £19.2 million pension deficit in the Council’s balance sheet. The auditors requested that fixed asset revaluation losses (impairments from general market movements) are stated separately from upward valuations to be in line with SoRP requirements. New IFRS guidance in line with the SoRP guidance notes used in constructing the draft accounts indicates the previous treatment of revaluation losses net of revaluation gains would be appropriate in future – officers will review this treatment as part of compiling the 2010/11 accounts and liaise with the auditors on this treatment.
- 4.9. The draft accounts were adjusted to exclude internal recharges of £12.4 million which inflated gross income and expenditure (this did not affect net expenditure). Officers will ensure this overstatement does not re-occur.
- 4.10. **Changes to Pension Fund Accounts** – appendix 1 of the auditor’s pension fund report (appendix C to this report) sets out changes made to the draft accounts. Some pooled investments had been classed under their asset type (fixed interest securities and equities), they were re-classed as pooled investments. Valuation movements on forward currency deals were also reclassified. These changes did not affect the overall value of pension fund investments.
- 4.11. Officers have been liaising with the external auditors to explore ways to ensure future audits are completed on time and are as straightforward as possible. Officers are working to improve the closedown process to allow more time for quality reviews of the accounting statements and audit working papers. Officers have been liaising with the auditors on the introduction of IFRS, a new requirement for 2010/11.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 5.1 The comments of the chief financial officer are incorporated within this report of which he is the author.

6. RISK MANAGEMENT

- 6.1 There are no specific risk management implications.

7. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

7.1. The Accounts and Audit Regulations 2003 (as amended) specify the process by which the authority's accounts are initially approved and then examined by the external auditor.

8. ONE TOWER HAMLETS CONSIDERATIONS

8.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.

8.2. The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor. Details of these rights are published in local newspapers at appropriate stages.

9. ANTI-POVERTY CONSIDERATIONS

9.1 There are no specific anti-poverty implications arising out of this report.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

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

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LONDON BOROUGH OF TOWER HAMLETS

STATEMENT OF ACCOUNTS 2009-10



STATEMENT OF ACCOUNTS 2009-10

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EXPLANATORY FOREWORD

Overview by the Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2009/10, which reports our financial results for the year.

The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 and the Best Value Accounting Code of Practice 2009. These constitute "proper accounting practice" with which councils must comply by statute. The Council has also produced 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.

The Council's last Use of Resources score was a '3', the second highest category, against the Audit Commission's 'harder test'. Overall, the Council's finances are sound, and we will need this solid financial base as we face the period of tighter public spending ahead. Expenditure in 2009/10 was kept under control and the revenue budget ended the year slightly under spent.

Pressures on the Council's budget year on year from demographic growth, new legislation and inflation will generally exceed the additional income we receive, while uncertainty in the economy means that we may have to plan for greater financial risk as we go forward. The Council's prudent treasury management strategy allowed us to avoid some of the consequences of the 2008 banking crisis, but the Council's investment income has been hit by lower interest rates. However, the Council has delivered or planned to deliver savings which have enabled the budget to be balanced and increases in Council Tax kept to affordable levels.

For the period 2007/08 to 2009/10, the Council set a three year budget plan, and this will help us to look beyond this to plan the use of our resources better in the longer term. Tower Hamlets' Council Tax remains, for 2010/11, the sixth lowest Band D charge in London. At the same time, the Council continues to retain a prudent level of reserves against foreseen and unforeseen eventualities, while fully taking into account its ambitious improvement programme.

Tower Hamlets Homes, the Council's Arms Length Management Organisation (or ALMO), was established in July 2008 to run Council housing in the Borough. These accounts therefore include Group Accounts, reflecting the financial position of the ALMO as well as the Council. The ALMO faces inspection in November 2010 to determine whether it can achieve 2 Star performance and with it draw substantial new investment for housing to Tower Hamlets.

The Council has played its part in reshaping the highly-regarded Tower Hamlets Partnership during 2009/10, and looks forward to working with its partners to deliver further community benefits across all public services in the Borough.

In summary whilst we face challenging times ahead, the Council through prudent and effective financial management is in a strong position financially to respond and to maintain itself as an improving Council in support of its local community.

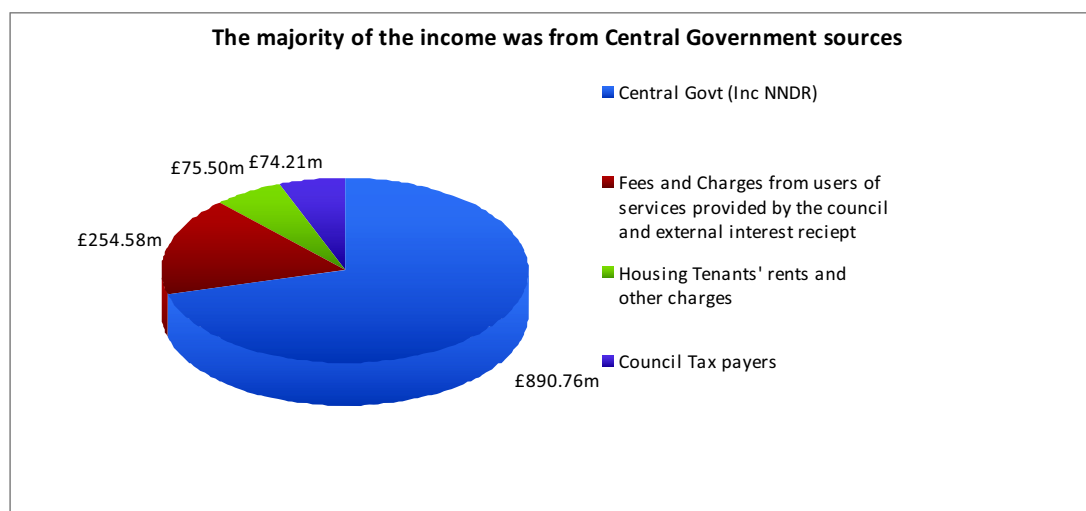
Chris Naylor ACA CPFA MA Cantab
Corporate Director of Resources

REVIEW OF THE YEAR

The Council's expenditure and income are defined either as revenue (spending on or income from the day to day running of services) or capital (spending on or income from items that provide a benefit for more than one year, such as building a school). The following shows revenue income and expenditure for the year.

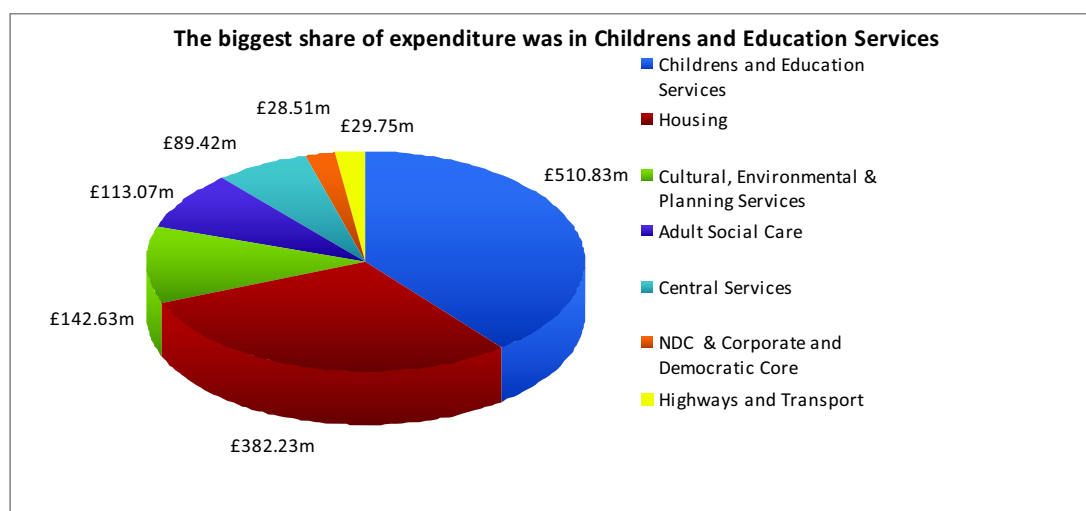
WHERE THE MONEY CAME FROM

The Council's overall income for the year was £1,295.05 million (£1,195.00 million in 2008-09) and came from a number of different sources:



HOW THE MONEY WAS SPENT

The Council spent £1,296.44 million (£1,201.24 million in 2008-09) on services:



Grants from Central Government form the biggest single source of income to the Council - £890.76 million (£839.70 million in 2008/2009). Of this, approximately 69% is grant towards the costs of providing specific services. The rest is grant for the Council's service provision as a whole.

Income received from housing tenants' rents and other charges amounted to £75.50 million (£72.71 million in 2008/2009). "Other" income of £254.58 million (£212.09 million in 2008-09) includes fees and charges from

users of services provided by the Council and external interest receipts. The balance of £74.21 million came from Council Tax (£70.07 million in 2008-09).

£1,296.44 million was spent in the year (£1,201.24 million in 2008-09). 39% of spending was on Children's and Education services; 29% on Housing; Adult Social Care accounted for 9%, Culture and Environment (including leisure, environmental health, planning and refuse collection) 11% and a further 2% on Non-Distributed Costs and Corporate and Democratic Core. A fuller analysis is shown in the Income and Expenditure Account on page 17.

REVENUE SPEND COMPARED TO BUDGET

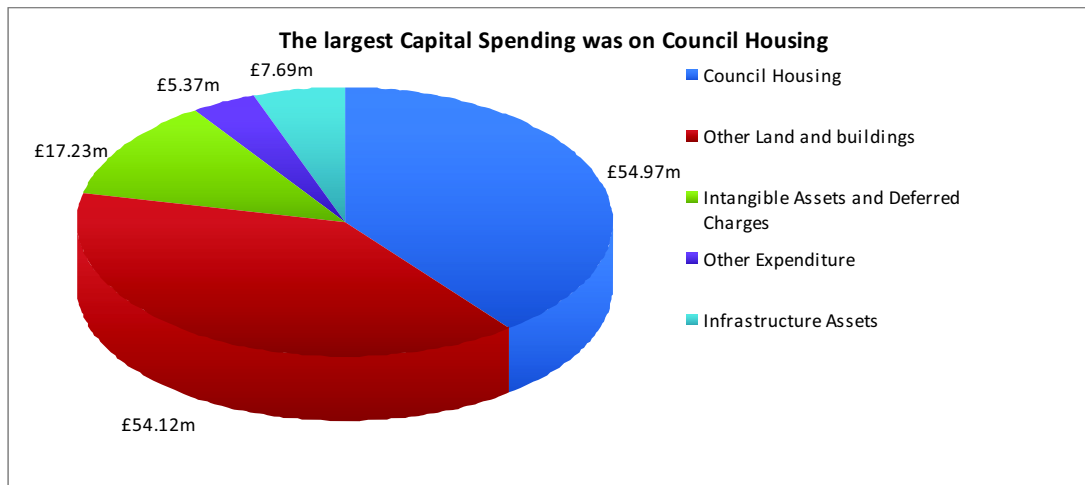
The Council's revenue expenditure and income is divided between "General Fund" (services excluding council housing) and the "Housing Revenue Account" (HRA) - a separate account for the Council acting as a housing landlord. The General Fund net budget requirement for the year was agreed at £297.9 million consisting of service budgets of £300.4 million and a net contribution from balances of £2.5 million. Actual spend amounted to £297.9 million. The HRA expenditure requirement for the year was agreed at £104.2 million. In total there was a net under spend of £2.1 million. HRA balances and reserves have reduced by a total of £10.3 million. More details are shown below:

General Fund	Adjusted Budget £'m	Actual £'m	Variance £'m
Net expenditure	300.4	297.9	(2.5)
Contribution to balances	(2.5)	0.0	2.5
Budget requirement	297.9	297.9	0.0
Government Grants			
Revenue Support Grant	(42.9)	(42.9)	0.0
Redistributed Business Rates	(185.9)	(185.9)	0.0
(Surplus)/Deficit on Collection Fund	2.0	2.0	0.0
Council Tax requirement	71.1	71.1	0.0
Housing Revenue Account	Adjusted Budget £'m	Actual £'m	Variance £'m
Expenditure	104.2	102.1	(2.1)
Accounting adjustments	(5.0)	(4.2)	0.8
Budgeted contribution from HRA	(4.3)	(4.3)	0.0
Additional contribution from HRA Reserve	0.0	(2.2)	(2.2)
Budget requirement	94.9	91.4	(3.5)
Income			
Rents	(58.0)	(57.2)	0.8
Government grant	(19.3)	(14.9)	4.4
Charges and contributions	(17.0)	(19.1)	(2.1)
Interest	(0.6)	(0.2)	0.4
Total Income	(94.9)	(91.4)	3.5
Reserves C/Fwd		13.0	

PENSIONS

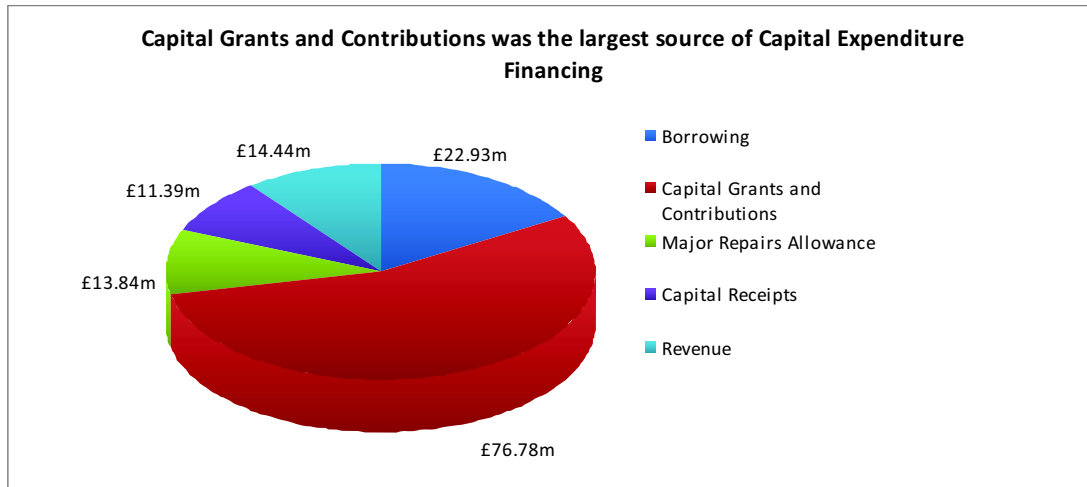
The Council offers retirement pensions to its staff under a statutory scheme and makes contributions to pension schemes on their behalf. Although the pension benefits are not payable until employees retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared with the assets (investments) of the pension schemes and the net amount is included in the accounts as the Council's "Pensions Liability". At the end of 2009-10 this liability was £670.69 million (£270.57 million 2008-09). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet, there are statutory arrangements for meeting the liability. The deficit will be addressed by increased contributions to the schemes over the remaining working lives of the staff. These contributions were assessed by the Council's actuary in 2007 and a budget provision has been made accordingly.

CAPITAL SPENDING



Capital spending during the year amounted to £139.38 million (£68.98 million in 2008-09). £54.97 million (£21.77 million in 2008-09) of this was on projects relating to the conversion and improvement of the Council's housing stock. Spending on other land and buildings projects was £54.12 million (£17.84 million in 2008-09) and was primarily on the refurbishment, improvement and extension of schools in the borough. Infrastructure spending of £7.69 million (£5.69 million in 2008-09) was mainly on improving the existing roads system within the borough and the provision of street lighting. Other expenditure comprises equipment, which amounted to £1.87 million (£2.83 million in 2008-09) and a further £3.50 million (£3.32 million in 2008-09) was spent on improving parks and open spaces in the borough. Spending on Intangible Assets and Revenue Expenditure Funded from Capital under Statute (REFCUS) includes information technology, home improvement grants paid to homeowners and grants paid to voluntary organisations, and amounted to £17.23 million (£17.53 million in 2008-09).

HOW CAPITAL SPENDING WAS PAID FOR



The Government pays the Council a grant called the Major Repairs Allowance to be spent on its housing stock. This amounted to £13.84 million for the year (£12.31million in 2008-09). Capital receipts are income from the sale of assets, such as council houses. £11.39 million was used in 2009-10 (£8.91million in 2008-09). The Council can pay for capital spending from its revenue monies and £14.44 million was used in the year (£3.32 million in 2008-09). There are other Government grants which have to be used for specific projects and the Council receives contributions from others (for example developers). A total of £76.78 million was used in 2009-10 (£20.59 million in 2008-09). Finally, the Council is allowed to borrow money to finance capital spending and £22.93 million was borrowed in the year (£23.85 million in 2008-09).

FURTHER INFORMATION

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

THE ACCOUNTING STATEMENTS

These comprise:

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

The **Core Financial Statements**:

The **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 **Statement of Movement on the General Fund Balance** which shows the amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are required by statute or non-statutory proper practices to be taken into account in determining the movement on the General Fund Balance.

The **Statement of Total Recognised Gains and Losses** which shows all gains and losses recognised in the Council's Balance Sheet including those that are not reflected in the Income and Expenditure Account.

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 **Group Accounts** which combine the financial activities and position of the Council and its subsidiary Arms Length Management Organisation (ALMO), Tower Hamlets Homes, into amalgamated Core Financial Statements

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**, which starts at page 97.

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009-10 financial year and its position at the year-end of 31st March 2010. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2009* (the "SORP"). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets. 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.

2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers 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 stocks on the Balance Sheet.
- Works are charged as expenditure less deposits and are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for 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 income or 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 it is doubtful that debts will 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 minimus of £5,000 below which items of income and expenditure are not normally accrued for.

3. 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, but where the timing of the transfer is uncertain. 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 of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Provisions are reviewed at the end of each financial year. 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 revenue 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 obligation is settled.

4. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. 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 Net Cost of Services in the Income and Expenditure Account. 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 tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

6. Retirement 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 and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

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. As such, the liabilities and assets of the pension scheme attributable to the Council in 2009-10 include those of THH. This is a change in accounting policy compared to 2008-09 (the year in which THH was incorporated) when the liabilities and assets of the Council excluded those of THH.

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.

Liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years) as at 31st March 2010.

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 pensions 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 Income and Expenditure Account 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 Net Cost of Services as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Net Operating Expenditure in the Income and Expenditure Account
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Net Operating Expenditure in the Income and Expenditure Account
- 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 Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- 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 Statement of Total Recognised Gains and Losses
- 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 Statement of Movement on the General Fund Balance 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.

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.

7. VAT

Income and expenditure exclude any amounts related to VAT, as generally all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them. Any irrecoverable VAT is included in the cost of services.

8. 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 *Best Value Accounting Code of Practice 2009* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organization.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

- Non-material end of year balances on support services treated as trading accounts.

The first two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services. Balances on the third category are accounted for as a surplus or deficit on a trading account, as part of Net Operating Expenditure.

9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (software licenses) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. TFA may also be non-operational, which comprise assets held for investment purposes and surplus assets awaiting development or disposal.

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

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value
- dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- infrastructure assets – depreciated historical cost
- community assets – historical cost.

Net current replacement cost is assessed as:

- non-specialised operational properties – existing use value
- specialised operational properties – depreciated replacement cost,
- investment properties and surplus assets – market value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognized since 1 April 2007 only, the date the reserve came into existence. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment: The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account

- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 received from disposals 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 Statement of Movement on the General Fund Balance.

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

Depreciation: This is provided for on all assets with a determinable finite life (except for investment properties and land), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- dwellings – equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- other land and buildings – straight-line allocation over the life of the property as estimated by the valuer
- vehicles, plant and equipment – for vehicles and plant, a percentage of the value of each class of assets in the Balance Sheet as advised by a suitably qualified officer. For equipment, over 5 years.
- infrastructure – straight-line allocation over 40 years.

Were an asset to have major components identified by a qualified valuer, and assessed to have different estimated useful lives, these would be depreciated separately.

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.

- **Grants and contributions:** Grants and contributions received after the 31st March 2007 which are identifiable to fixed assets with a finite useful life are credited to the Government Grants Deferred Account. The balance is then written down to revenue to balance depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

11. Charges to Revenue for Fixed Assets

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

- depreciation attributable to the assets used by the relevant service

- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, 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, impairment losses and amortizations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

12. 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 fixed 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 to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

13. Leases

The Council has reviewed in detail its leases and has determined that, except for PFI agreements, there are a small number of finance leases with immaterial asset value, so the agreement costs are charged to revenue. If the Council was to have a material finance lease the accounting policy would be as per the following;

Finance Leases

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

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

Leases that do not meet the definition of finance leases or that are immaterial as described above are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on an equalized 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.

14. Financial Liabilities

Financial liabilities in relation to borrowing are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. 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 the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. Where repurchase has taken place as part of a restructuring of the loan portfolio that involves a 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading (amortising) the gains/losses 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

15. 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

The Council has no available-for-sale assets. Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Were soft loans to be made (loans at less than market rates), a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

16. Stocks and Work in Progress

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress consists of rechargeable works which are shown net of deposits.

17. Interests in Companies and Other Entities

The Council has a material interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council and which requires group accounts to be prepared. 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. The group accounts are at pages 65 to 70. 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.

18. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide services passes to the PFI contractor. The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029. The Combined Heat and Power (CHP) contract is treated as an end user agreement.

The SORP 2009 requires these contracts to be accounted for in 2009-10 in a manner that is consistent with the adaptation of International Financing Reporting Interpretation 12 (IFRIC 12) - Service Concession Arrangements - contained in the Government's Financial Reporting Manual (FRoM), as this will assist in the transition to International Finance Reporting Standards (IFRS) for 2010/11. IFRIC 12 is the interpretation of IFRS that applies to operators of PFI and similar contracts, and is expected to form part of United Kingdom Generally Accepted Accounting Principles (UK GAAP) in due course. The 2009 SORP is consistent with the accounting treatment required of other public sector bodies in the UK set out in the FRoM and approved by the Financial Reporting Advisory Board.

This is a change in accounting policy compared with previous years when PFI contracts were accounted for in accordance with Financial Reporting Standard 5 and the fixed assets were carried on the Balance Sheet of the contractor and not the Council. The effect of IFRIC 12 is that the Council is deemed to control the services that are provided under its PFI schemes and, as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets has been balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The fixed 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 Income and Expenditure Account
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

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

This change in accounting policy has required prior period adjustments to the Council's accounts. See note 57 page 55.

There is also a 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. This agreement is not to be treated as a finance lease and that any costs are charged to revenue.

19. 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 and National Non-Domestic Rates (NNDR).

Up to 2008-09 the Council Tax income included in the Income and Expenditure Account was the amount that was required to be transferred to the General Fund under regulations. From 1st April 2009 the amount included in the Income and Expenditure Account, as specified in the 2009 SORP, is the accrued income for the year. The difference between the two amounts is taken to a Collection Fund Adjustment Account. In addition, there is a revised debtor / creditor relationship between the Council and the Greater London Authority (GLA) as the 2009 SORP determines that the collection of the tax on behalf of the GLA is an agency arrangement. This is a change in accounting policy which requires a prior year adjustment. See note 57 page 55.

Up to 2008-09 NNDR taxpayers' debtor and creditor balances and an allowance for doubtful debts were included on the Council's Balance Sheet. The 2009 SORP determines that the Council collects NNDR under what is in substance an agency arrangement with the Government. From 1st April 2009 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 Government or has been overpaid to the Government on the Balance Sheet date. This is a change in accounting policy which requires a prior year adjustment. See note 57 page 55.

20. Events after the Balance Sheet date

Where an event after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, occurs (an "adjusting event") the amount recognised in the Statement of Accounts is adjusted – for example, the settlement of a court case that confirms the Council had a present obligation at the Balance Sheet date.

Where an event that occurs after the Balance Sheet date is indicative of conditions that arose after the Balance Sheet date (a "non-adjusting event") the amount recognised in the Statement of Accounts is not adjusted – for example, a decline in market value of investments after the Balance Sheet date.

The following is disclosed for each material category of non-adjusting event after the Balance Sheet date:

- (a) the nature of the event, and
- (b) an estimate of the financial effect or a statement that such an estimate cannot be made reliably.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue (see page 55, note 56).

A non-adjusting event has been identified in respect of the Council's pensions liability and deficit under Financial Reporting Standard 17 (see page 51).

The 2009/10 Accounts and prior year comparators have incorporated changes to the accounting method of Council Tax and NNDR within the Collection Fund and the presentation of assets subject to Council PFI contracts. These changes are explained in more detail within notes 18 and 19 above. Prior period adjustments to the accounts are outlined in note 57 of the accounts

INCOME AND EXPENDITURE ACCOUNT

This account brings together all of the functions of the Council and summarises all the resources it has generated, consumed or set aside in providing services during the year.

	Note	2009/10 Gross Expenditure £'000	2009/10 Gross Income £'000	2009/10 Net Expenditure £'000	2008/09 Gross Expenditure As Restated ¹ £'000	2008/09 Gross Income £'000	2008/09 Net Expenditure As Restated ¹ £'000
Cultural, Environmental, Regulatory and Planning Services	4	140,874	45,162	95,712	130,252	53,909	76,343
Central Services		85,969	75,835	10,134	55,655	47,018	8,637
Children's and Education Services	55	504,349	423,206	81,143	470,703	374,075	96,628
Highways and Transport Services		26,958	23,131	3,827	30,989	27,693	3,296
Local Authority Housing (Housing Revenue Account)	6	96,217	90,760	5,457	110,565	91,599	18,966
Other Housing Services	6	284,933	275,394	9,539	259,630	255,347	4,283
Adult Social Care	19	112,547	20,292	92,255	102,959	17,201	85,758
Corporate and Democratic Core		10,450	6,284	4,166	21,072	6,339	14,733
Non-distributed Costs		17,825	26	17,799	15,185	481	14,704
NET COST OF SERVICES		1,280,122	960,090	320,032	1,197,010	873,662	323,348
Net (gain)/loss on disposal of fixed assets	3			20,728			(13,394)
Total net (surplus)/deficit on trading accounts	8			11			1,555
Amounts due to levying authorities	9			1,636			1,641
Contribution to housing pooled capital receipts				572			4,766
Interest payable and similar charges				27,379			28,544
Interest and investment income				(1,313)			(6,144)
Amortisation of premiums and discounts				0			2,849
Unattached capital receipts				(8,734)			(1,331)
Pensions interest cost and expected return on pensions assets	47			23,143			12,234
NET OPERATING EXPENDITURE				383,454			354,068
INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT							
Council Tax income				(73,608)			(70,073)
Government grants (not attributable to specific services)	14			(76,714)			(55,384)
Distribution from non-domestic rate pool				(185,907)			(197,503)
(SURPLUS)/DEFICIT FOR THE YEAR TRANSFERRED TO THE GENERAL FUND					47,225		31,108

¹ See note 57

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

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

	Note	2009/10 £'000	2008/09 As Restated ¹ £'000
(Surplus)/Deficit for the year on the Income and Expenditure Account		47,225	31,108
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	2	(45,831)	(24,883)
(Increase)/decrease in General Fund Balance for the year		1,394	6,225
General Fund Balance brought forward		(47,638)	(53,863)
General Fund Balance (including schools' balances) carried forward		(46,244)	(47,638)
Amount of General Fund Balances Held by Schools under Local Management Schemes			
Schools' Balances brought forward		(20,536)	(28,349)
Movement on Schools Balances in year		1,425	7,813
Schools' Balances carried forward ²		(19,111)	(20,536)
Amount of General Fund Balance Generally Available for New Expenditure		(27,133)	(27,102)
General Fund Balance (including schools' balances) carried forward		(46,244)	(47,638)

¹ See note 57

² Schools' Balances are included in Earmarked Reserves on the Council's Balance Sheet (see page 46)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits. The gains and losses for the year are adjusted by the effect on reserves of prior period adjustments.

	2009/10	2008/09
		As Restated ¹
	£'000	£'000
(Surplus)/Deficit on the Income and Expenditure Account for the year	47,225	31,108
(Surplus)/Deficit arising on revaluation of fixed assets	(36,638)	(168,154)
Actuarial (gains)/losses on pension fund assets and liabilities	415,603	85,644
Other (gains) and losses - Collection Fund	-	481
Total recognised (gains) and losses for the year	426,190	(50,921)
Cumulative effect on reserves of prior period adjustments	0	93,579
Aggregate (increase)/decrease in net worth	426,190	42,658

BALANCE SHEET

as at 31st March

This statement shows the Council's balances and reserves and its long-term indebtedness, and the fixed assets and net current assets employed in its operations.

	Note	2010	2010	2009	2009
		£'000	£'000	As Restated ¹	As Restated ¹
				£'000	£'000
Fixed Assets					
Tangible Fixed Assets	20				
Operational assets					
Council dwellings		920,784		901,291	
Other land and buildings		987,918		968,157	
Infrastructure assets		91,170		86,397	
Equipment		4,456		3,643	
Community assets		48,410		45,220	
Non-operational assets					
Investment properties		52,769		50,042	
Surplus assets		5,072		802	
Total Fixed Assets			2,110,579		2,055,552
Long Term Debtors	27		1,067		855
Total Long Term Assets			2,111,646		2,056,407
Current Assets					
Stocks and Work in Progress	28	531		303	
Debtors	29	88,620		80,618	
Investments	31	85,508		78,427	
Cash and Bank		37,010	211,669	27,452	186,800
Total Assets			2,323,315		2,243,207
Current liabilities					
Short-term borrowing	31	15,324		13,600	
Creditors	32	129,702	145,026	132,166	145,766
Total Assets less Current Liabilities			2,178,289		2,097,441
Long Term Liabilities					
Long-term borrowing	31	302,475		251,785	
Capital Grants Unapplied	34	38,511		37,363	
Capital Grants and Contributions Deferred	35	130,864		96,139	
Deferred liabilities	10	38,287		38,637	
Deferred Income - Receipts in Advance	36	9,817		11,006	
Provisions	37	11,216		8,560	
Liability related to defined benefit pension schemes	47	689,923	1,221,093	270,565	714,055
TOTAL ASSETS LESS LIABILITIES			957,196		1,383,386
Financed by					
Revaluation Reserve	39		510,138		486,712
Capital Adjustment Account	41		975,634		994,431
Capital Receipts Reserve	42		16,309		18,091
Deferred Capital Receipts	43		298		412
Pensions Reserve ¹	47		(689,923)		(270,565)
Major Repairs Reserve	38		1,074		2,354
Collection Fund Adjustment Account	57		3,902		(597)
Financial Instruments Adjustment Account	40		764		280
Balances					
General Fund	38		27,133		27,102
Housing Revenue Account	38		12,978		23,301
Earmarked Reserves	46		98,889		101,865
TOTAL NET WORTH			957,196		1,383,386

¹ See note 57

CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. From 2008-09 the SORP permits presentation of the Cash Flow Statement by either the direct method showing gross cash flows, or by the indirect method, whereby revenue cash flow is derived by adjusting the overall Income and Expenditure Account surplus or deficit to a cash basis. Under the latter method gross cash flow categories are not presented in the Statement and non-cash items, returns on investments and servicing of finance are removed from the surplus or deficit in order to calculate a single overall figure for revenue cash flow. The Council's Cash Flow Statement is presented by the indirect method.

	Note	2009/2010 £'000	2009/2010 £'000	2008/2009 As Restated ¹ £'000	2008/2009 As Restated ¹ £'000
NET REVENUE ACTIVITIES CASH FLOW	50		40,376		995
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
<i>Cash outflows</i>					
Interest paid		(21,984)		(21,038)	
Interest element of PFI rental payments		(5,846)		(5,348)	
<i>Cash inflows</i>					
Interest received		1,386		6,434	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(26,444)		(19,952)
CAPITAL ACTIVITIES					
<i>Cash outflows</i>					
Purchase of fixed assets		(119,730)		(50,283)	
Other capital cash payments		(554)		-	
<i>Cash inflows</i>					
Sale of fixed assets		1,382		25,873	
Other capital cash receipts		243		67	
Capital grants received		69,125		36,716	
NET CASH OUTFLOW FROM CAPITAL ACTIVITIES			(49,534)		12,373
NET CASH INFLOW/OUTFLOW BEFORE FINANCING MANAGEMENT OF LIQUID RESOURCES			(35,602)		(6,584)
Net increase/decrease in other liquid resources	54	(7,358)		22,390	
FINANCING			(7,358)		22,390
<i>Cash outflows</i>					
Repayments of amounts borrowed		(12,901)		(21,719)	
Capital Element of Finance Lease Rental Payments & PFI payments		(358)		0	
<i>Cash inflows</i>					
New loans raised		65,777		7,000	
NET CASH INFLOW FROM FINANCING			52,518		(14,719)
INCREASE/(DECREASE) IN CASH			9,558		1,087

¹ See note 57

NOTES TO THE CORE FINANCIAL STATEMENTS

1 SERVICE EXPENDITURE ANALYSIS

The service expenditure analysis has been compiled in accordance with the Best Value Accounting Code of Practice.

2 NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	2009/2010 £'000	2009/2010 £'000	2008/2009 As Restated ¹ £'000	2008/2009 As Restated ¹ £'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund balance for the year				
Amortisation of intangible fixed assets	(1,374)		(969)	
Depreciation and impairment of fixed assets	(57,995)		(28,908)	
Excess of depreciation of Housing Revenue Account compared with Major Repairs Allowance	(335)		(734)	
Impairment relating to Housing Stock transfer	(6,842)		(23,363)	
Deferred considerations adjustment			(1,434)	
Government Grants Deferred amortisation	37,275		25,851	
Difference between amounts debited/credited to the Income and Expenditure account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	484		(2,284)	
Revenue expenditure funded from capital under statute	(15,045)		(16,281)	
Unattached capital receipts	8,734		1,331	
Gain or loss on sale of Housing Revenue Account fixed assets	(2,379)		3,720	
Net profit/(loss) on sale of fixed assets	(18,349)		9,674	
Net charges made for retirement benefits in accordance with FRS 17	(39,872)	(95,698)	(38,249)	(71,646)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund balance for the year				
Minimum revenue provision for capital financing	7,260		7,302	
Capital expenditure financed from the General Fund	14,437		3,316	
Transfer from Capital Receipts Reserve to meet payments to the housing capital receipts pool	(572)		(4,766)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	36,117		36,353	
Transfer from the Council Tax Adjustment Account	4,499	61,741	(427)	41,778
Transfers (to) or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund balance for the year				
Transfer of statutory surplus/(deficit) for the year on the Housing Revenue Account	(10,323)		(11,887)	
Transfers made at the discretion of the Council to or from reserves that have been earmarked for specific purpose	(1,551)	(11,874)	16,872	4,985
Net additional amount required to be credited to the General Fund balance for the year		(45,831)		(24,883)

¹ See note 57

3 GAIN OR LOSS ON DISPOSAL OF FIXED ASSETS

This represents the gain/loss to the Council on the sale of fixed assets. The effects are reversed in the Statement of Movement on the General Fund balance to avoid any impact on the General Fund balance.

	2009/10 Disposal £'000	2008/2009 Disposal £'000
Market value of assets sold	483	5,911
*Adjustments for demolitions/transfers/disposals	26,356	0
Book value of disposals	26,839	5,911
Capital receipts received	(1,340)	(19,387)
Cost of disposal on dwellings	10	82
Deferred contributions written off	(4,781)	0
Loss/(Gain) on Disposal	20,728	(13,394)

*The adjustments represent write out of the carrying value of assets disposed of in previous years, identified during an asset verification exercise.

4 BUILDING CONTROL ACCOUNT

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of its building control function. The statement below shows the total cost of the building control function divided between chargeable and non-chargeable activities.

	2009/2010			2008/2009		
	Chargeable	Non Chargeable	Total Outturn	Chargeable	Non Chargeable	Total Outturn
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee costs	1,068	638	1,706	1,127	628	1,755
Transport	25	14	39	24	15	39
Premises	134	80	214	168	95	263
Supplies and services	136	21	157	211	47	258
Support services	132	221	353	149	168	317
Total Expenditure	1,495	974	2,469	1,679	953	2,632
Income						
Building Regulation fees	1,149	111	1,260	1,766	197	1,963
Deficit (Surplus) for the year	346	863	1,209	(87)	756	669

5 CONTROLLED PARKING ACCOUNT

The Council operates a separate Controlled Parking Account in accordance with s.55 of the Road Traffic Regulation Act 1984 (as amended by the 1991 Road Traffic Act), the costs of which are incorporated within the income and expenditure for Highways and Transport Services.

This account records all income and expenditure attributable to on-street parking activities, including enforcement. The account may incur a deficit in the year in which case the deficit must be made good from the General Fund at the end of the year. The use of any surplus is prescribed by legislation and is restricted largely to reinvestment within the service and highways and transportation initiatives. The balance of the surplus at 31st March 2010, after the funding of General Fund service initiatives, has been transferred into an earmarked reserve.

	2009/2010	2008/2009
	£'000	£'000
Expenditure		
Employee costs	4,136	4,270
Premises	510	529
Transport	159	152
Supplies and services	2,277	2,098
Third party payments	1,681	1,524
Support services	1,377	1,691
Capital financing	0	10
Total Expenditure	10,140	10,274
Income		
Fees and charges	14,650	14,646
Decrease in provision for bad debts	358	491
Total Income	15,008	15,137
(Surplus)/Loss for the year	(4,868)	(4,863)
Balance at 1st April	957	0
Surplus for year	4,868	4,863
Funding of General Fund service initiatives.	(3,997)	(3,906)
Balance at 31st March	1,828	957

6 HOUSING SERVICES

The Housing Revenue Account (HRA), which is separately reported at page 56, is consolidated into the Income and Expenditure Account. Before consolidation certain adjustments are required to ensure the proper reporting of expenditure and income for the Council as a whole. The amounts consolidated are as follows:

	2009/2010 Gross Expenditure £'000	2009/2010 Gross Income £'000	2009/2010 Net Expenditure £'000	2008/2009 Net Expenditure £'000
Housing Revenue Account (page 56)	96,719	(90,760)	5,959	19,294
Internal recharges				
Corporate and Democratic Core	(502)	0	(502)	(328)
Local Authority Housing	96,217	(90,760)	5,457	18,966
Other Housing	285,533	(278,526)	7,007	5,215
Internal recharges				
Supporting people	0	(714)	(714)	(932)
Other Housing Services	285,533	(279,240)	6,293	4,283
NET COST OF SERVICES	381,750	(370,000)	11,750	23,249

7 MEMBERS' ALLOWANCES

Includes total allowances paid to Council Members of £926,521 in 2009/2010 (£856,159 in 2008/2009).

8 TRADING ACCOUNTS

The following services are reported as trading activities in 2009/2010:

	2009/2010 Expenditure £'000	2009/2010 Income £'000	2009/2010 Surplus/ (Deficit) £'000	2008/2009 Surplus/ (Deficit) £'000
Vehicle Maintenance	0	0	0	47
Cleansing and Welfare Catering	0	0	0	(9)
Building and Property Services	99	0	(99)	(14)
Support Services	0	0	0	(1,711)
Street Trading (see note 44)	2,002	2,090	88	104
Mile End Park	0	0	0	28
TOTAL TRADING ACCOUNTS	2,101	2,090	(11)	(1,555)

Note: A number of services previously treated as trading accounts have been fully recharged to services for 2009/10 resulting in nil balances.

9 LEVIES

Levies payable by the Council for services received were as follows:

	2009/2010 £'000	2008/2009 £'000
Lee Valley Regional Park Authority	247	243
Environment Agency	161	161
London Pensions Fund Authority	1,228	1,237
TOTAL LEVIES	1,636	1,641

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 year 2029. Prior to 2009-10 the assets involved were treated as "off balance sheet" in accordance with relevant accounting standards. SORP 2009 requires that the schemes are now accounted for under International Financial Reporting Standards and that the position as at 31 March 2009 is restated. The assets are now included on the Council's Balance Sheet, matched by a finance lease liability.

Movement on PFI Assets

	Mulberry School £'000	Group Schools £'000	Total £'000
Asset value at 31 March 2009	48,500	224,599	273,099
Depreciation	(1,012)	(4,667)	(5,679)
Enhancements		3,501	3,501
Asset value at 31 March 2010	47,488	223,433	270,921

Movement on PFI Liabilities

	Mulberry School £'000	Group Schools £'000	Total £'000
Liabilities at 31 March 2009	7,606	31,730	39,336
Repayments	(154)	(204)	(358)
Liabilities at 31 March 2010	7,452	31,526	38,978

Consisting of:

Long term liability	7,123	31,164	38,287
Short-term liability	329	362	691
	7,452	31,526	38,978

Payments due under PFI schemes

	Mulberry School £'000	Group Schools £'000	Total £'000
--	-----------------------------	---------------------------	----------------

Liability

Within 1 year	328	363	691
Within 2 - 5 years	791	1,717	2,508
Within 6 - 10 years	1,582	4,417	6,000
Within 11 - 15 years	2,185	13,202	15,386
Within 16 - 19 years	2,566	11,827	14,393

Interest

Within 1 year	836	4,960	5,796
Within 2 - 5 years	3,147	19,362	22,509
Within 6 - 10 years	3,310	22,229	25,538
Within 11 - 15 years	2,338	16,485	18,823
Within 16 - 19 years	777	3,501	4,278

Service Charges

Within 1 year	673	3,830	4,504
Within 2 - 5 years	2,694	12,855	15,549
Within 6 - 10 years	3,367	13,538	16,905
Within 11 - 15 years	3,367	13,414	16,781
Within 16 - 19 years	2,694	7,200	9,894

11 AGENCY INCOME AND EXPENDITURE

The Council has an agency agreement with Thames Water Authority (TWA) whereby the Council is responsible for collecting unmetered water charges from council tenants. For this service the Council receives a commission based on the total TWA bill chargeable for the year. In 2009/2010 this commission amounted to £ 774,552 (£798,738 in 2008/2009).

12 OFFICERS' EMOLUMENTS

All Employees except Senior Employees

The numbers of employees whose remuneration was equal to or greater than £50,000 were as follows. Categorisation includes the effect of any redundancy or severance payments. The first table excludes senior employees details of which are shown in the second table below.

Remuneration Band £	2009/2010			2008/2009		
	Teaching	Other	Total	Teaching	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
50,000 - 54,999	213	68	281	187	80	267
55,000 - 59,999	105	77	182	70	79	149
60,000 - 64,999	40	41	81	45	31	76
65,000 - 69,999	41	21	62	25	22	47
70,000 - 74,999	20	19	39	16	28	44
75,000 - 79,999	18	12	30	11	4	15
80,000 - 84,999	9	11	20	2	8	10
85,000 - 89,999	2	5	7	1	3	4
90,000 - 94,999	0	11	11	2	2	4
95,000 - 99,999	4	4	8	4	9	13
100,000 - 104,999	2	6	8	1	8	9
105,000 - 109,999	5	0	5	3	1	4
110,000 - 114,999	1	1	2	1	0	1
115,000 - 119,999	1	0	1	1	0	1
120,000 - 124,999	2	0	2	0	1	1
125,000 - 129,999	0	0	0	0	0	0
130,000 - 134,999	0	0	0	0	1	1
135,000 - 139,999	0	0	0	0	0	0
140,000 - 144,999	0	0	0	1	0	1
145,000 - 149,999	0	1	1	0	1	1
150,000 - 154,999	0	0	0	0	0	0
155,000 - 159,999	0	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0
165,000 - 169,999	0	1	1	0	1	1
170,000 - 174,999	0	0	0	0	0	0
175,000 - 179,999	0	0	0	0	0	0
180,000 - 184,999	0	0	0	0	0	0
185,000 - 189,999	0	0	0	0	1	1
190,000 - 194,999	0	0	0	0	0	0
195,000 - 199,999	0	0	0	0	0	0
200,000 - 204,999	0	0	0	0	0	0
205,000 - 209,999	0	1	1	0	0	0
Total employees	463	279	742	370	280	650

Senior Employees ¹

The remuneration of senior employees whose annual salary for the year was equal to or greater than £50,000 (pro rata for employment for fewer than the usual full time hours) was broken down as follows:

	Salary, fees & allowances	Taxable expenses allowances	Compensation for loss of employment	Council's contribution to Pension Fund	Other	Total Remuneration
	£	£	£	£	£	£
2008-2009						
Mr M F Smith - Chief Executive	186,974			29,056		216,030
Corporate Directors						
Children, Schools and Families	147,003			22,740	147	169,890
Communities, Localities and Culture	138,008			21,319		159,327
Resources	133,225			20,569	20	153,814
Adults Health and Wellbeing	130,967			20,207	346	151,520
Development and Renewal	92,008			14,221		106,229
Assistant Chief Executive (Legal)	120,862			18,661		139,523
Assistant Chief Executive	70,692			10,886		81,578
	1,019,739	0	0	157,659	513	1,177,911

12 OFFICERS' EMOLUMENTS (Continued)

	Salary, fees, allowances	Taxable, expenses allowances	Compensation for loss of employment	Council's contribution to Pension Fund	Other	Total Remuneration
	£	£	£	£	£	£
2009-2010						
Mr M F Smith - former Chief Executive ²	73,966			10,107		84,073
Mr K A Collins - Chief Executive	177,413			26,848		204,261
Corporate Directors						
Children, Schools and Families	120,789			18,270		139,059
Communities, Localities and Culture	140,980			21,788		162,768
Resources	135,604			20,940		156,544
Adults Health and Wellbeing	112,982	161		18,434		131,577
Development and Renewal	136,306			21,050		157,356
Assistant Chief Executive (Legal)	121,052			18,661		139,713
Former Assistant Chief Executive ²	113,694			17,508	11,620	142,822
	1,132,786	161	0	173,606	11,620	1,318,173

¹ The above posts have been designated as senior employees of the Council in accordance with the Accounts and Audit (Amendment No. 2) (England) Regulations 2009.

² The former Chief Executive and former Assistant Chief Executive received severance payments during 2009/10. Details have not been published in this document due to confidentiality agreements in place.

13 PUBLICITY

The Council's expenditure on publicity was as follows:

	2009/2010 £'000	2008/2009 £'000
Recruitment advertising	1,672	1,571
Media and public relations	1,298	1,267
Other	1	1
Total expenditure	2,971	2,839

14 GOVERNMENT GRANTS (NOT ATTRIBUTABLE TO SPECIFIC SERVICES)

This includes Revenue Support Grant, Local Authority Business Growth Incentives Scheme Grant and, from 1st April 2008, Area Based Grant (ABG). ABG is a non-ringfenced general grant, no conditions on use are imposed and, unlike LAAG, it is paid directly to the authority that benefits from the grant, rather than being paid to the authority in the area with 'accountable body' status for onward distribution to the other authorities.

	2009/10	2008/09
	£'000	£'000
Revenue Support Grant	(42,910)	(27,494)
Local Authority Business Growth Incentives Scheme Grant (LABGI)	(306)	(215)
Area Based Grant	(31,171)	(27,675)
Housing and Planning Delivery Grant (HPDG) ¹	(2,327)	-
Total	(76,714)	(55,384)

¹ HPDG was included in Net Cost of Services in the 2008-09 Income and Expenditure Account. The comparable figure for 2008-09 was £3.416 million.

15 AUDIT FEES

Fees payable to the Audit Commission for external audit services were as follows:

	2009/2010	2008/2009
	£'000	£'000
External audit services carried out by the appointed auditor	493	442
Statutory inspection	20	27
Certification of grant claims and returns	119	113
Other services provided by the appointed auditor	0	2
Total	632	584

16 ECONOMIC DEVELOPMENT

The Local Government (Promotion of Economic Development) Regulations 1990 require authorities to disclose any financial assistance given to relevant bodies in the form of a loan with a rate of interest at less than market rate. At 31st March 2010 the Council had no outstanding loan agreements of this nature.

17 RELATED PARTY TRANSACTIONS

The Code of Practice on Local Authority Accounting requires disclosure of additional information regarding transactions between the Council and related parties in accordance with Financial Reporting Standard 8. 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.

(i) 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 transaction that the Council has with other parties. Details of transactions with Government departments are set out in a note to the Cash Flow Statement.

(ii) Partnerships

The Council has partnership arrangements with the following organisations:

NDC (New Deal for the Community)

PCT (Primary Care Trust)

(iii) Pension Fund

The Council borrows from or lends to the Pension Fund. The year end balance is shown in note 31 to the Core Financial Statements. The Pension Fund accounts are presented on pages 71 to 77 of this Statement.

(iv) Membership of and relationship with other organisations

Members of the Council have direct control over the Council's financial and operating policies and procedures. By virtue of their office, through their residence in the Borough and/or as active members of the community, members of the Council participate in and are members, trustees and/or directors of variety of public bodies and community groups. The Council has a well established mechanism and procedures for preventing undue influence. Part of this mechanism is the disclosure of interests in the Register of Members' Interest which is open to public inspection and available on Tower Hamlets Council website.

Council Members have made declarations of their interests in the following organisations to which the Council made payments in 2009-10:

Organisations	Councillor	Payments by the Council £'000
Alpha Grove Community Trust	S A Houghton *	29
Bromley by Bow Centre	A A Sardar *	1067
Chisenhale Gallery	J J Peck	10
Collective of Bangladeshi School	A A Sardar *	25
	M. Uz-Zaman	
Council of Mosques	A A Sardar *	109
	A Ullah	
Cultural Industries Development Agency	R U Ahmed	35
	D Jones	
Docklands Sailing & Watersports Centre	M S Ali	42
East End Citizens Advice Bureau	R U Ahmed	260
East End Homes	M Uz-Zaman	1002
	R M A Saunders	
East London NHS Foundation Trust	P J Briscoe *	1
	S A Houghton *	
Eastside Books	D Jones	
Ensign Youth Club	A Asad	89
Gateway Housing Association	J J Peck	671
Greater London Enterprise	W Islam *	24
Greenwich & Docklands Festivals	R U Ahmed	38
Invest in Thames Gateway London Ltd	A M O Ahmed	15
Island Health Educational Trust	M S Ali	8
	R H B Eckhardt *	
	P Golds	
	B Turner	
Isle of Dogs Community Foundation	T J Archer	863
	M S Ali	
Jewish East End Celebration Society	R M A Saunders	5
John Scurr JM & I School	S Islam	45
Keen Students School	H U Abbas	19
Kingsley Hall Community Centre	Rania Khan	19
Leaside Regeneration Ltd	M Francis	655
	C Harper-Penman	
London Youth Games	B Turner	7
	W Islam *	
Montefiore Centre	M Rashid *	28
Mudchute Association	R H B Eckhardt *	292
Poplar HARCA	Rania Khan	2252
	A A Sardar *	

* indicates former Councillor

17 RELATED PARTY TRANSACTIONS (continued)
(iv) Membership of and relationship with other organisations (continued)

Organisations	Councillor	Payments by the Council £'000
Queen Mary University of London & Nursery	A Ullah	36
Rich Mix / Al-Isharah / Cultural Enterprises / Cultural Foundation	D Jones	60
	R M A Saunders	
Shelter / Shelter Legal / Shelter Training	M Francis	10
Smith Street Primary School	M. Uz-Zaman	4
Solander Gardens Community & Education	H Miah	3
Spitalfields Housing Association Ltd	H U Abbas	7
	M Rashid *	
SSBA-Montefiore Centre	M Rashid *	30
St Katharine & Shadwell Trust	E Jones	5
The Housing Forum Ltd	A K Heslop *	1
The London Thames Gateway	A M O Ahmed	20
Tower Hamlets Community Credit Union	A K Heslop *	21
Tower Hamlets Community Housing Ltd	H U Abbas	292
	S Haque	
	S Islam	
Tower Hamlets Law Centre	M Rashid *	225
	L Rahman	
Tower Hamlets Primary Care Trust	D Jones	1862
Tower Hamlets Sports Council	A M O Ahmed	13
	R U Ahmed	
	C Harper-Penman	
	W Islam *	
	L Rahman	
	B Turner	
Tower Project	A T Jackson	2244
Visit London	D Jones	27

* indicates former Councillor

(v) Material Amounts Outstanding to Related Party Organisations as at 31 March 2010:

ORGANISATIONS	COUNCILLORS	Amounts Outstanding to Organisations £'000
Bromley by Bow Centre	A Aziz Sardar	123
Tower Hamlets Primary Care Trust	Denise Jones	156
Montefiore Centre	M Abdullah Salique	23
Poplar Harca Ltd	Rania Khan	82
	Abdul Aziz Sardar	
Leaside Regeneration Ltd	Marc Francis	240
	M Abdullah Salique	
Tower Project	Ann Theresa Jackson	100
Isle of Dogs Community Foundation	Mohammed Shahid Ali	191
	Timothy John Archer	
East London NHS Foundation Trust	Philip John Briscoe	42
	Shirley Ann Houghton	

18 INTERESTS IN COMPANIES

Tower Hamlets Homes Limited is a private company limited by guarantee with no share capital. It is a wholly owned subsidiary of the Council and is incorporated in the Council's Group Accounts at pages 65 to 70.

19 POOLED BUDGETS

Under the terms of a Section 31 Agreement (Health Act 1999), the Council entered into five Pooled Budget and Lead Commissioning agreements with the Primary Care Trust. The Council will manage and deliver statutory functions, alongside the Primary Care Trust, in respect of the following:

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)
- (c) Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCTP)
- (d) Commissioning Health and Social Care Services for Adults with Learning Disabilities (CLDSA) pooling arrangements ceased at the end of 2008/09 when funding transferred from Health.
- (e) Occupational Therapy Service (OTS)

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

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

2009-10	ICES	LDSA	DCTP	CLDSA	OTS
	£'000	£'000	£'000	£'000	£'000
Income					
The Council	1,102	1,299	6,521	0	1,803
Tower Hamlets Primary Care Trust	565	1,704	1,538	0	1,591
Learning Disabilities Development Fund	0	0	0	0	0
	1,667	3,003	8,058	0	3,394
Expenditure					
	1,667	3,003	8,058	0	3,394
Surplus/Deficit for the year	0	0	0	0	0
2008-09					
Income					
The Council	924	1,278	6,301	17,885	1,805
Tower Hamlets Primary Care Trust	610	1,661	1,538	3,142	1,385
Learning Disabilities Development Fund	0	0	0	245	0
	1,534	2,939	7,839	21,272	3,190
Expenditure					
	1,534	2,939	7,839	21,272	3,190
Surplus/Deficit for the year	0	0	0	0	0

20 MOVEMENT ON FIXED ASSETS												
	Council Dwellings		Other Land and Buildings		Infrastructure		Equipment		Community		Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation												
At 1st April 2009¹	1,051,615	1,037,745	109,690	12,281	45,220	2,256,551	54,449	802	55,251	2,311,802		
Additions	54,973	54,121	7,688	1,866	3,503	122,151	806	0	806	122,957		
Disposals	(125)	(23,812)	(190)	0	(313)	(24,440)	(4,543)	0	(4,543)	(28,983)		
Reclassifications	(4,594)	1,287	0	0	0	(3,307)	(963)	4,270	3,307	0		
Revaluations	0	27,394	0	0	0	27,394	7,490	0	7,490	34,884		
At 31 March 2010	1,101,869	1,096,735	117,188	14,147	48,410	2,378,349	57,239	5,072	62,311	2,440,660		
Depreciation and impairments												
At 1st April 2009¹	150,324	69,588	23,293	8,638	0	251,843	4,407	0	4,407	256,250		
Depreciation charge for 2009-10	12,556	13,717	2,768	1,053	0	30,094	0	0	0	30,094		
Disposals	0	(2,028)	(43)	0	0	(2,071)	(72)	0	(72)	(2,143)		
Revaluations - Depreciation write-back	(11,824)	(14,488)	0	0	0	(26,312)	(72)	0	(72)	(26,384)		
Impairment	30,029	42,028	0	0	0	72,057	207	0	207	72,264		
Depreciation as at 31st March 2010	181,085	108,817	26,018	9,691	0	325,611	4,470	0	4,470	330,081		
Balance sheet amount at 31st March 2010	920,784	987,918	91,170	4,456	48,410	2,052,738	52,769	5,072	57,841	2,110,579		
Balance sheet amount at 31st March 2009¹	901,291	968,157	86,397	3,643	45,220	2,004,708	50,042	802	50,844	2,055,552		

¹ See note 57

21 FIXED ASSET VALUATIONS												
	Council Dwellings		Other Land and Buildings		Infrastructure		Equipment		Community		Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Nature of asset holding												
Owned	920,784	716,997	91,170	4,456	48,410	1,781,817	52,769	5,072	57,841	1,839,658		
Private Finance Initiative	0	270,921	0	0	0	270,921	0	0	0	270,921		
Total	920,784	987,918	91,170	4,456	48,410	2,052,738	52,769	5,072	57,841	2,110,579		

21 FIXED ASSET VALUATIONS												
	Council Dwellings		Other Land and Buildings		Infrastructure		Equipment		Community		Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historic cost												
The following shows the progress of the Council's rolling programme for the revaluation of fixed assets.												
Valued at historic cost	0	0	91,170	4,456	48,410	144,036	0	0	0	144,036		
Valued at current value in:												
2009/10	920,784	105,235	0	0	0	1,026,019	0	0	0	1,026,019		
2008/09	0	857,943	0	0	0	857,943	0	5,072	5,072	863,015		
2007/08	0	0	0	0	0	0	0	0	0	0		
2006/07	0	24,740	0	0	0	24,740	0	0	0	24,740		
2005/06	0	0	0	0	0	0	52,769	0	52,769	52,769		
Total	920,784	987,918	91,170	4,456	48,410	2,052,738	52,769	5,072	57,841	2,110,579		

The freehold properties which comprise the Council's property portfolio have been valued by Royal Institute of Chartered Surveyors (RICS) qualified valuers as follows:

Dwellings - M.Checksfield, MRICS

Other assets - O.Saunders, MRICS and A.Osibogun, MRICS

General Fund Property Valuation

The Council operates a five-year rolling programme of revaluation. The valuations carried out complied with the requirements of Financial Reporting Standard (FRS) 15, "Tangible Fixed Assets", issued by the Accounting Standards Board. A table showing the analysis of revaluations of fixed assets is shown above.

Properties considered by the valuer to be specialised within the definition provided by FRS 15 were valued on the basis of Depreciated Replacement Cost where there is no active market for the asset being valued. Properties considered by the valuer to be non-specific were valued on an Existing Use Value basis. Community assets and infrastructure assets have been included at historic cost.

Independent RICS qualified valuers have undertaken a review of the value of assets as required under FRS 11, "Impairment of Fixed Assets", and consider that the value of the assets has not been impaired in 2009/10.

Housing Revenue Account Property Valuation

The valuation of Housing Revenue Account assets has been carried out by the District Valuer London (DVS) in accordance with guidelines produced by central government in the "Guidance on Stock Valuation for Resource Accounting".

For council dwellings the Major Repairs Allowance has been used as a reasonable estimate of depreciation, as it represents the estimated average annual cost of maintaining the condition of the housing stock over a 40 year period.

Depreciation

Depreciation on a straight line basis is provided for on all fixed assets with a finite useful life, except non-operational investment properties and land. Community assets are not depreciated as they have no determinable useful life. The depreciation bases adopted for each type of asset are disclosed in the Statement of Accounting Policies on page 12. The projected asset lives, which form the basis of the depreciation charges, are reviewed as part of the revaluation exercise.

22 CAPITAL EXPENDITURE AND FINANCING

(i) The following table shows how capital expenditure was financed in the year:

	2009/2010 £'000	2008/2009 As Restated ¹ £'000
Expenditure		
Tangible Fixed Assets		
Operational	122,151	50,519
Non Operational	806	209
Intangible Fixed Assets	1,374	969
Deferred Consideration	0	1,002
Revenue Expenditure Funded from Capital Under Statute	15,045	16,281
TOTAL	139,376	68,980
Source of Finance		
Borrowing	22,934	23,846
Capital Receipts and Contributions	88,169	29,508
Major Repairs Reserve	13,836	12,311
Direct Revenue Funding	14,437	3,315
TOTAL	139,376	68,980

(ii) The following table shows the relationship to the Council's Capital Financing indicator under the Prudential Code for Capital Finance in Local Authorities:

	2009/2010 £'000	2008/2009 As Restated ¹ £'000
Opening Capital Financing Requirement	421,698	404,835
Capital Investment		
Tangible Fixed Assets	122,957	51,730
Intangible Assets	1,374	969
Revenue Expenditure Funded from Capital Under Statute	15,045	16,281
Sources of Finance		
Capital Receipts and Contributions	(88,169)	(29,508)
Major Repairs Reserve	(13,836)	(12,311)
Direct Revenue Funding	(14,437)	(3,315)
Minimum Revenue Provision ¹	(6,902)	(6,983)
Closing Capital Financing Requirement	437,730	421,698
Explanation of movements in the year		
Increase (decrease) in underlying need to borrow (supported by Government financial assistance)	11,003	16,309
Increase in underlying need to borrow (unsupported by Government financial assistance)	5,029	554
Increase/(decrease) in Capital Financing Requirement	16,032	16,863

¹ Capital Financing Requirement (CFR) excludes Private Finance Initiative schemes.

23 ANALYSIS OF TANGIBLE FIXED ASSETS

The tangible fixed assets of the Council can be analysed as follows.

	2009/2010	2008/2009
Land and buildings	<i>Number</i>	<i>Number</i>
Dwellings	12,827	13,058
Administrative buildings	22	34
Commercial properties	399	492
Depots	8	6
Cemeteries	2	2
Public mortuary	1	1
Recreation and leisure facilities	34	25
Schools	81	48
Social services establishments - Residential Homes, Day Centres etc.	24	16
Other	121	74
	<i>Hectares</i>	<i>Hectares</i>
Parks and open spaces	242	238
	<i>Kilometres</i>	<i>Kilometres</i>
Infrastructure		
Principal built up roads	14.7	14.7
Other built up roads	248.2	248.2

24 CAPITAL COMMITMENTS

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £59.9 million at 31st March 2010 (£52.7 million at 31st March 2009).

	Committed sum £m	Costs to 31/3/2010 £m	2010/2011 onwards £m	Contract End Date
Building Schools for the Future:				
Bethnal Green Technology College	17.046	12.313	4.733	Oct-11
St Pauls Way Secondary School	36.055	20.276	15.779	Oct-11
Morpeth school	20.483	2.296	18.187	Sep-12
Sir John Cass school	17.100	2.072	15.028	Mar-12
Manorfield School extension	3.617	2.805	0.812	Sep-10
Marnar Primary School Phase 4	3.429	0.292	3.137	Oct-11
Smithy St Primary School	2.256	0.000	2.256	Oct-10
TOTAL	99.986	40.054	59.932	

25 LEASES

The Council has identified a small number of finance leases. The amounts involved are not material to the Council's accounts and for accounting purposes the leases are treated as operational.

Operating Leases

The Council was committed at 31 March 2010 to making payments of £8.127 million under operating leases as follows:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring in 2010/11	0	639
Leases expiring between 2011/12 and 2015/16	71	669
Leases expiring after 2015/16	6,443	305

26 INTANGIBLE FIXED ASSETS

These are computer software licences which are treated as non-financial fixed assets which do not have a substance but are controlled by and provide a future economic benefit to the Council. The cost of the licences is charged to revenue over the economic life of the licences, which is currently one year.

	Balance at 1/4/2009 £'000	Expenditure 2009-10 £'000	Revenue Charge 2009-10 £'000	Balance at 31/3/2010 £'000
Software licences	0	1,374	(1,374)	0

27 LONG TERM DEBTORS

	Balance at 1/4/2009 As Restated ¹ £'000	Advances £'000	Income and adjustments £'000	Balance at 31/3/2010 £'000
Mortgages on Right to Buy properties	431	0	(99)	332
Sundry loans	424	554	(243)	735
TOTAL LONG TERM DEBTORS	855	554	(342)	1,067

¹ SORP 2009 requires amended accounting treatment for Private Finance Initiative (PFI) schemes. See Note 57 for more details. PFI schemes are no longer included as Long-Term debtors and 2008-09 figures have been restated accordingly.

28 STOCK AND WORK IN PROGRESS

	2009/2010 £'000	2008/2009 £'000
Work in progress	518	289
Stocks	13	14
TOTAL STOCKS AND WORKS IN PROGRESS	531	303

Work in progress consists of rechargeable works which are shown net of deposits.

29 DEBTORS AND PAYMENTS IN ADVANCE

	2009/2010 £'000	2008/2009 As Restated ¹ £'000
Government	8,725	11,256
Her Majesty's Revenue and Customs	14,782	8,002
Council Taxpayers	14,496	10,566
Other local authorities	307	243
Rents	17,470	18,160
Employees	352	306
Payments in advance	4,695	3,563
Housing benefits overpayments	13,731	11,317
Controlled parking fees	7,534	5,749
Sundry	58,474	63,195
TOTAL DEBTORS	140,566	132,357
Provisions for bad debts		
Rents	(15,823)	(16,361)
Housing benefits overpayments	(11,080)	(10,277)
Controlled parking fees	(6,865)	(5,437)
Council Taxpayers	(5,135)	(4,979)
Sundry	(13,043)	(14,685)
TOTAL PROVISIONS FOR BAD DEBTS	(51,946)	(51,739)
TOTAL NET DEBTORS	88,620	80,618

¹ SORP 2009 requires revised accounting treatment of the debtor / creditor relationship between the Council and the Government (in respect of National Non-Domestic Rates) and the Greater London Authority (in respect of Council Tax). 2008-09 figures have been restated accordingly. See Note 57 for more details.

²See Note 30

30 DEFERRED CONSIDERATIONS

Deferred considerations were in respect of initial capital contributions by the Council under Private Finance Initiative schemes, which were written off to the appropriate service revenue accounts over the lifetime of the contracts. SORP 2009 requires amended accounting treatment for Private Finance Initiative (PFI) schemes. See Note 57 for more details. PFI schemes are no longer included as Deferred Considerations and 2008-09 figures have been restated accordingly.

	2009/2010 £'000	2008/2009 As Restated £'000
Balance at beginning of year	0	26,241
SORP 2009 restatement	0	(26,241)
BALANCE AT END OF YEAR	0	0

31 FINANCIAL ASSETS AND LIABILITIES

With effect from 1 April 2007, local authorities have had to adopt a major change of accounting policy in order to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – the Statement of Recommended Practice 2007, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee.

Amortised Cost

This change in accounting standards has meant that most financial instruments (whether borrowing or investment) in 2007/08 and subsequent years, have to be valued on an amortised costs 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.

31 FINANCIAL ASSETS AND LIABILITIES (contd)

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

Accounting regulations require the financial instruments (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of "financial instruments".

Financial Instrument Balances	Long-Term		Current		Total	
	2009/2010	2008/2009	2009/2010	2008/2009	2009/2010	2008/2009
	£'000	As Restated ¹ £'000	£'000	As Restated ¹ £'000	£'000	As Restated ¹ £'000
Financial Liabilities						
Borrowings at amortised cost	302,475	251,785	14,633	12,901	317,108	264,686
Deferred Liabilities (PFI)	38,287	38,637	691	699	38,978	39,336
Trade creditors	0	0	44,314	32,255	44,314	32,255
Financial Assets						
Investments	0	0	85,508	78,427	85,508	78,427
Trade debtors	0	0	15,879	10,701	15,879	10,701
Cash held at Bank	0	0	37,010	27,452	37,010	27,452

The adjustments are as set out below:

	2009/2010	2008/2009
	£000s	As Restated ¹ £000s
Balance Sheet: long term loans	302,475	251,785
Balance Sheet: deferred liability	38,287	38,637
Balance Sheet: short term loans	15,324	13,600
Total Borrowing	356,086	304,022

For comparison purposes 2008/09 figures have been restated to reflect the reclassification of accrued interest of £2.71m from long-term to short-term borrowing.

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:

	2009/2010		2008/2009	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£000s	£000s	As Restated ¹ £000s	£000s
Interest expense	27,379		29,361	
Interest income		1,313		6,059
TOTAL INTEREST AND INVESTMENT INCOME	27,379	1,313	29,361	6,059

The interest payable relates to third party debt and excludes interfund interest payments amounting to £0.296 million. These payments to the HRA and Pension Fund have been included in the balance sheet.

Fair Value of Assets and Liabilities carried at Amortised Cost

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 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.

31 FINANCIAL ASSETS AND LIABILITIES (contd)

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 2010.
- For other market debt and investments the discount rate used is the rates 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 less provision for bad and doubtful debts.

The fair values are as follows

	2009/2010	2009/2010	2008/2009	2008/2009
	£'000	£'000	As Restated ¹ £'000	£'000
	Carrying amount	Fair value	Carrying amount	Fair value
Fair Value of Liabilities Carried at Amortised Cost				
Public Works Loans Board	233,723	298,874	247,113	330,715
Lender's option, borrower's option loans	77,608	85,606	17,573	18,337
Short term	5,777	5,777	0	0
PFI	38,978	38,978	39,336	39,336
Trade creditors	44,314	44,314	32,255	32,255
Financial liabilities	400,400	473,549	336,277	420,643

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 lower/higher than the rates available for similar loans at the Balance Sheet date. 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.

	2009/2010	2009/2010	2008/2009	2008/2009
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Fair Value of Assets Carried at Amortised Cost				
Cash deposits with banks and other financial institutions	44,690	44,690	49,170	49,170
Fixed term deposits with banks and building societies	40,466	40,577	25,541	25,626
Advance to Pension Fund	-	-	3,364	3,364
Equity Shares (not quoted in an active market)	352	352	352	352
Trade debtors	15,879	15,879	10,701	10,701
Cash held at Bank	37,010	37,010	27,452	27,452
TOTAL	138,397	138,508	116,580	116,665

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate is receivable is lower/higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above/below current market rates increases the amount that the authority would receive if it agreed to early repayment of loans.

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. The Council has fully adopted 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.

1. Credit Risk

Credit 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. 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. The Council also has a policy of limiting deposits with institutions to a maximum of £10 million - £25 million.

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 2010	Historical experience of default	Historical experience adjusted for market conditions as at 31 March 2010	Estimated maximum exposure to default and uncollectability
	£'000	%	%	£'000
Cash deposits with banks	44,690	-	-	-
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	20,466	-	-	-
3 - 6 months	15,000	-	-	-
6 - 12 months	5,000	-	-	-
> 12 months	352	-	-	-
TOTAL	85,508	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.

31 FINANCIAL ASSETS AND LIABILITIES (contd)

The Council does not generally allow credit for customers, such that £5.616 million of the £45.431 million balance is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

	31 March 2010 £'000	31 March 2009 £'000
Credit Risk		
Three to six months	1,029	598
Six months to one year	2,302	1,336
More than one year	2,285	1,327
TOTAL	5,616	3,261

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):

	2009/2010 £'000	2008/2009 £'000
Loans outstanding		
Public Works Loans Board	233,723	247,113
Market debt	77,608	17,573
Temporary Borrowing	5,777	0
PFI	38,978	39,336
TOTAL	356,086	304,022
Less than 1 year	15,324	16,310
Between 1 and 2 years	26,244	6,970
Between 2 and 5 years	46,859	60,620
Between 5 and 10 years	125,350	119,284
More than 10 years	142,309	100,838
TOTAL	356,086	304,022

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 authority is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the 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 Statement of Recognised Gains & Losses.
- 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 aim to keep a maximum of 20% of its borrowings in variable rate loans. 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. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of higher costs.

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

According to this assessment strategy, at 31 March 2010, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2009/2010 £'000	2008/2009 £'000
Interest Rate Risk		
Increase in interest payable on variable rate borrowings	57	0
Increase in interest receivable on variable rate investments	748	(1,037)
Impact on Income and Expenditure Account	805	(1,037)

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

Price risk

The Council does not generally invest in equity shares but does have the following shareholdings acquired in association with its activities:

	2009/2010 £'000	2008/2009 £'000
London Mutual Insurance Limited	346	346
The Tower Hamlets Local Education Partnership	7	7
Total	353	353

32 CREDITORS AND RECEIPTS IN ADVANCE

	2009/2010 £'000	2008/2009 As Restated ¹ £'000
Government	20,245	36,905
Her Majesty's Revenue and Customs	8,649	8,297
Council Taxpayers	8,867	5,503
Rents: sundry tenants	1,180	1,109
Rents: homeless families	307	240
Receipts in advance	38,151	40,600
Sundry	52,303	39,512
TOTAL CREDITORS	129,702	132,166

¹ SORP 2009 requires revised accounting treatment of the debtor / creditor relationship between the Council and the Government (in respect of National Non-Domestic Rates) and the Greater London Authority (in respect of Council Tax). 2008-09 figures have been restated accordingly. See Note 57 for more details.

33 EVENTS AFTER THE BALANCE SHEET DATE

The Chancellor of the Exchequer announced in his Emergency Budget on 22nd June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. This is a non-adjusting event after the Balance Sheet date (see accounting policy 20, page 16). It is estimated that this change will reduce the value of the Council's FRS17 liabilities by around 6.2% and the FRS17 Balance Sheet deficit by around 13.4%, a reduction of £86 million in each case. This excludes the liabilities and deficit in respect of Tower Hamlets Homes and the LPFA scheme where a reliable estimate of the reduction cannot be made. Indicative reductions are, however, £2.6 million and £3.8 million respectively.

34 CAPITAL GRANTS UNAPPLIED

	2009/2010 £'000	2008/2009 £'000
Balance at 1 April	37,363	21,234
Capital grants received	68,917	36,716
Total receipts for year	106,280	57,950
Receipts applied to finance capital expenditure	(67,769)	(20,587)
Balance as at 31st March	38,511	37,363

35 DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

These represent grants and contributions which have been applied to fund capital expenditure. They are released to revenue to match depreciation on the assets they funded, or fully released to revenue if there is no depreciation.

	2009/2010 £'000	2008/2009 £'000
Balance brought forward	96,139	99,788
Grants and contributions applied to capital investments	76,781	22,202
Amounts released in year	(37,275)	(25,851)
Amounts released relating to assets disposed of in 2009/10	(4,781)	0
Balance carried forward	130,864	96,139

36 DEFERRED INCOME - RECEIPT IN ADVANCE

The Council was paid an incentive (reverse premium) to enter into the lease of an administrative building. The premium is being released to revenue over the term of the lease and is classified as "deferred income - receipt in advance" in the Council's Balance Sheet.

	Balance at 31 March 2009 £'000	Released in year £'000	Balance at 31 March 2010 £'000
Administrative buildings lease reverse premium	11,006	(1,189)	9,817

37 PROVISIONS

The nature of provisions and movements during the year are set out below.

	Balance at 1/4/2009 £'000	Used in Year £'000	Contribution in Year £'000	Balance at 31/3/2010 £'000
(a) Insurance Fund	4,876		1,622	6,498
(b) Single Status	426	(135)		291
(c) Liability to DEFRA for BMW landfill usage	6		645	651
(d) Repayment of deposits	391		127	518
(e) Education salaries liability	25	(25)		0
(f) Repayment of European funding	394			394
(g) Pension liability - part time staff	400			400
(h) Primary Care Trust nursing charges	0		88	88
(i) Barkantine PFI	1,596		393	1,989
(j) Dangerous structures	13	(13)		0
(k) Youth and community contracts	101	(101)		0
(l) Metropolitan Police	176			176
(m) Employment Tribunal	60		90	150
(n) Commissioning Responsibility	53	(53)		0
(o) Adoption Fees	43		18	61
TOTAL	8,560	(327)	2,983	11,216

- (a) 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.
- (b) For additional costs resulting from the single status agreement which changed employees' conditions of service. £135,000 of the provision was used during the year.
- (c) The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of Biodegradable Municipal Waste (BMW). The Landfill Allowance Trading Scheme allocates tradable landfill allowances to each WDA up to a defined upper limit. As landfill is used, a liability is recognised for actual BMW landfill usage.
- (d) 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.
- (e) This provision was to accommodate the anticipated pay rise due to ex-employees following the cessation of the national pay body in 1994. Following review, this provision is no longer required.
- (f) There are a number of European funded schemes where there is a probability that grant will need to be repaid.
- (g) To reflect the potential liability for 40 ex-employees, based on the additional pension contribution costs that the Council would have incurred if these staff had been allowed to join the pension fund.
- (h) A provision for the likely, but currently disputed, payment of bills received from THPCT in respect of nursing costs.
- (i) To provide for the potential liability of PFI credits not being issued by the DCLG for the Barkantine PFI Scheme.
- (j) The Council was in dispute over the cost of various works under its dangerous structure obligations. The provision was established to meet the cost of these works once the amount of the liability has been agreed. The dispute has been resolved, an amount agreed in settlement and the provision is no longer required.
- (k) The youth work contracts provided for a 10% bonus to be paid at the end of each contract year. This provision was to meet this obligation. The amounts to be paid were calculated in 2009-10 and treated as creditors. The provision is therefore no longer required.
- (l) To provide for the repayment of grant either to the Metropolitan Police or the Home Office. There are current discussions with the Home Office on repayment which is anticipated in 2010-11.
- (m) To provide for payment following an unfair dismissal by the Council. The provision required has been reviewed and increased.
- (n) Originally a provision for the disputed payment for a former borough resident's nursing care. It has been determined that the Council is not responsible for the assessed contribution and the provision is no longer required.
- (o) Provision for the final payment to other authorities should particular children placed with potential adopters resident in other boroughs ultimately be legally adopted. The required provision has been reviewed and increased.

38 MOVEMENT ON RESERVES

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

	Balance at 1/4/2009 As Restated ¹ £'000	Movement in year £'000	Balance at 31/03/2010 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve ¹	486,712	23,426	510,138	To record unrealised revaluation gains (since 1 April 2007) from holding fixed assets. The balance does not represent cash resources available to the Council.	See note 39
Capital Adjustment Account ¹	994,431	(18,797)	975,634	A balancing mechanism between the different rates at which assets are depreciated under the SORP and financed through the capital controls system. The balance does not represent cash resources available to the Council.	See note 41
Capital Receipts Reserve	18,091	(1,782)	16,309	Proceeds of fixed asset sales available to meet future capital investment	See note 42
Financial Instruments Adjustment Account	280	484	764	Premia and discounts on the premature redemption of debt to be transferred to revenue over the residual term of the loan	See note 40
Pensions Reserve	(270,565)	(419,358)	(689,923)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	See note 47
Housing Revenue Account	23,301	(10,323)	12,978	Resources available to meet future costs for council houses	See pages 56-61
Major Repairs Reserve	2,354	(1,280)	1,074	Resources available to meet capital investment in council housing	See page 59
General Fund	27,102	31	27,133	Resources available to meet future costs for non-housing services. Schools' Balances are included in Earmarked Reserves.	See page 18
Earmarked Reserves (including schools' balances)	101,865	(2,976)	98,889	Amounts carried forward to meet known liabilities in the future.	See note 46
TOTAL	1,383,571	(430,575)	952,996		

¹ As adjusted. See note 57

39 REVALUATION RESERVE

	2009/2010 £'000	2008/2009 As Restated ¹ £'000
Balance at 1st April	486,712	335,449
Revaluation gains on assets revalued in year	38,951	301,288
Balances written off on assets disposed of in year	(8,059)	(587)
Balances written off on impairment losses in year	(2,313)	(141,342)
Difference between depreciation on current value and depreciation on historic cost	(5,153)	(8,096)
BALANCE AT 31st MARCH	510,138	486,712

The Revaluation Reserve records unrealised revaluation gains (since 1 April 2007) from holding fixed assets. The balance on the account is matched by fixed assets within the Balance Sheet and does not represent cash resources available to the Council.

¹ See note 57

40 FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This account represents the balance of deferred premia and discounts relating to the premature redemption of Public Works Loans Board (PWL) debt prior to 2009-10.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2007 permit councils to hold the total amount in this account and debit or credit the amounts to revenue over the residual term of the redeemed loan.

	2009/2010 £'000	2008/2009 £'000
Balance at 1st April	280	2,555
Premia - prior year adjustment ¹	0	(2,839)
Annual transfer to revenue	484	564
BALANCE AT 31st MARCH	764	280

¹ The accounting treatment of premia in 2007-08 was reviewed. The balance outstanding previously served to reduce Long Term Liabilities - Long term borrowing, on the Council's Balance Sheet. It was transferred to this account in 2008-09 to reflect best practice.

41 CAPITAL ADJUSTMENT ACCOUNT

	2009/2010 £'000	2008/2009 As Restated ¹ £'000
BALANCE AT 1st APRIL	994,431	1,019,095
Fixed Asset Adjustments		
Depreciation (General Fund)	(17,202)	(20,528)
Depreciation (HRA)	(12,892)	(12,558)
Impairment (GF)	(30,073)	(31,750)
Difference between depreciation on current value and depreciation on historic cost	5,152	8,096
Sales of Fixed Assets	(483)	(5,911)
Write-off of Fixed Assets	(26,356)	0
Impairment relating to Housing Stock Transfer	(6,842)	0
Impairment relating to Demolitions of Fixed Assets	(10,718)	0
Write out Revaluation Reserve Balance on Assets Disposed of in Year	8,059	587
Write out Deferred Capital Contributions Balance on Assets Disposed of in Year	4,782	0
Amortisation of Revenue Expenditure Funded from Capital under Statute	(15,045)	(18,684)
Amortisation of Intangible Fixed Assets	(1,374)	0
Resources set aside to finance Capital Expenditure		
Capital Receipts	11,387	7,306
Capital Grants and Contributions	37,275	25,851
Direct Revenue Financing (General Fund)	8,437	3,315
Direct Revenue Financing (HRA)	6,000	0
Major Repairs Allowance	13,836	12,311
Minimum Revenue Provision	7,260	7,301
BALANCE AT 31st MARCH	975,634	994,431

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and financed through the capital controls system. The balance is matched by fixed assets within the Balance Sheet and does not represent cash resources available to the Council.

¹ See note 57

42 CAPITAL RECEIPTS RESERVE

	Housing £'000	Other £'000	Total £'000
Balance at 1st April, 2009	0	18,091	18,091
Receipts from sales of assets	1,329	0	1,329
Unattached receipts	432	8,303	8,735
Deferred capital receipts	113	0	113
Receipts paid to central government	(572)	0	(572)
Receipts applied to finance capital expenditure	(1,302)	(10,085)	(11,387)
BALANCE AT 31st MARCH 2010	0	16,309	16,309

43 DEFERRED CAPITAL RECEIPTS

Deferred capital receipts relate to principal repayments due from mortgages granted for the purchase by individuals of council houses.

	2009/2010 £'000	2008/2009 £'000
Mortgages	298	412
	298	412

44 STREET TRADING ACCOUNT

	2009/2010 £'000	2008/2009 £'000
Expenditure		
Employee costs	893	985
Refuse collection and disposal	659	682
Support services	317	311
Other expenditure	133	110
Increase in provision for bad debts	-	30
Total Expenditure	2,002	2,118
Income		
Street trading charges	2,066	2,107
Other income	-	115
Decrease in provision for bad debts	24	-
Total Income	2,090	2,222
Deficit/(surplus) for the year	(88)	(104)
Balance at 1st April	298	402
Deficit/(surplus) for the year	(88)	(104)
Balance at 31st March	210	298

The Council operates a separate Street Trading Account under the London Local Authorities Act 1990. S.32 of the Act enables the Council to recover from the traders the reasonable costs in connection with their functions under the Act - notably, refuse collection/disposal and administrative/technical support. The overall deficit on the account serves to reduce the Council's General Fund balance.

45 CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2010 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 Eastend Homes; 1,985 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields HA. 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.

	2009/2010 £'000	2008/2009 £'000
Corporate		
(a) Insurance Reserve	24,734	26,096
(b) Area Based Grant Reserve	3,724	5,744
(c) Decent Homes	19,659	23,662
(d) Final accounts review	2,724	2,724
(e) Performance related grant	1,452	2,348
(f) Olympic legacy	1,500	2,110
(g) Personal computers refresh	1,417	1,355
(h) Single status	1,205	1,205
(i) Town centres improvements	725	725
(j) Efficiency reserve	1,885	689
Chief Executive's		
(k) Corporate initiatives	1,441	1,791
(l) Partnerships	446	-
(m) Miscellaneous Information Technology (IT) projects	-	213
(n) Elections	280	150
(n2) Beacon Council Scheme	231	-
(o) Underspend carried forward	953	100
Resources		
(p) Underspend carried forward	193	-
Development and Renewal		
(q) Regeneration	1,738	1,738
(r) Homelessness	2,451	1,851
(s) Planning development	3,142	1,236
(t) Access to employment	1,363	-
(u) Third party loans	350	-
(v) Land charges	71	-
(w) Building Control	-	247
(x) Community use of buildings	200	200
(y) Neighbourhood Renewal	-	2,468
(z) Crossrail	30	90
(aa) Ocean New Deal for Communities	459	359
Communities Localities and Culture		
(bb) Parking Control Account	1,828	957
(cc) Tower Hamlets Mela	133	288
(dd) Food waste recycling programme	-	220
(ee) Civil Contingencies	33	150
(ff) Blackwall depot	50	50
(gg) Underspend carried forward	309	-
Children Schools and Families		
(hh) Schools delegated balances	19,111	20,536
(ii) Unapplied rate rebates	792	1,970
(jj) Special needs	-	93
Adults Health and Wellbeing		
(kk) Health, Mental Health and Stroke services	1,023	-
(ll) Underspend carried forward	301	-
(mm) Framework I	500	500
(nn) Transforming Social Care	1,477	-
(oo) Supporting People	959	-
	98,889	101,865

The nature of the above reserves is described below and on the following pages.

- (a) The Council is self insured for most liability and property risks. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision. During the year the reserve reduced by £1.4 million (£1.6 million transferred into the insurance provision, offset by a budgetted contribution into the reserve).

46 EARMARKED RESERVES (contd)

- (b) A reserve created in 2008-09 to earmark and carry forward unused Area Based Grant into the following year. During the year £2,321,000 of the reserve was used to finance expenditure. The reserve was increased by £301,000 to carry forward additional grant into 2010-11.
- (c) £10.7 million of this reserve is to fund capital schemes. The balance of £9 million is earmarked for potential future costs associated with the outsourcing of the Council's housing repairs and improvements service (£0.4 million used during the year).
- (d) Held to meet any liabilities identified following a review of the Council's final accounts and balance sheet.
- (e) This reserve represents grant received which will be used to deliver improved outcomes in accordance with the Local Area Agreement.
- (f) For the purpose of making a grant available, should it be necessary, to the developers of the Olympic Aquatics Centre.
- (g) A reserve established to meet the future cost of replacing personal computers.
- (h) A reserve established to meet potential costs resulting from a reduction in the basic week for former manual employees, and other potential claims.
- (i) A reserve previously established from LAGBI resources, earmarked for the future improvement of town centres.
- (j) A reserve to meet the cost of technology driven efficiency initiatives.
- (k) This reserve was established to provide time-limited resources to accelerate performance improvement.
- (l) A new reserve established to carry forward unspent budget provision on partnership workstreams.
- (m) This reserve was established to fund specific projects. The balance was brought forward as an underspend of budget in 2008-09 and was applied in 2009-10.
- (n) This reserve was originally established to meet the cost of the May 2010 local borough elections. It was increased by carrying forward a 2009-10 underspend and is to be used for all elections in 2010.
- (n2) A reserve established from grant monies and earmarked to progress future Beacon Council initiatives.
- (o) A reserve established to carry forward unspent Chief Executive's budget provision.
- (p) A reserve established to carry forward unspent Resources Directorate budget provision.
- (q) A reserve established from grant monies and earmarked to progress future regeneration initiatives.
- (r) A reserve to meet the cost of future homelessness initiatives.
- (s) A reserve established from grant monies and earmarked to finance future planning function initiatives including the digitisation of records; and Local Development Framework and Customer Contact Centre related expenditure.
- (t) A new reserve which amalgamates existing Government Grants for use by the Access to Employment Service.
- (u) A new reserve to meet the cost of any default in respect of third party loans.
- (v) A new reserve to which is transferred the surplus generated by land charges. The reserve will be taken into account when setting future years' fee structures for the service.
- (w) Under Government regulations chargeable building control activities should break even over a 3 year period. The reserve represents previous years' surpluses on such activities and was used to part finance a deficit in 2009-10.

46 EARMARKED RESERVES (contd)

- (x) A reserve to fund future strategies in respect of the community use of buildings.
- (y) During the year £2.0 million of this reserve was used on the Housing overcrowding strategy and £0.35 million for legacy issues from the Davenant Centre. The balance was transferred to the Regeneration reserve.
- (z) A reserve to fund future Council costs arising from this major construction project.
- (aa) This reserve combined existing New Deal for Communities (NDC) reserves and is earmarked towards the Ocean NDC regeneration programme and support for the Ocean regeneration trust. £100,000 was added to the reserve during the year in respect of the resident wardens project.
- (bb) This reserve has been created and increased using part of the Parking Control account surplus for the year. It will be used for future operational activities.
- (cc) A reserve to fund the Council's management and organisation of the Mela in 2010 and support the creation of a new community trust to deliver the Mela in future years.
- (dd) This reserve, established to facilitate the continuing rollout of the Council's Food Waste Recycling Programme, was fully used during the year..
- (ee) A reserve to fund business continuity options.
- (ff) A reserve to provide for necessary security works at Blackwall depot. Expenditure now anticipated in 2010-11.
- (gg) A reserve established to carry forward unspent Communities Localities and Culture Directorate budget to the next financial year.
- (hh) This reserve represents unapplied revenue balances held by the Council on behalf of schools with delegated spending authority. The balance is committed to be spent on the education service.
- (ii) Resources generated by reviews of the rateable values of Children's Services properties, earmarked for future improvements to Children's Services building stock.
- (jj) A reserve for dealing with special educational needs cases. The reserve is no longer required.
- (kk) A new reserve which amalgamates existing Government Grants for use by the services specified.
- (ll) A reserve established to carry forward unspent Adults Health and Wellbeing Directorate budget to the next financial year.
- (mm) This reserve is to enable the implementation of a new client database using new software called "Framework I".
- (nn) A reserve established from grant monies and earmarked to progress future Transforming Social Care initiatives.
- (oo) A reserve established from grant monies and earmarked to progress future Supporting People initiatives.

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 (LGP) Scheme 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 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. As such, the transactions relating to retirement benefits, and the liabilities and assets of the pension scheme attributable to the Council in 2009-10 include those of THH. This is a change in accounting policy compared to 2008-09 (the year in which THH was incorporated) when the liabilities and assets of the Council excluded those of THH.

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 Statement of Movement in the General Fund Balance (SMGFB). The following transactions have been made in the Income and Expenditure Account and SMGFB during the year:

	The Council		LPFA		Total	
	2009/2010	2008/2009	2009/2010	2008/2009	2009/2010	2008/2009
	£'000	£'000	£'000	£'000	£'000	£'000
Income and Expenditure Account						
Net Cost of Services						
Current service costs	15,143	16,732	342	407	15,485	17,139
Past service costs	0	6,681	0	237	0	6,918
Impact of settlements and curtailments	1,244	1,958	0	0	1,244	1,958
Net Operating Expenditure						0
Interest cost	58,544	57,960	3,175	3,309	61,719	61,269
Expected return on assets in the scheme	(37,036)	(47,033)	(1,540)	(2,002)	(38,576)	(49,035)
Net Charge to the Income and Expenditure Account ¹	37,895	36,298	1,977	1,951	39,872	38,249
Statement of Movement in the General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with FRS 17	(37,895)	(36,298)	(1,977)	(1,951)	(39,872)	(38,249)
Actual amount charged against the General Fund Balance for pensions in the year ²	35,104	35,272	1,013	1,082	36,117	36,354

¹ The comparative 2008-09 figure for the Council, including THH, is £38.021 million.

² The comparative 2008-09 figure for the Council, including THH, is £36.580 million.

In 2009-10 the Council paid £14.261 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2008-09 were £13.465 million and 14.1% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2009-10 this amounted to £0.43 million (£0.43 million in 2008-09).

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £415.479 million (£85.644 million in 2008-09) were included in the Statement of Total Recognised Gains and Losses (STRGL). The cumulative amount of actuarial losses recognised in the STRGL is £472.237 million.

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000
1st April	(815,900)	(837,851)	(47,051)	(48,839)	(862,951)	(886,690)
In-year adjustment to incorporate THH	(35,865)					
Current service cost	(15,143)	(16,732)	(342)	(407)	(15,485)	(17,139)
Interest cost	(58,544)	(57,960)	(3,175)	(3,309)	(61,719)	(61,269)
Contributions	(9,244)	(8,610)	(142)	(148)	(9,386)	(8,758)
Actuarial gains / (losses)	(554,372)	84,292	(19,369)	3,309	(573,741)	87,601
Benefits paid	32,344	29,600	2,577	2,580	34,921	32,180
Past service costs	0	(6,681)	0	(237)	0	(6,918)
Losses on curtailments	(1,244)	(1,958)		0	(1,244)	(1,958)
31st March	(1,457,968)	(815,900)	(67,502)	(47,051)	(1,489,605)	(862,951)

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

	The Council		LPFA		Total	
	2009/2010 £'000	2008/2009 As restated £'000	2009/2010 £'000	2008/2009 As restated £'000	2009/2010 £'000	2008/2009 As restated £'000
1st April	555,794	661,906	36,592	41,758	592,386	703,664
In-year adjustment to incorporate THH	35,740					
Expected rate of return	37,036	47,033	1,540	2,002	38,576	49,035
Actuarial (losses) / gains	155,587	(167,427)	2,676	(5,818)	158,263	(173,245)
Contributions						
Members	9,244	8,610	142	148	9,386	8,758
Employer	35,104	35,272	1,013	1,082	36,117	36,354
Benefits paid	(32,344)	(29,600)	(2,577)	(2,580)	(34,921)	(32,180)
31st March	796,161	555,794	39,386	36,592	799,807	592,386

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

	2009/2010 £'000	2008/2009 £'000	2007/2008 £'000	2006/2007 £'000	2005/2006* £'000
Present value of liabilities:					
The Council	(1,457,968)	(815,900)	(837,851)	(986,327)	(989,200)
LPFA	(67,502)	(47,051)	(48,839)	(54,198)	(55,110)
Fair value of assets					
The Council	796,161	555,794	661,906	692,748	639,300
LPFA	39,386	36,592	41,758	39,087	39,031
Deficit in the scheme					
The Council	(661,807)	(260,106)	(175,945)	(293,579)	(349,900)
LPFA	(28,116)	(10,459)	(7,081)	(15,111)	(16,079)
Total deficit in the schemes	(689,923)	(270,565)	(183,026)	(308,690)	(365,979)

* The Council has elected not to restate fair value of assets for 2005/06 as permitted by FRS 17 (as revised)

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 £689.9 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The contributions expected to be made by the Council in the year to 31st March 2011 are £35.61 million to the Council's scheme and £0.50 million to the LPFA scheme.

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 Hymans Robertson, an independent firm of actuaries, based on the following main assumptions.

	The Council		LPFA	
	2009/2010	2008/2009	2009/2010	2008/2009
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.8%	7.0%	7.3%	7.0%
Target return portfolio			5.0%	
Property	5.8%	4.9%		
Bonds	5.0%	5.4%		
Cashflow matching			4.5%	4.2%
Cash	4.8%	4.0%	3.0%	4.0%
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	20.8 years	19.6 years	21.0 years	21.0 years
Women	24.1 years	22.5 years	23.4 years	23.4 years
Longevity at 65 for future pensioners:				
Men	22.8 years	20.7 years	22.0 years	23.0 years
Women	26.2 years	23.6 years	24.2 years	24.2 years
Rate of inflation	3.8%	3.1%	3.9%	3.1%
Rate of increase in salaries	5.3%	4.6%	5.4%	4.6%
Rate of increase in pensions	3.8%	3.1%	3.9%	3.1%
Rate for discounting scheme liabilities	5.5%	6.9%	5.5%	6.9%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%		

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

Major categories of assets as a proportion of total assets

The major categories of assets are as follows.

	The Council		LPFA	
	2009/2010	2008/2009	2009/2010	2008/2009
Equities	66%	58%	11%	8%
Bonds	22%	27%		
Property	9%	10%		
Cash	3%	5%	-3%	1%
Cashflow matching			38%	91%
Target return portfolio			54%	

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2009-10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2010:

	2009-10	2008-09	2007-08	2006-07	2005-06
	%	%	%	%	%
The Council					
Experience gains and (losses) on assets	19.54	-29.85	-14.34	0.07	13.08
Experience gains and (losses) on liabilities	0.00	0.00	-4.38	0.00	-0.02
London Pensions Fund Authority					
Experience gains and (losses) on assets	6.79	-15.90	6.17	0.00	3.72
Experience gains and (losses) on liabilities	-0.78	0.27	-4.24	0.29	0.19

48 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 1/4/2009 £'000	Expenditure £'000	Income £'000	Balance at 31/3/2010 £'000
(a) Welfare Savings	560	231	419	748
(b) King Bequest Fund	14	0	0	14
(c) Children's Trust Funds	3	6	6	3
(d) Social Services Trust Funds - sundry other	129	154	184	159
(e) Tower Hamlets Further Education Trust	872	3,093	2,918	697
(f) Globe Town Picture Fund	160	0	0	160
(g) Sundry Other	57	177	132	12
TOTAL TRUST FUNDS	1,795	3,661	3,659	1,793

- (a) This Fund represents monies held by Social Services residential establishments on behalf of residents in their care. It is used to finance the purchase of goods and services on behalf of residents.
- (b) This Fund was established with a legacy from the will of a former resident of the borough. The terms of the will restrict expenditure to specific activities which enhance the environment of the local community.
- (c) These Funds represent monies held and/or invested by the Council on behalf of children in care.
- (d) These Funds represent monies held by the Council on behalf of any residents of the borough (including those in private accommodation) who are unable to manage their own personal affairs.

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2010 may be summarised as follows.

- (e) 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.
- (f) This Fund was established with the proceeds of the sale of a painting by the Council.
- (g) Sundry Other includes funds representing a number of miscellaneous deposits.

49 STATEMENT OF NET ASSETS EMPLOYED

Total assets less liabilities as at 31 March can be analysed as follows:

	Balance at 31/03/10 £'000	Balance at 31/03/09 As Restated ¹ £'000
General Fund	165,218	489,213
Housing Revenue Account	811,208	894,173
TOTAL	976,426	1,383,386

50 RECONCILIATION OF SURPLUS/(DEFICIT) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2009/2010 £'000	2009/2010 £'000	2008/2009 As Restated ¹ £'000	2008/2009 As Restated ¹ £'000
Surplus/(deficit) for the year		(47,225)		(31,108)
Non Cash Transactions				
Depreciation and impairment	74,010		64,628	
Deferred grants amortised in year	(37,274)		(25,851)	
Deferre capital grants written off in year	(4,780)			
PFI debtor adjustments	0		1,434	
Pension fund adjustments	3,756		1,896	
Other non cash financial instrument adjustments	(484)		(372)	
Contribution to provisions	2,656	37,884	(3,091)	38,644
Adjustments for items reported separately in cashflow statement				
Interest and investment income		(1,313)		(6,144)
Interest payable		21,533		22,656
Interest element of PFI rental payments		5,846		5,348
Revenue Expenditure Funded from Capital Under Statute ²		16,419		0
Gains/losses on disposal of fixed assets		20,728		(13,394)
Items on an accruals basis				
(Increase)/decrease in stock		(228)		2,581
(Increase)/decrease in debtors		(7,002)		(825)
Increase/(decrease) in creditors		(6,266)		(16,763)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		40,376		995

¹ See note 57

² 2009-10 has individual line for Revenue Expenditure Funded from Capital however, 2008-09 REFUCUS was treated as part of revenue for the cash flow purposes

51 OTHER GOVERNMENT GRANTS

	2009/2010 £'000	2008/2009 £'000
Alcohol and Drug Misuse		
HIV/Aids	295	280
Asylum Seekers / UASC	578	837
Promoting Independence	553	273
Children's Services	16,087	1,216
Dept of Health: Other		217
Other Social Services	1,135	570
DWP: Benefits: Administration	5,012	4,315
DWP: Benefits: Council Tax	25,965	26,808
DWP: Benefits: Rent Allowances	150,087	116,198
DWP: Benefits: Rent Rebates	71,339	68,613
DCLG: Area Based Grant	31,204	27,675
DCLG: Housing Subsidy	15,750	20,551
DCLG: Homelessness Grant	1,827	1,070
DCLG: Single Regeneration Grant	0	26
DCLG: Home Insulation & Improvement Grants	0	588
Standards Fund	76,257	50,054
FEFC Access	392	385
Learning Skills Council	15,451	2,084
Education and Training	20,791	34,465
Dedicated Schools Grant	232,755	222,676
Nursery and other children's grants	0	18,683
European Social Grants	0	31
New Deal	12,415	2,325
Planning Delivery Grant	2,327	-
Supporting People	15,530	15,385
London Development Agency	362	362
Lottery Funding	526	-
Other Revenue Grants	5,217	6,141
TOTAL OTHER REVENUE GRANTS	701,855	621,828

52 ANALYSIS OF NET DEBT

	Cash £000	Short term investments £000	Total £000	Loans due within one year £000	Loans due more than one year £000	Deferred Liabilities £000	Net Debt £000
Balance as at 1st April 2009	27,452	78,427	105,879	(13,600)	(251,785)	(49,643)	(209,149)
Cashflows in year	9,558	7,081	16,639	(1,724)	(51,152)	1,547	(34,690)
Other non cash changes	0	0	0	0	462	0	462
Balance as at 31st March 2010	37,010	85,508	122,518	(15,324)	(302,475)	(48,096)	(243,377)

53 RECONCILIATION OF CHANGES IN CASH TO MOVEMENT IN NET DEBT

	2009/2010 £'000	2008/2009 £'000
Increase/(Decrease) in cash in year	9,558	1,087
Cash inflow/(outflow) from management of liquid resources	7,081	(21,962)
Cash inflow from:		
New loans raised	(65,777)	(7,000)
Cash outflow from:		
Loans repaid	12,901	20,321
Deferred Liabilities Repaid	1,547	385
Change in net debt resulting from cashflows	(34,690)	(7,169)
Other non cash changes:		
New deferred liabilities	0	(38,637)
Net adjustments for difference between effective interest rate and interest payable	462	(2,645)
Net Debt Brought Forward	(209,149)	(160,698)
Net Debt Carried Forward	(243,377)	(209,149)

54 ANALYSIS OF CHANGES IN CASH AND LIQUID RESOURCES DURING THE YEAR

	2009/2010 £000	2008/2009 £'000	Change in year £'000
Management of Liquid Assets			
Short Term Investments	85,508	78,427	7,081
Short term deposits	0	0	0
Cash	37,010	27,452	9,558
Increase/(decrease) in year	122,518	105,879	16,639

55 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.

Details of the deployment of DSG receivable for 2009/10 are as follows:

Note	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
A Final DSG for 2009-10	18,701	214,054	232,755
B Brought forward from 2008-09	5,910	0	5,910
C Carry forward to 2010/11 agreed in advance	0	0	0
D Agreed budgeted distribution in 2009-10	24,611	214,054	238,665
E Actual central expenditure	(19,726)	0	(19,726)
F Actual ISB deployed to schools	0	(214,054)	(214,054)
G Council contribution for 2009-10	0	0	0
H Carry Forward to 2010-11	4,885	0	4,885

A DSG figure as issued by DCSF on 25 June 2009 plus Exceptional Circumstances Grant notified in December 2009.

B Figure brought forward from 2008-09 (restated by way of correction).

C The amount which the Council decided after consultation with the schools forum to carry forward to 2010-11 rather than distribute in 2009-10.

D Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.

E Actual amount of central expenditure items in 2009-10.

F Amount of ISB distributed to schools.

G Contribution from the Council in 2009-10 which substituted for DSG in funding the Schools Budget.

H Difference between budgeted distributions and actuals plus carry forward agreed in advance.

The accounts were authorised for issue by Mr. Chris Naylor ACA CPFA MACantab on 4th October 2010.

57 PRIOR YEAR ADJUSTMENTS

The SORP 2009 requires revised accounting treatment for Private Finance Initiative (PFI) schemes and for the Council's Collection Fund (covering both the debtor / creditor relationship between the Council and the Greater London in respect of Council Tax; and the Council and the Government in respect of National Non-Domestic Rates (NNDR). Further details are shown in the Council's accounting policies 18 (page 15) and 19 (page 16). As these are changes to accounting policies, relevant prior year figures have been adjusted to reflect the new requirements. The adjustments for 2008-09 are shown below. None of the adjustments affect the Council's overall financial position.

	2008-09 Statement of Accounts £'000s	PFI Adjustments £'000s	Council Tax Adjustments £'000s	NNDR Adjustments £'000s	2008-09 Restated £'000s
INCOME & EXPENDITURE ACCOUNT (NET)					
Children's and Education Services	97,168	(540)			96,628
NET COST OF SERVICES	323,888	(540)			323,348
Interest payable and similar charges	22,656	5,888			28,544
NET OPERATING EXPENDITURE	346,544	5,348			351,892
INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT					
Council Tax income	70,501		(428)		70,073
(SURPLUS)/DEFICIT FOR THE YEAR TRANSFERRED TO THE GENERAL FUND	25,332	5,348	428		31,108
Statement of Movement on the General Fund Balance					
(Surplus)/Deficit for the year on the Income and Expenditure Account	25,332	5,348	428		31,108
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(19,107)	(5,348)	(428)		(24,883)
(Increase)/decrease in General Fund Balance for the year	6,225				6,225
Amount of General Fund Balance Generally Available for New Expenditure	(27,102)	0	0		(27,102)
Note of Reconciling Items for the Statement of Movement on the General Fund Balance					
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund balance for the year					
Depreciation and impairment of fixed assets	(23,241)	(5,667)			(28,908)
Transfer from the Council Tax Adjustment Account			(427)		(427)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year					
Minimum revenue provision for capital financing	6,984	318			7,302
Net additional amount required to be credited to the General Fund balance for the year	(19,107)	(5,349)	(427)		(24,883)
Balance Sheet					
Fixed Assets					
Tangible Fixed Assets					
Operational assets					
Other land and buildings	695,058	273,099			968,157
Total Fixed Assets	1,782,453	273,099			2,055,552
Long Term Debtors	109,614	(108,759)			855
Total Long Term Assets	1,892,067	164,340			2,056,407
Current Assets					
Debtors	92,675	(1,434)	(1,926)	(8,697)	80,618
Total Assets	2,090,924	162,906	(1,926)	(8,697)	2,243,207
Current liabilities					
Short-term borrowing	12,901	700			13,601
Creditors	142,789		(1,926)	(8,697)	132,166
Total Assets less Current Liabilities	1,935,234	162,206	0	0	2,097,441
Long Term Liabilities					
Long-term borrowing					0
Deferred liabilities		38,636			38,636
TOTAL ASSETS LESS LIABILITIES	1,259,816	123,570	0	0	1,383,386
Financed by					
Revaluation Reserve	319,706	167,006			486,712
Capital Adjustment Account	1,037,867	(43,436)			994,431
Collection Fund	(597)		597		0
Collection Fund Adjustment Account			(597)		(597)
TOTAL NET WORTH	1,259,816	123,570	0	0	1,383,386
Statement of Total Recognised Gains and Losses					
(Surplus)/Deficit on the Income and Expenditure Account for the year	25,332	5,349	427		31,108
(Surplus)/Deficit arising on revaluation of fixed assets	54,771	(222,925)			(168,154)
Total recognised (gains) and losses for the year	166,228	(217,576)	427		(50,921)
Cumulative effect on reserves of prior period adjustments		93,579			93,579
Aggregate (increase)/decrease in net worth	166,228	(123,997)	427		42,658
Cash Flow Statement					
NET REVENUE ACTIVITIES CASH FLOW	(4,624)	5,467	152		995
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Cash outflows					
Interest element of finance lease rental payments		(5,348)			(5,348)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(14,604)	(5,348)			(19,952)
CAPITAL ACTIVITIES					
Cash outflows					
Purchase of fixed assets	(50,283)				(50,283)
NET CASH OUTFLOW FROM CAPITAL ACTIVITIES	12,373				12,373
NET CASH INFLOW/OUTFLOW BEFORE FINANCING	(6,855)	119	152		(6,584)
MANAGEMENT OF LIQUID RESOURCES					
Net increase/decrease in other liquid resources	21,962		428		22,390
FINANCING					
Cash outflows					
Repayments of amounts borrowed	(21,020)	(699)			(21,719)
NET CASH INFLOW FROM FINANCING	(14,020)	(699)			(14,719)
RECONCILIATION OF SURPLUS/(DEFICIT) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES					
Surplus/(deficit) for the year	(25,911)	(5,349)	152		(31,108)
Non Cash Transactions					
Depreciation and impairment	59,162	5,466			64,628
Adjustments for items reported separately in cashflow statement					
Interest element of finance lease rental payments		5,348			5,348
Revenue Expenditure Funded from Capital Under Statute ¹					0
Items on an accruals basis					
(Increase)/decrease in debtors	(11,450)	8,699	1,926		(825)
Increase/(decrease) in creditors	(6,140)	(8,697)	(1,926)		(16,763)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(4,624)	5,467	152		995

¹ This is not a prior year adjustment but a change in presentation compared to the 2008-09 original. It is included here for completeness.

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	2009/2010	2008/2009
		£'000	£'000
INCOME			
Gross rental income			
Rents of dwellings		54,601	54,117
Non dwelling rents		2,614	3,525
Charges for services and facilities			
Heating and other charges		7,003	6,605
Leaseholder charges		11,283	8,466
HRA subsidy receivable			
General		2,374	6,947
Major Repairs Allowance		12,556	11,824
Contribution towards expenditure		115	115
Reduction in provision for bad debts		214	0
TOTAL INCOME		90,760	91,599
EXPENDITURE			
Repairs, maintenance and management			
Repairs and maintenance		24,315	28,220
Supervision and management		31,455	33,454
Rents, rates, taxes and other charges		2,749	2,982
Rent rebates		0	215
Increase in provision for bad debts		0	1,464
Depreciation of fixed assets	6		
On dwellings		12,556	11,824
On other assets		335	734
Impairment		18,191	23,363
Revenue expenditure funded from capital under statute	13	6,403	8,113
Debt management costs		213	196
TOTAL EXPENDITURE		96,217	110,565
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		5,457	18,966
HRA services share of Corporate and Democratic Core		502	328
NET COST OF HRA SERVICES		5,959	19,294
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
Gain or loss on sale of HRA fixed assets		2,379	(3,720)
Amortisation of premiums and discounts ¹	10	0	2,849
Interest payable		14,293	17,804
Interest and investment income		(192)	(1,002)
Pensions interest cost	7	5,714	3,776
Expected return on pension assets	7	(4,250)	(3,058)
DEFICIT/(SURPLUS) FOR THE YEAR ON HRA SERVICES		23,903	35,943

¹ An amounts of £666,000 was reflected in the Statement of Movement on the Housing Revenue Account Balance in 2008/09, in accordance with proper practice - see note 1. See also note 10.

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

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

Note	2009/2010	2008/2009
	£'000	£'000
Deficit/(Surplus) for the year on the HRA Income and Expenditure Account	23,903	35,943
Net additional amount required by statute to be credited to the HRA balance for the year	1 (13,580)	(24,056)
(Increase)/decrease in the HRA Balance	10,323	11,887
Balance on the Statutory HRA Brought Forward	(23,301)	(35,188)
Balance on the Statutory HRA Carried Forward	(12,978)	(23,301)

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2009/2010		2008/2009	
	£'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	(6,403)		(8,113)	
Capital expenditure financed from revenue	6,000		0	
Government Grants Deferred amortisation	6,995		6,434	
Gain or loss on sale of HRA fixed assets	(2,379)		3,720	
Depreciation and impairment of fixed assets	(11,349)		(23,363)	
Impairment relating to housing stock transfer	(6,842)		0	
Difference between amounts charged to the Income & Expenditure Account for premiums and discounts and the charge for the year determined in accordance with statute	585		(2,183)	
Net charges made for retirement benefits in accordance with FRS 17	(2,855)		(1,175)	
Transfers from General Fund (as directed by Secretary of State)	(714)	(16,962)	(932)	(25,612)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
Transfer to/from the Major Repairs Reserve	(335)		(734)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	3,717	3,382	2,290	1,556
Net additional amount required by statute to be debited to the HRA Balance for the year		(13,580)		(24,056)

0

2. HOUSING STOCK

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

	2010	2009
Low rise flats (1-2 storeys)	270	228
Medium rise flats (3-5 storeys)	7,564	7,496
High rise flats (6 or more storeys)	4,194	4,539
Houses and bungalows	799	795
TOTAL AT 31st MARCH	12,827	13,058

3. FIXED ASSETS

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

	2009/2010	2008/2009
	£'000	£'000
Dwellings	920,784	901,291
Other Land & Buildings	18,939	25,368
Non-Operational	50,713	46,520
TOTAL	990,436	973,179

The balance sheet values of operational and non-operational assets (excluding community assets and equipment, which are included in the totals above) have been as follows:

	Operational Dwellings	Operational Other land and buildings	Non- Operational	TOTAL
	£'000	£'000	£'000	£'000
Total value at 31st March 2008	986,081	30,181	50,634	1,066,896
Additions, disposals, transfers and revaluations	(84,790)	(4,813)	(4,114)	(93,717)
Total value at 31st March 2009	901,291	25,368	46,520	973,179
Additions, disposals, transfers and revaluations	19,493	(6,429)	4,193	17,257
TOTAL VALUE AT 31st MARCH 2010	920,784	18,939	50,713	990,436

The vacant possession value of dwellings within the Council's HRA was £2,391 million in 2009/2010 (£2,785 million in 2008/2009). 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

	2009/2010	2008/2009
	£'000	£'000
Balance at 1st April	2,354	2,841
Transfer from Capital Adjustment Account - depreciation	12,891	12,558
Transfer to HRA - depreciation on non-dwellings	(335)	(734)
Financing of capital expenditure	(13,836)	(12,311)
Balance at 31st March	1,074	2,354

5. CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	Dwellings £'000	Other land and buildings £'000	Other £'000	Total £'000
Expenditure	60,357	0	473	60,830
Sources of finance				
Borrowing	15,027		473	15,500
Useable capital receipts	11,773			11,773
Capital grants	13,721			13,721
Major Repairs Reserve	13,836			13,836
Direct Revenue Financing (RCCO)	6,000			6,000
TOTAL CAPITAL FINANCING	60,357	0	473	60,830

(ii) Capital Receipts

Capital receipts in 2009/10 from the disposal of fixed assets within the HRA amounted to £1.34 million (£7.73m in 2008/09) as follows:

	2009/2010 £'000	2008/2009 £'000
Dwellings	1,178	7,731
Other land and buildings	162	0
TOTAL CAPITAL RECEIPTS	1,340	7,731

6. DEPRECIATION

The total depreciation charge for the year was £12.891 million (£12.558 million in 2008/2009) made up of £12.556 million (£11.824 million in 2008/09) in respect of council houses and £0.335 million (£0.734 million in 2008/09) in respect of other housing assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance as this is the amount (based on a 30 year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

	2009/2010 £'000	2008/2009 £'000
Operational Assets		
Council dwellings	12,556	11,824
Other land and buildings	330	729
Equipment	-	-
Infrastructure	5	5
TOTAL DEPRECIATION	12,891	12,558

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 47 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.

	The Council		LPFA		Total	
	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000
Income and Expenditure Account						
Net Cost of Services						
Current service costs	1,419	452	6	5	1,425	457
Net Operating Expenditure						
Interest cost	5,660	3,747	54	29	5,714	3,776
Expected return on assets in the scheme	(4,224)	(3,041)	(26)	(17)	(4,250)	(3,058)
Net Charge to the Income and Expenditure Account	2,855	1,158	34	17	2,889	1,175
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with FRS17	(2,855)	(1,158)	(34)	(17)	(2,889)	(1,175)
Employer's contribution to scheme	3,717	2,281	7	9	3,724	2,290

8. RENT ARREARS

	2009/2010 £'000	2008/2009 £'000
Gross rent arrears at 31st March	3,197	3,846
Arrears as % of rent receivable	5.9	7.1
Provision made for bad debts	2,631	3,207

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. The £0.7 million transferred during 2009/10 relates to "Supporting People" services provided by the Council.

10. AMORTISED PREMIUMS AND DISCOUNTS

This relates to premiums payable on the premature redemption of housing debt prior to 2006-07. The accounting treatment of those amounts has been reviewed and amended retrospectively which results in a charge to the Income and Expenditure Account. The charge is reversed out in the Statement of Movement in the HRA balance, resulting in no change in the balance available.

11. HOUSING REVENUE ACCOUNT SUBSIDY ENTITLEMENT

	2009/2010 £'000	2008/2009 £'000
Management & Maintenance Allowances	34,930	33,418
Major Repairs Allowance	12,556	11,824
Charges for capital	21,364	26,950
Other Allowances	17	31
Guide Line Rent Income	(53,671)	(52,965)
Interest on Receipts	(40)	(48)
Prior Year Adjustment	(226)	(439)
TOTAL HOUSING REVENUE ACCOUNT SUBSIDY	14,930	18,771

12. IMPAIRMENT OF FIXED ASSETS

An impairment review was carried out in 2009/10 by qualified valuers and it was found that property values have not decreased between the 1st April 2009 and 31st March 2010 and so no impairment due to a fall in market prices has been recognised. A similar review was carried out in 2008/09, which resulted in impairment being recognised of £138.5m on council dwellings and £6.1m on other HRA assets between 1st April 2008 and 31st March 2009. Impairment on dwellings recognised in 2009/10 is the result of a stock transfer to a registered social landlord, and also demolition of a number of properties in preparation for re-development, and as such is not comparable to the impairment recognised in 2008/09.

13. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

£5.93 million of this amount is in respect of major works to leaseholders' properties, expenditure on which is in respect of third party capital assets and is reimbursable. This is a change in practice compared with previous years, when such expenditure was treated as affecting Council-owned assets. The change is in accordance with proper accounting principles. The comparable figure for 2008/09 was £7.82 million.

COLLECTION FUND

	Note	2009/2010 £'000	2009/2010 £'000	2008/2009 £'000	2008/2009 £'000
INCOME					
Council Tax (net of benefits)	2	70,561		68,519	
Transfers from General Fund - Council Tax Benefits		28,995	99,556	26,625	95,144
Distribution of prior year deficit on Collection Fund			2,716		
National Non-Domestic Rates	3		287,443		280,994
Reduction in provision for bad debts	5		0		17
TOTAL INCOME			389,715		376,155
EXPENDITURE					
Precepts and demands					
London Borough of Tower Hamlets		71,110		68,996	
Greater London Authority		24,879	95,989	24,694	93,690
Distribution of prior year surplus on Collection Fund					2,050
National Non-Domestic Rates					
Payment to National Pool		286,489		280,047	
Cost of collection allowance		954	287,443	947	280,994
Increase in provision for bad debts	5		210		
TOTAL EXPENDITURE			383,642		376,734
INCREASE/(DECREASE) IN FUND BALANCE			6,073		(579)
COLLECTION FUND BALANCE					
Balance at the beginning of the year			(810)		(231)
(Deficit)/Surplus for the year			6,073		(579)
BALANCE AT END OF YEAR	1		5,263		(810)

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 surplus on the Fund (£5,263,000) is attributable to the Council (£3,902,000) and the Greater London Authority (£1,361,000). The latter amount is carried as a creditor in the Council's Balance Sheet.

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 £40,000 and up to £52,000	7/9
C	Over £52,000 and up to £68,000	8/9
D	Over £68,000 and up to £88,000	9/9
E	Over £88,000 and up to £120,000	11/9
F	Over £120,000 and up to £160,000	13/9
G	Over £160,000 and up to £320,000	15/9
H	Over £320,000	18/9

By multiplying the number of properties in each band (after allowing for discounts, exemptions and non-collection) by the appropriate fraction the Council calculates the number of "Band D equivalent" properties in the borough (known as the Council Tax Base) and how much a Band D tax of £1 would produce. For 2009-10 this was £0.080 million (£0.080 million for 2008/09) allowing for a non-collection rate of 3.00% (3.00% in 2008/09).

When the 2009-10 Council Tax was set the position was as follows:

Band	2009/2010 No. of Properties	2009/2010 Council Tax Base	2008/2009 No. of Properties	2008/2009 Council Tax Base
A	1,385	730	1,103	713
B	24,427	15,900	20,505	15,470
C	31,246	24,523	27,158	23,416
D	16,736	15,594	15,968	15,489
E	12,868	14,053	11,103	13,164
F	6,113	7,802	5,270	7,384
G	2,447	3,528	2,126	3,437
H	390	657	327	633
Total	95,612	82,787	83,560	79,706

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:

	2009/2010		2008/2009		Increase £	%
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000		
Tower Hamlets	885.52	71,110	865.64	68,996	19.88	2.30
Greater London Authority	309.82	24,879	309.82	24,694	-	-
TOTAL	1,195.34	95,989	1,175.46	93,690	19.88	1.69

3. NATIONAL NON-DOMESTIC RATES (NNDR)

Under the arrangements for National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes the total NNDR back to local authorities on the basis of a fixed amount per head of population. 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 2009/10 was 48.5p in the £ (46.2p in the £ in 2008/09). The total rateable value in the borough as at 31st March 2010 was £677.4 million (£673.0 million at 31st March 2009). A periodic revaluation of business properties took place in April 2010. The new 2010 valuation list shows a total rateable value in the borough as at 31st March 2010 of £817.9 million.

4. ADJUSTMENTS FOR PRIOR YEARS' COMMUNITY CHARGE

Although Council Tax replaced Community Charge on 1st April 1993 the Council continues to account for residual adjustments to the Community Charges raised in earlier years in the Collection Fund.

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 2009/10 the Council Tax bad debt provision was increased by £0.21 million (reduced by £0.017 million in 2008/09) and £1.767 million of irrecoverable debts were written off (£1.621 million in 2008/09).

GROUP ACCOUNTS

1 INTRODUCTION

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.

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	5	5
Housing tenants and leaseholders	5	5
Independent	5	5
Total	15	15

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, however the Council funds pension payments through the management agreement in place.

The Council has determined that Group Accounts, showing the consolidated financial activities and financial position of the Council as a "single entity" and THH, need to be prepared since the 2008/09 financial year. The consolidation has been carried out in accordance with the acquisition basis of accounting - the service was externalised at fair value and did not result in an adjustment for goodwill. The income and expenditure of THH for the year are included in the Group Income and Expenditure Account and its assets and liabilities at 31 March 2010 in the Group Balance Sheet. Comparative figures for 2008/09 cover the period 7th July 2008 to 31st March 2009.

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

The accounts are subject to approval and adoption at the Annual General Meeting; and the formal issuing of the auditors' report

THH's appointed auditors are:

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

GROUP INCOME AND EXPENDITURE ACCOUNT

	2009/10 Gross Expenditure	2009/10 Gross Income	2009/10 Net Expenditure	2008/09 Gross Expenditure As Restated ¹	2008/09 Gross Income	2008/09 Net Expenditure As Restated ¹
	£'000	£'000	£'000	£'000	£'000	£'000
Cultural, Environmental, Regulatory and Planning Services	140,874	45,162	95,712	130,252	53,909	76,343
Central Services	85,969	75,835	10,134	55,655	47,018	8,637
Children's and Education Services	504,349	423,206	81,143	470,703	374,075	96,628
Highways and Transport Services	26,958	23,131	3,827	30,989	27,693	3,296
Local Authority Housing (HRA)	97,292	90,760	6,532	110,408	91,599	18,809
Other Housing Services	284,933	275,394	9,539	259,630	255,347	4,283
Adult Social Care	112,547	20,292	92,255	102,959	17,201	85,758
Corporate and Democratic Core	10,450	6,284	4,166	21,072	6,339	14,733
Non-distributed Costs	17,825	26	17,799	15,185	481	14,704
NET COST OF SERVICES	1,281,197	960,091	321,106	1,196,853	873,662	323,191
Net (gain)/loss on disposal of fixed assets			20,728			(13,394)
Total net (surplus)/deficit on Trading Accounts			11			1,555
Amounts due to levying authorities			1,636			1,641
Contribution to Housing Pooled capital receipts			572			4,766
Interest payable and similar charges			27,379			28,547
Interest and investment income			(1,324)			(6,166)
Pensions interest cost and Expected return on pensions assets			23,143			12,267
Amortisation of premiums and discounts			0			2,849
Unattached Capital Receipts			(8,734)			(1,331)
Corporation tax			2			5
NET OPERATING EXPENDITURE			384,519			353,930
INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT:						
Council Tax income			(73,608)			(70,073)
Government grants (not attributable to specific services)			(76,714)			(55,384)
Distribution from non-domestic rate pool			(185,907)			(197,503)
(SURPLUS)/DEFICIT FOR THE YEAR			48,290			30,970

¹ See note 57

RECONCILIATION OF SINGLE ENTITY SURPLUS OR DEFICIT FOR THE YEAR TO THE GROUP SURPLUS OR DEFICIT

	2009/10	2008/09
		As Restated ¹
	£'000	£'000
(Surplus)/Deficit on the Council's Income and Expenditure Account for the year	47,225	31,108
Adjustments for transactions with THH	1,074	(157)
(Surplus)/Deficit on the Group Income and Expenditure Account attributable to the Council	48,299	30,951
(Surplus)/Deficit attributable to THH	(9)	19
(Surplus)/Deficit for the year on the Group Income and Expenditure Account	48,290	30,970

¹ See note 57

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2009/10	2008/09
		As Restated ¹
	£'000	£'000
(Surplus)/Deficit on the Income and Expenditure Account for the year	48,290	30,970
(Surplus)/Deficit arising on revaluation of fixed assets	(36,638)	(168,154)
Actuarial (gains)/losses on pension fund assets and liabilities	415,333	84,532
Other (gains) and losses - Collection Fund	-	481
Total recognised (gains) and losses for the year	426,985	(52,171)
Cumulative effect on reserves of prior period adjustments	0	93,579
Aggregate (increase)/decrease in net worth	426,985	41,408

¹ See note 57

GROUP BALANCE SHEET

as at 31st March

	Note	2010	2010	2009	2009
		£'000	£'000	As Restated ¹	As Restated ¹
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Fixed Assets					
Operational assets					
Council dwellings		920,784		901,291	
Other land and buildings		987,918		968,157	
Infrastructure assets		91,170		86,397	
Equipment	3	4,711		3,780	
Community assets		48,410		45,220	
Non-operational assets					
Investment properties		52,769		50,042	
Surplus assets		5,072		802	
Total Fixed Assets			2,110,834		2,055,689
Long Term Debtors			1,067		855
Total Long Term Assets			2,111,901		2,056,544
Current Assets					
Stocks and Work in Progress	3	531		345	
Debtors	3	88,663		79,402	
Investments		85,508		78,427	
Cash and Bank	3	38,033	212,735	31,302	189,476
Total Assets			2,324,636		2,246,020
Current liabilities					
Short-term borrowing		15,324		13,600	
Creditors	3	130,567	145,891	133,603	147,203
Total Assets less Current Liabilities			2,178,745		2,098,817
Long Term Liabilities					
Long-term borrowing		302,475		251,785	
Capital Grants Unapplied		38,511		37,363	
Capital Grants and Contributions Deferred		130,864		96,139	
Deferred liabilities		38,287		38,637	
Deferred Income - Receipt in Advance		9,817		11,006	
Provisions		11,216		8,560	
Liability related to defined benefit pension schemes ¹	3	689,923	1,221,093	270,690	714,180
TOTAL ASSETS LESS LIABILITIES			957,652		1,384,637
Financed by					
Revaluation Reserve			510,138		486,712
Capital Adjustment Account			975,634		994,431
Capital Receipts Reserve			16,309		18,091
Deferred Capital Receipts			298		412
Pensions Reserve ¹	3		(689,923)		(270,690)
Major Repairs Reserve			1,074		2,354
Council Tax Adjustment Account			3,902		(597)
Financial Instruments Adjustment Account			764		280
Balances					
General Fund			27,133		27,102
Housing Revenue Account			12,978		23,301
Earmarked Reserves			98,889		101,865
Income and Expenditure Reserve	3		456		1,376
TOTAL NET WORTH			957,652		1,384,637

¹ See note 57

GROUP CASH FLOW STATEMENT

	Note	2009/2010	2009/2010	2008/2009	2008/2009
		£'000	£'000	As Restated ¹	As Restated ¹
				£'000	£'000
NET REVENUE ACTIVITIES CASH FLOW	1		37,730		4,984
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
<i>Cash outflows</i>					
Interest paid		(21,984)		(21,055)	
Interest element of PFI rental payments		(5,846)		(5,348)	
<i>Cash inflows</i>					
Interest received		1,394		6,483	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS			(26,436)		(19,920)
CAPITAL ACTIVITIES					
<i>Cash outflows</i>					
Purchase of fixed assets		(119,919)		(50,454)	
Other capital cash payments		(554)		-	
<i>Cash inflows</i>					
Sale of fixed assets		1,382		25,873	
Other capital cash payments/(income)		243		67	
Capital grants received		69,125		36,716	
NET CASH OUTFLOW FROM CAPITAL ACTIVITIES			(49,723)		12,202
NET CASH INFLOW/OUTFLOW BEFORE FINANCING			(38,429)		(2,734)
MANAGEMENT OF LIQUID RESOURCES					
Net increase/decrease in other liquid resources		(7,358)		22,390	
FINANCING			(7,358)		22,390
<i>Cash outflows</i>					
Repayments of amounts borrowed		(12,901)		(21,719)	
Capital Element of Finance Lease Rental Payments & PFI payments		(358)		0	
<i>Cash inflows</i>					
New loans raised		65,777		7,000	
NET CASH INFLOW FROM FINANCING			52,518		(14,719)
INCREASE/(DECREASE) IN CASH			6,731		4,937

¹ See note 57

NOTES TO THE GROUP ACCOUNTS

1 RECONCILIATION OF SURPLUS/(DEFICIT) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2009/2010		2008/2009	
	£'000	£'000	£'000	£'000
Surplus/(deficit) for the year		(48,290)		(30,970)
Non Cash Transactions				
Depreciation and impairment	74,082		64,662	
Deferred grants amortised in year	(37,274)		(25,851)	
Deferred grants written off in year	(4,781)			
PFI debtor adjustments	-		1,434	
Pension fund adjustments	3,901		3,116	
Other non cash financial instrument adjustments	(484)		(372)	
Contribution to provisions	2,656	38,100	(3,091)	39,898
Adjustments for items reported separately in cashflow statement				
Interest and investment income	(1,322)		(6,161)	
Interest payable	21,533		22,659	
Interest element of PFI rental payments	5,846		5,348	
Revenue Expenditure Funded from Capital Under Statute ³	16,419		0	
Gains/losses on disposal of fixed assets	20,728	63,204	(13,394)	8,452
Items on an accruals basis				
(Increase)/decrease in stock	(186)		2,539	
(Increase)/decrease in debtors	(7,625)		(896)	
(Increase)/decrease in creditors	(7,473)	(15,284)	(14,039)	(12,396)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		37,730		4,984

2 INCOME AND EXPENDITURE ACCOUNT

The following Tower Hamlets Homes transactions are included in the Group Income and Expenditure Account:

	2009/2010 £'000	2008/2009 £'000
Operating (profit) / loss	1,075	(157)
Interest payable	-	3
Interest receivable	(11)	(22)
Pensions interest cost ¹	-	33
Corporation tax	2	5
Total	1,066	(138)

¹ Incorporated into the Council's Income and Expenditure Account from 2009-10

3 BALANCE SHEET

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	
	2009/2010 £'000	2008/2009 As Restated ¹ £'000	2009/2010 £'000	2008/2009 As Restated ¹ £'000	2009/2010 £'000	2008/2009 As Restated ¹ £'000
Fixed assets - equipment	4,456	3,643	255	137	4,711	3,780
Stock and work in progress	531	303	0	42	531	345
Debtors	87,967	79,331	696	71	88,663	79,402
Cash	37,010	27,452	1,023	3,850	38,033	31,302
Creditors	129,702	132,166	865	1,438	130,567	133,604
Pensions liability ²	689,923	270,565	0	125	689,923	270,690
Pension reserve ²	(689,923)	(270,565)	0	(125)	(689,923)	(270,690)
Income and Expenditure Reserve			456	1,376	456	1,376

¹ See note 57

² Incorporated into the Council's Balance Sheet from 2009-10

³ 2009-10 has individual line for Revenue Expenditure Funded from Capital however, 2008-09 REFCUS was treated as part of revenue for the cash flow purposes

PENSION FUND ACCOUNTS

	Note	2009/2010 £'000	2008/2009 £'000
FUND ACCOUNT			
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	38,455	37,755
From members	3	9,612	9,164
Transfers in			
Individual transfers in from other schemes		6,214	4,862
Benefits			
Pensions	4	(28,510)	(26,685)
Lump sum benefits	4	(8,692)	(6,495)
Payments to and on account of leavers			
Refunds of contributions		(6)	(6)
State scheme premiums		6	(30)
Individual transfers out to other schemes		(6,692)	(6,679)
Administrative expenses	14	(1,075)	(326)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		9,312	11,560
RETURN ON INVESTMENTS		2009/2010 £'000	2008/2009 £'000
Investment income	11	14,527	23,535
Change in market value of investments			
Realised		3,999	(81,917)
Unrealised	10	164,201	(72,192)
Investment management expenses	15	(1,871)	(1,875)
NET RETURN ON INVESTMENTS		180,856	(132,449)
Net increase in the Fund during the year		190,168	(120,889)
Add: Opening net assets of the scheme		562,333	683,222
CLOSING NET ASSETS OF THE SCHEME		752,501	562,333
NET ASSETS STATEMENT AS AT 31ST MARCH		2010 £'000	2009 £'000
Investments Assets			
Fixed interest securities			
Public sector		40,659	54,006
Other		1,071	48,441
Equities			
Index linked securities			
Public sector		49,898	48,922
Pooled Investment Vehicles			
Unit Trusts		222,597	23,887
Property		73,458	53,668
Derivative Contracts			
Forward Foreign Exchange Contracts		774	0
	10	725,672	557,590
Cash deposits	6	19,606	6,892
Other investment balances	5	4,213	10,833
Investments Liabilities			
Other investment balances	5	(2,116)	(8,920)
Current Assets			
	5	5,851	114
Current Liabilities			
	5	(725)	(4,176)
TOTAL NET ASSETS		752,501	562,333

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31st March 2010. An explanation of the Actuarial position may be found in Note 13 and also in the Pension Fund Annual Report.

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

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

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

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

(b) Basis of preparation

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

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2010.

(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 2010
- (ii) Pooled Investment Vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2010.
- (iii) Property Unit Trusts are shown by reference to bid price at close of business on 31st March 2010.
- (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 the 31st March 2010.
- (vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent realised gains or losses on closed contracts and unrealised gains or losses on forward contracts.

(e) Management Expenses

Fund managers' fees are based mainly on a percentage of the value of the funds under their management, although part of the total fee is sometimes fixed.

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 7.5% 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 Rate used during the financial year ending 31st March 2010 was 15.8%. Contributions shown in the revenue statement may be categorised as follows:-

	2009/2010	2008/2009
	Total £'000	Total £'000
Members normal contributions		
Council	8,551	8,611
Admitted bodies	295	367
Scheduled bodies	766	186
Total members	9,612	9,164
Employers		
Normal contributions		
Council	20,003	20,247
Admitted bodies	885	1,257
Scheduled bodies	1,872	447
Deficit funding contributions		
Council	13,050	12,500
Other contributions		
Council	2,645	3,304
Total employers	38,455	37,755
Total contributions	48,067	46,919

The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2009/10 employees made contributions of £61,833.25 into the AVC Scheme not administered by the Council but provided by Norwich Union and £10,737.10 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 N° 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. 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 are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2009/2010			2008/2009			
	Admitted	Scheduled	Total	Admitted	Scheduled	Total	Total
	Council £000	Bodies £000		Bodies £000	Council £000		
Pensions	(27,710)	(606)	(28,510)	(26,568)	(95)	(22)	(26,685)
Lump sum retirement benefits	(6,481)	(387)	(7,789)	(5,525)	(188)	(524)	(6,237)
Lump sum death benefits	(903)	0	(903)	(258)	0	0	(258)
Total	(35,094)	(993)	(37,202)	(32,351)	(283)	(546)	(33,180)

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.

	2009/2010 £'000	2008/2009 £'000
Debtors		
Other Investment Balances		
Investment sales	2,316	8,350
Dividends receivable	1,187	1,407
Tax recoverable	306	371
Interest receivable	404	705
	4,213	10,833
Current Assets		
Employers' contributions due from admitted bodies	74	114
London Borough of Tower Hamlets	5,777	0
	5,851	114
Total Debtors	10,064	10,947
Creditors		
Other Investment Balances		
Investment purchases	2,116	8,920
Current Liabilities		
Borrowings ¹	0	3,364
Unpaid benefits	187	282
Administrative expenses	538	530
	725	4,176
Total Creditors	2,841	13,096
Net Debtors	7,223	(2,149)

6. CASH

The cash balance can be further analysed as follows:

	2009/2010 £000	2008/2009 £000
GMO UK	2,732	2,406
Aberdeen: Fixed Interest Portfolio	2,388	1,996
Aberdeen: Private Equity Portfolio	74	0
Aberdeen: UK Equities	2,349	1,462
Schroders: Multi Asset Portfolio	0	13
Schroders: Property Portfolio	11,227	319
Martin Currie	835	666
Merrill Lynch	1	30
TOTAL CASH	19,606	6,892

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 being the Administering Authority, VAT input tax is recoverable on all Fund activities.

Overseas Tax

Taxation agreements exist between Britain 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. MEMBERSHIP OF THE FUND

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

	2010	2009
London Borough of Tower Hamlets		
Active Members	5,190	4,865
Pensioners	3,724	3,561
Deferred Pensioners	5,074	4,664
	13,988	13,090
Admitted & Scheduled Bodies		
Active Members	479	530
Pensioners	107	78
Deferred Pensioners	245	183
	831	791

The following bodies have been admitted into the Fund:

Admitted Bodies

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

Scheduled Body

Tower Hamlets Homes Limited is a scheduled body contributing to the Fund.

9. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP is published as part of the Local Government Pensions Scheme Annual Report which will be submitted to the Council's Pensions Committee on 18th November 2010.

10. INVESTMENTS

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

Manager

GMO UK Ltd.
Martin Currie Investment Management
Schroders Asset Management Property Fund
Investec Asset Management
Baillie Gifford Life Ltd.
Aberdeen Asset Management
Auriel Capital Management
Record Currency Management

Mandate

Global Equity
UK Equity
Property
Residual Venture Capital Fund
Overseas Equities
Fixed Interest, UK Equities and Private Equity
Currency
Currency

10. INVESTMENTS (Continued)

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

	2010		2009	
	£ million	%	£ million	%
GMO UK Ltd.	198.6	26.6	138.2	24.4
Martin Currie Investment Management	95.3	12.8	65.9	11.6
Schroders Asset Management Property Fund	84.9	11.4	61.8	10.9
Aberdeen Asset Management - Bonds	148.6	19.9	153.2	27.1
Aberdeen Asset Management - Equities	70.6	9.4	45.6	8.1
Baillie Gifford Life Ltd.	132.6	17.7	85.3	15.1
Auriel Capital Management	9.9	1.3	9.8	1.7
Record Currency Management	6.7	0.9	6.4	1.1

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 2009	Purchases	Sales	Change in Market Value	Market Value as at 31 Mar 2010	Transaction Costs
	£000	£000	£000	£000	£000	£000
GMO UK Ltd.	135,035	84,175	(78,269)	54,195	195,136	38
Baillie Gifford Life Ltd.	85,338	0	0	47,267	132,605	0
Martin Currie Investment Management	64,842	44,186	(43,663)	28,703	94,068	6
Aberdeen Asset Management - Equities	43,646	11,984	(14,328)	26,629	67,931	3
Schroders Asset Management Property	61,317	21,467	(10,968)	1,642	73,458	0
Aberdeen Asset Management - Bonds	151,171	75,850	(87,508)	6,199	145,712	3
Aberdeen Asset Management - Derivatives	0	33,997	(33,997)	64	64	0
Auriel Capital Management	9,820	103	(1)	21	9,943	0
Record Currency Management	6,387	3,000	(1,917)	(731)	6,739	0
Aberdeen No.2	34	0	(230)	212	16	0
	557,590	274,762	(270,881)	164,201	725,672	50

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2009	Purchases	Sales	Change in Market Value	Market Value as at 31 Mar 2010
	£000	£000	£000	£000	£000
UK Investment Assets					
Quoted	359,937	156,590	(158,385)	62,527	420,669
Unquoted	34	0	(230)	212	16
Overseas Investment Assets					
Quoted	197,619	84,175	(78,269)	101,462	304,987
Unquoted	0	0	0	0	0
	557,590	240,765	(236,884)	164,201	725,672

Derivative Contracts

The fund managers GMO UK Ltd and Aberdeen Asset Management are permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2010 were forward foreign exchange contracts. The derivative contracts held are Forward Foreign Exchange Contracts. These are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to markets.

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date	Sterling value of equal and opposite obligation at 31 March 2010	Gains/(losses) on Contract
	£000	£000	£000
Currency contracted to purchase	(45,640)	47,492	1,852
Currency contracted to sell	46,646	(47,724)	(1,078)
Net Position		1,006	(774)

Contract	Manager	Expiration	Gain/Loss on Contract £000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2010	(29)
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2010	323
Danish Krone Foreign Currency	GMO UK Ltd	April 2010	(2)
Euro Foreign Currency	GMO UK Ltd	April 2010	(266)
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2010	11
Japanese Yen Foreign Currency	GMO UK Ltd	April 2010	8
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2010	7
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2010	(112)
Swedish Krona Foreign Currency	GMO UK Ltd	April 2010	214
Swiss Franc Foreign Currency	GMO UK Ltd	April 2010	481
US Dollar Forward Currency	GMO UK Ltd	April 2010	75
US Dollar Forward Currency	Aberdeen Asset Management	April 2010	64
			774

Realised gains were made on foreign exchange contracts in the year amounting to £0.684m. These were achieved by GMO (£0.483m) and Aberdeen Asset Management (£0.201m).

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2009/2010 £'000	2008/2009 £'000
Income from fixed interest securities	2,368	2,696
Income from index linked securities	513	355
Dividends from UK equities	4,911	5,500
Dividends from overseas equities	4,267	12,966
Net rents from properties	2,236	2,415
Interest on cash deposits	101	(512)
Foreign tax	94	115
Underwriting costs, etc.	37	0
TOTAL	14,527	23,535

12. SECURITIES

The value of listed and unlisted securities is broken down as follows:

	2009/2010 £000	2008/2009 £000
Unlisted	88	32
Listed	745,190	564,450
Working Capital	7,223	(2,149)
	752,501	562,333

13. 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 2007 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £205 million and the funding level to be 78%. This compares to a deficit at the previous revaluation in 2004 of £192 million and a corresponding funding level of 73%.

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

	£m
2008/09	12.5
2009/10	12.5
2010/11	12.5

In addition the contributions were increased by RPI plus 1.5% with effect from the 1st April 2009.

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.

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 2009-10 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2010 and the recommendations implemented from 1st April 2011.

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 FSS requires that the Fund operates the same target funding level of all ongoing employers of 100% of its accrued liabilities valued on the ongoing 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 2007 determined that this would require a contribution (additional to the future contribution rate) of 9% of members' pensionable pay equivalent to £12.5 million per annum. This contribution was increased by the Retail Price Index plus 1.5% as from 1st April 2009.

The main actuarial assumptions used in revaluation as at 31st March 2007 and applied during the intervaluation period were as follows:

Financial	Financial	Nominal	Real
Price Inflation (RPI)		3.2%	
Pay Increases		4.7%	1.5% Real rates are nominal rates
"Gilt based" discount rate		4.5%	1.3% adjusted for inflation
Funding basis discount rate		5.9%	2.7%
Longevity (in years)			
Longevity (in years)		Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date		19.6	22.5
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date		20.7	23.6
Average future life expectancy at age 45 for a non-pensioner at the valuation date		40.1	43.0

14. ADMINISTRATIVE EXPENSES

	2009/2010	2008/2009
	£000	£000
Investment Advice	155	151
Performance Measurement	15	13
Administration	882	243
Other Fees	23	(81)
	1,075	326

15. INVESTMENT MANAGEMENT EXPENSES

	2009/2010	2008/2009
	£000	£000
Payments to Managers	1,871	1,875

16. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Council's accounts.

During the year no trustees or Council chief officers with direct responsibility for Pension Fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

17. CONTINGENT LIABILITES

There were no contingent liabilities as at 31st March 2010.

18. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.

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

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Tower Hamlets for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources' responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers

all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources' responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting

policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority's Responsibilities

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

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

Jon Hayes

District Auditor

1st Floor Millbank Tower, Millbank, London, SW1P 4HQ

6th October 2010

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required:

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

The Statement of Accounts 2009-10 was considered and approved by Full Council on 14th July 2010.



Chair of Audit Committee

The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2009-10 presents a true and fair view of the financial position of the Council at 31st March 2010 and its income and expenditure for the year.



Chris Naylor ACA CPFA MACantab
Corporate Director of Resources

Annual Governance Statement

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Leader of the Council and the Chief Executive.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at www.towerhamlets.gov.uk or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. **The Council's Standards Committee members received a report in October 2007 assessing the current local governance arrangements and recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements.**

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and through which, it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been in place at Tower Hamlets for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance.

The Governance Framework

Vision and Priorities

The Council's vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

- A great place to live;
- A prosperous community;
- A safe and supportive community; and
- A healthy community.

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2009/10, 15 priorities were identified around all five Community Plan themes.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

Over the last year, there has been significant consultation with local people through Local Area Partnership (LAP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The Vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprise the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs) and the Local Area Steering Groups. The Council's Corporate Management Team (CMT) and the Cabinet and other members have also had contributed to the Vision and Priorities for the Community Plan.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2009/10 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council both lead and contribute to the delivery of the Community Plan.

The Tower Hamlets Partnership Community Plan and the Council's Strategic Plan fall within the Council's Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. Both plans are subject to approval by Full Council.

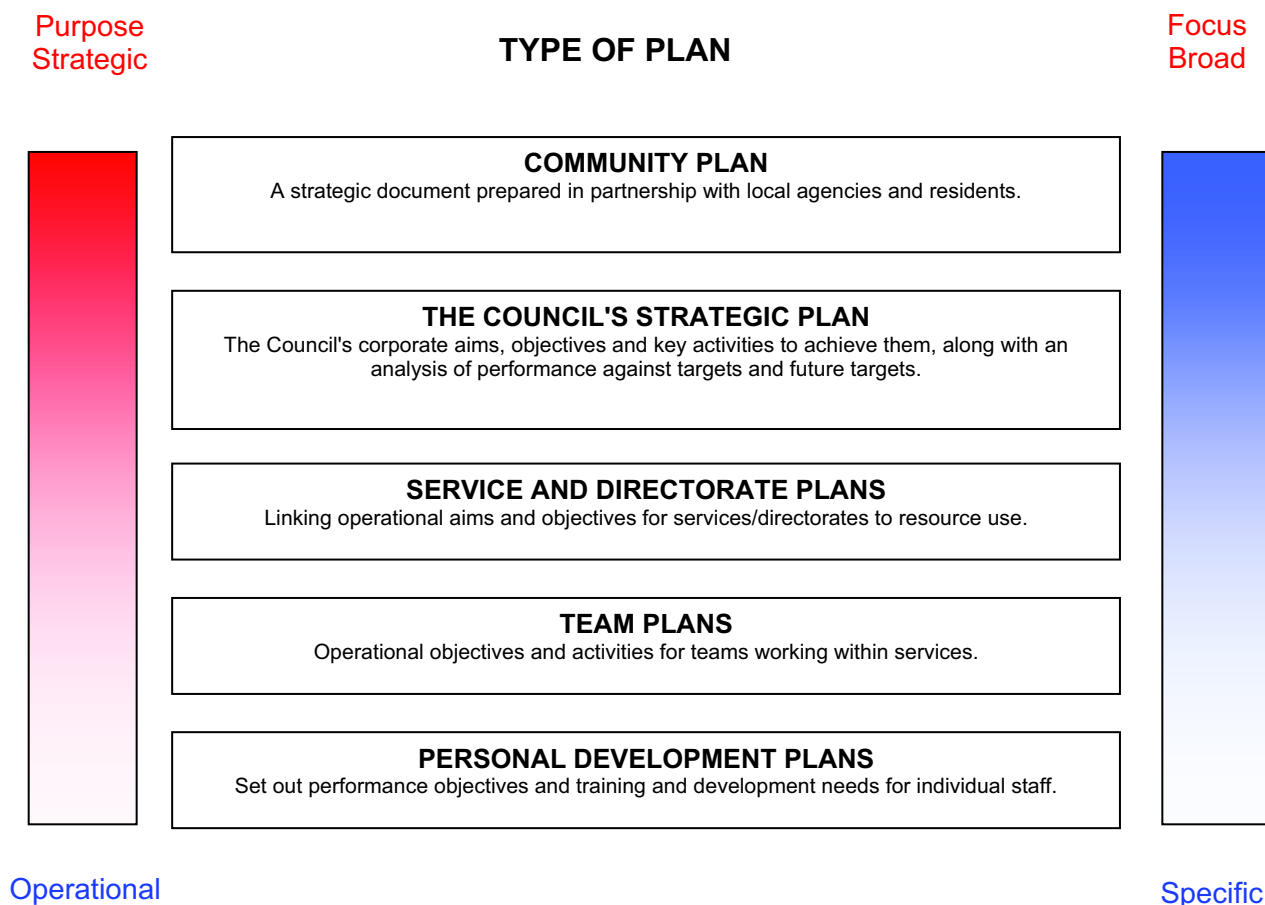
The Council's vision, priorities and objectives are used to structure all directorate, service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and objectives are communicated at all levels of the organisation. Further communication takes place through the Council's staff newsletter "Pulling Together".

The Strategic Plan is refreshed each year through Cabinet, Overview and Scrutiny and Full Council. The Community Plan is refreshed every three years.

Quality of Service

The Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored & evaluated at all levels.

The overall planning framework is illustrated in the following diagram.



Constitutional Matters

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings.

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the capital programme and revenue budget;
- the housing strategy; and
- the local development framework.

The Executive is responsible for key decisions and comprises a Leader and a Cabinet, who are all appointed by the Council. All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policy and budget framework and any decisions the Executive wishes to take outside of that framework must be referred to the Council as a whole to decide. The Council operates a system of delegated authority whereby the Executive delegates certain decisions to the Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2009/10 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

In a referendum over the borough having a directly elected Mayor, held on 6 May 2010, Tower Hamlets electorate voted for the mayoral model to govern the business of the Council. An election to appoint a mayor will take place in October 2010 and the Council's constitution and accompanying instructions and guidance will be updated to reflect the new model.

Codes of Conduct

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure that officers are not inappropriately influenced. These codes and processes are made available to staff at their induction, they are on the intranet and training is available to ensure every staff member understands their responsibilities.

Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Members' declarations and gifts and hospitality records are made public through the Council's website. As part of the adoption of the new members code a number of protocols were reviewed including the one concerning member and officer relationships in 2008/09. The Standards Committee was advised of the change and the revisions that were made to the code.

Compliance with Policies, Procedures, Laws and Regulations

The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

Effective Audit Committee

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority group in proportion of their representation on the Council. The Audit Committee's remit is around the Council's systems of internal control, risk management and governance, as outlines in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's statement of accounts and to consider reports

from the Audit Commission. The Audit Committee met four times during the financial year 2009/10 as planned.

Whistle Blow and the Complaints Procedure

The Council has a recognised complaints process. This comprises a number of stages to enable the public to escalate their complaints if they are unsatisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and Members.

Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

Within the Council the whistle blowing policy is actively promoted and annually, there are a number of whistle blowing events reported. The effectiveness of the policy and the type of issues raised are reviewed and monitored by the Council's Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, lead by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti Fraud team has actively engaged with the Audit Commission to test and improve the output from the NFI exercise.

Risk Management

The Authority has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

Financial Management

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources. The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected.

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2009/10 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;
- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority confirms to the good practice identified within the code.

The Efficient and Effective Use of Resources

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2009/10, the Council continued work on its efficiency programme and has been making plans to manage with significantly reduced financial resource in future. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation. The Audit Commission's most recent assessment for value reported an improvement in the way the Council seeks to delivery value for money.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency.

Learning and Organisational Development

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they can deliver excellent public service. These include a Leadership programme, specific training relating Recruitment and Selection, Risk Management, and other computer based training.

Members have a support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee and Standards Committee have training as part of their agendas and it is intended that in future they will agree specific training plans for themselves annually. For some aspects of Council work members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

Communication and Engagement

The Council publishes numerous documents on its website as well as providing a weekly newspaper, East End life to keep members of the public up to date with what is going on.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future.

On a more local basis the Council has a number of community forums which are used to engage with the community. Tower Hamlets has a greater proportion, compared to the rest of London, of young population and has thus engaged with the young people of Tower Hamlets by enabling them to vote for a young Leader of the Council. A number of local residents put themselves forward and a vote was held to elect a Leader to represent the young people of Tower Hamlets. The young Leader has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

Partnerships

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Delivery Groups for each of five key themes in the community plan and the Partnership Executive and Board, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings. The Tower Hamlets Partnership is responsible for delivering the vision and aspirations for the Community in the medium and long term, and the Local Area Agreement (LAA) agreed for the period 2008 - 2011 include key targets and indicators following negotiation between the Tower Hamlets and Central Government.

The Council also has important partnership arrangements with the local primary care trusts. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks. The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:

- the Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- the annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The independent assessment by six inspectorates as part of the Comprehensive Area Assessment identified one notable practice around Engaging and Empowering Local People. This measures the extent to which people believe they are able to influence decisions affecting their area. The assessment did not identify any significant concerns. The results of inspections of individual services continue to show improvements whilst Children's Services was rated as "Performs Excellently" by Ofsted in its report dated February 2010. Adult Social Care Services was rated as "Performing Excellently" for Increased Choice and Control for Older People, and as Performing Adequately in Safeguarding Adults, also published in February 2010.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2009/10 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

Overview and Scrutiny

The Overview and Scrutiny function reviews decisions made by the cabinet and raises proposals for the Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they consider performance information. They also have a key role in reviewing and challenging the Cabinet's budget framework prior to consideration at full Council.

Internal Audit

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Executive Director of Resources' S151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2009/10, the overall the control environment is adjudged to be satisfactory.

External Audit

The Council's external auditors, the Audit Commission, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have in their annual audit letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements.

Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2009/10 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.	<p>The authority has identified a savings target of £18m a year the next three years arising from the Government action likely to be necessary to tackle the UK's public spending deficit. This is much greater than the target in previous years and the incremental approach adopted in the past does not lend itself to this scale of problem.</p> <p>The authority has established a Service Options Review which will examine the strategic opportunities for delivering the savings. A clear savings target has been set of £55m over the next three years.</p> <p>Directorates have been challenged to identify savings to the scale required and this information has been fed into the review. The Review will go on to</p>	Corporate Management Team

Governance Issue	Action taken and next steps	CMT Lead
	<p>supplement the proposals brought forward by Directorates and identify strategic savings opportunities, likely to include some of a transformational nature, which will be governed through the Council's Transformation Board.</p> <p>A key component of the programme will be to ensure that a system is in place to secure the financial benefits of the transformation in the form of cashable savings.</p> <p>{Priority 1.2 (5) Strategic Plan and priority 5 – Resource's Directorate Plan}.</p>	
<p>Optimise asset management across public services to enable Council assets to be utilised in the most effective way.</p>	<p>Partners such as the Metropolitan Police and NHS Trusts are now members of the Council's Capital and Asset Management Board and are also involved in the development of the Asset Strategy Pilot in LAPS 1 & 2. The Asset Strategy is now fully aligned with the service integration/localisation agenda, which fully involve partners. The Pilot is dependent on progress with localisation but is expected to be ready in draft by December 2010 {Priority 6 – Strategic Plan}.</p>	<p>Corporate Directors, Resources and Development and Renewal</p>
<p>To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery.</p>	<p>The authority has a framework for business continuity planning and management. However, further enhancements will be made to ensure the authority can respond to a catastrophic disaster and its ability to access all essential IT applications {Priority Res011 – Resources Directorate Plan}.</p>	<p>Corporate Director, Resources and Corporate Director, Communities, Localities and Culture</p>
<p>Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's ALMO achieves two stars.</p>	<p>Following a mock inspection of the Council's Arms Length Management Organisation (Tower Hamlets Homes) in June 2009 a Service Improvement Plan was developed. This was refreshed in February 2010 and agreed with the Council as one of the suite of documents which govern the operations of the ALMO under the terms of the Management Agreement.</p>	<p>Corporate Director, Development and Renewal</p>

Governance Issue	Action taken and next steps	CMT Lead
	<p>This allows the ALMO and the Council to focus on those areas where there is the greatest risk at inspection and where the need for a stronger customer focus is most intense.</p> <p>The clienting procedures within the Council have also been strengthened in recognition of the importance of the need to drive change in the ALMO</p> <p>As a Round 6 ALMO funding for this scheme is not fully committed at this stage. Discussions continue with the HCA and the need for such investment has been prioritised in the draft Borough Investment Plan which will be agreed with the HCA by September 2010 Other regeneration opportunities have been progressed and the Ocean estate scheme has achieved start on site and 40Million funding from HCA. {Priority 14 – Strategic Plan and 2.1.4.2 Directorate Plan}.</p>	
<p>Arrangements for Safeguarding Children / Child Protection.</p>	<p>Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council has reviewed referral and safeguarding arrangements with social care and where necessary strengthened current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children's Services and enhancing the use of Framework I, the Council's case management system. The next steps involve implementing all appropriate remaining recommendations, in particular, assessing potential increase in social worker requirements and taking heed of further guidance. {Priority 60, Strategic Plan}.</p>	<p>Corporate Director, Children Services</p>

Governance Issue	Action taken and next steps	CMT Lead
<p>Improve information governance across the authority.</p>	<p>Following loss of personal data by an employee last year, a number of steps were taken to militate against future losses and to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords. A Project is now in place to implement full encryption for all mobile devices. This will be implemented for the most vulnerable devices first and all remaining devices by September 2010 {Priority Res011 – Resources Directorate Plan}.</p>	<p>Assistant Chief Executive (Legal)</p>
<p>Directorate operational guidance on contract management; retention and filing of contract documentation & Unauthorised extension of contracts.</p>	<p>Guidance is already available through the contracting toolkit. Work is underway to broaden and strengthen our approach and this will be submitted to Competition Board for approval in September. A proposal for a standard self-assessment approach to contract management is currently being developed, for approval by Competition Board and subsequent roll-out across the Council.</p> <p>Systems have been improved for recording and filing contract documentation. Work is underway with Legal for setting up a repository of contract documents. This will be finalised by end June 2010.</p> <p>Unauthorised contract extensions have largely been addressed through revision of the Procurement Procedures in 2009. The updating of the contracts register, which will be completed by end May 2010, will provide the assurance to prevent unauthorised extensions.</p> <p>{Priority 8 – Resource’s Directorate Plan}.</p>	<p>Corporate Management Team.</p>
<p>Termination of Chief Officer’s employment.</p>	<p>Responding to the Audit Commission’s recommendation the process will be clarified by introducing a protocol into the Constitution by July 2010. This makes the responsibilities of officers and members clear when the termination of a Chief Officer’s employment is being considered.</p>	<p>Assistant Chief Executive – Legal Services</p>

Governance Issue	Action taken and next steps	CMT Lead
	{Priority within Chief Executive Directorate Plan}.	
Pupil Place Planning - expanding school provision to meet rising demand for places.	<p>Action has been taken to identify short term primary place needs (for 2010/11 School Year) and develop technical feasibility of temporary school expansion. The pupil projections model has also been enhanced to ensure pupil place planning is based on robust data.</p> <p>Work in underway with the Development and Renewal directorate to integrate two planning models to provide one single comprehensive projection model by September 2010 and have in place Strategic provision of additional primary school places to 2019/20 school {Priority CYPP, ECS – Children Schools Family Directorate Plan}.</p>	Corporate Director, Children Services
To review and ensure the delivery of additional housing to reduce overcrowding.	<p>The council is committed to providing high quality housing in line with the needs of the community. An Overcrowding Strategy has been agreed, which involves all partner RSLs in the borough as well as Tower Hamlets Homes. A programme has been developed to acquire and new build properties to reduce overcrowding {Priority 2.1 (1) – Strategic Plan}. A Right to Buy Buyback programme purchased more than 80 properties of three beds or larger, and despite the recession the Affordable Housing new build target (NI155) was achieved in 2009/10. Responsibility for addressing overcrowding within the Council's own stock has also been formalised with the Council dealing with those tenants who are two or more bedrooms short of need and Tower Hamlets Homes arranging a programme of visits to tenants who are 1 bedroom short of need using an Overcrowding Toolkit</p>	Corporate Director, Development and Renewal.

Governance Issue	Action taken and next steps	CMT Lead
	which has been developed to standardise the approach to overcrowding, {Priority 15 – Strategic Plan}.	

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

CPM

.....
Chief Executive

Date: 27th Sept 2010

(Signature)

.....
Leader

Date: 27th Sept 2010

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

The following terms and abbreviations, while not being exhaustive, may prove of 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.

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

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.

Accruals - The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

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

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

Approved Investments - These are investments, which Local Authorities are permitted to make using their unapplied capital and revenue funds. These investments must be in sterling and normally consist of gilts or short-term deposits with banks, building societies and other financial institutions. Such investments are treated as neither revenue nor capital expenditure.

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

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 towards the year-end to take account of inflation, changes in patterns of services and other factors.

Capital Financing Charges - The annual cost of capital, including principal repayments, interest charges and leasing costs.

Capital Expenditure - Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

Capital Adjustment Account - Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans or certain other capital financing transactions.

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

Capital Receipt - Income received from the sale of a capital asset such as land or buildings.

Capital Receipts Reserve - Represents proceeds of fixed asset sales available to meet future capital investment.

Carrying Value - In relation to the value of financial instruments, it is the amount to be recognised on the Balance Sheet.

Collateral - Assets pledged by a borrower to secure a loan.

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

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.

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.

Creditors - Amount of money owed by the Council for goods and services received.

Credit Risk - The probability that an organisation owing monies to the Council may be unable to honour its commitments.

Debtors - Amount of money owed to the Authority by individuals, and organisations.

Deferred Capital Receipts - The balance of outstanding mortgages granted to purchasers of council houses.

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 a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

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.

Events after the Balance Sheet Date - Those events that relate to the accounting year, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the Director of Resources.

Fair Value - In relation to the value of financial instruments, it is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial instrument Adjustment Account - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWL) debt.

Fixed Assets - Tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

General Fund (GF) - The Council’s main revenue account from which is met the cost of providing most of the Council’s services.

Government and Other Capital Contributions Deferred - Capital Grants received which will be credited to revenue in future years to offset depreciation for related fixed assets.

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 a fixed asset caused by consumption of economic benefits or by a general fall in prices.

Income and Expenditure Account - A statement showing the expenditure and income of the Council's services during the year demonstrating how costs have been financed from general Government grants and income from local taxpayers.

Infrastructure Assets - Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

Intangible Assets - Non-financial fixed assets that do not have physical substance but are identifiable and controlled by the authority 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.

Liquidity Risk - The risk that the Council will be unable to raise finance to meet its commitments.

Major Repairs Reserve - Represents the funds available to meet capital investment in council housing

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.

National Non-Domestic Rates Pool (NNDR Pool) - Non-Domestic Rates are paid into a central pool controlled by Government. This money is then redistributed to councils on the basis of resident population.

Net Book Value - The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

Net Current Replacement Cost - The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value - The open market value of the asset less the expenses to be incurred in realising the asset.

Non-Operational Assets - Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of its services. Examples are investments and surplus properties.

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.

Operational Assets - Fixed assets held, occupied, used or consumed by the Council in the direct delivery of its service.

Outturn - The actual level of expenditure and income for the year.

Precept - The charge made by one Authority (e.g. Greater London Authority) on another Authority (e.g. Tower Hamlets) to finance its net expenditure.

Private Finance Initiative - Contracts whereby private sector suppliers provide services and/or capital investment in return for a unitary payment; subject to agreed performance targets.

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.

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 homes.

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.

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 - pay, goods and services and capital financing charges.

Revenue Support Grant - General grant paid by the Government to local authorities.

Soft Loan - Loans given at less than market/commercial rates to community or not-for-profit organisations.

Statement of Movement on the General Fund Balance - A Statement that reconciles between the statutory provisions that specify the net expenditure that needs to be taken into account when setting local taxes and surplus or deficit on the Income and Expenditure Account.

Statement of Total Recognised Gains and Losses - A statement bringing together all the gains and losses of the Council during the year.

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.

Abbreviations used in Accounts

ABG	Area Based Grant
AGS	Annual Governance Statement
BVACOP	Best Value Accounting Code of Practice
CAA	Capital Adjustment Account
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance and Accountancy
CRR	Capital Receipts Reserve
DCLG	Department of Communities and Local Government
DfE	Department for Education
DSG	Dedicated Schools Grant
DWP	Department for Work and Pensions
EIR	Effective Interest Rate
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
GLA	Greater London Authority
HRA	Housing Revenue Account
I & E	Income and Expenditure Account
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
NPV	Net Present Value
(N)NDR	(National) Non-Domestic Rates
PCT	Primary Care Trust
PFI	Private Finance Initiative
PWLB	Public Works Loans Board
RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
SORP	Statement of Recommended Practice
SSAP	Statement of Standard Accounting Practice
STRGL	Statement of Recognised Gains and Losses
WDA	Waste Disposal Authority

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Annual Governance Report Addendum

London Borough of Tower Hamlets

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Addendum AGR

Introduction

1 My work on the audit of the Council's financial statements has continued since I drafted my Annual Governance Report. This work has identified matters I need to bring to your attention. This addendum should be read in conjunction with my Annual Governance Report delivered to the Audit Committee on 21 September 2010. The attached appendices show the final position on amendments made to the accounts and unadjusted mis-statements.

2 My work is now complete and I intend to give an unqualified opinion on the accounts on 6 October 2010.

Main conclusions

Income and expenditure

3 My testing of Income found internal recharges that were incorrectly included in the accounts. Further work undertaken by officers identified that Income and Expenditure were both overstated by £12,484k. Management has corrected the accounts for this error.

Barkantine combined heat and power plant

4 The Council has not recognised the Barkantine Combined Heat and Power plant on its balance sheet. The scheme was identified as falling under IFRIC 12 in the report prepared by the Council's PFI advisors, suggesting that it should be brought on balance sheet in 2009/10.

5 I accept that there is uncertainty surrounding the treatment of this asset and I have assurance that the amount involved is not material in 2009/10. Moving forward, the Council should review this agreement and provide working papers for audit review to support the treatment adopted in the 2010/11 accounts.

Uncertainties

6 I found differences between the general ledger and the supporting debtors systems:

- the debtors ledger includes £758k which is not on the general ledger and has not been included in the debtors figure in the accounts and
- the housing benefit overpayment debtor included in the accounts is £2,456k more than the value reported by the Council's housing benefit system. Debtors may be overstated by this amount. Council officers are liaising with the system provider to establish the reason for the difference.

7 My testing of payroll expenditure at outsourced schools identified a difference of £55k between the Council's general ledger and the data provided by the school's payroll provider. I have extrapolated this error across the other schools with outsourced payroll providers and the possible error value is £337k.

8 These are uncertainties therefore no adjustments have been made to the accounts for these items. Reconciliations are key controls which give assurance over the integrity of the data in financial systems. Officers should investigate and resolve all reconciliation differences as part of the closedown process.

Recommendation

R1 As part of the 2010/11 closedown process, ensure that internal recharges are excluded from the financial statements.

R2 Review the accounting treatment of the Barkantine Combined Heat and Power plant for the 2010/11 financial statements.

R3 Ensure all reconciliations between underlying systems and the general ledger are completed at the year end and investigate any differences.

Appendix 1 Amendments to the draft accounts

I identified the following misstatements during my audit and officers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 1:

Description of adjustment	Income & Expenditure		Balance Sheet	
	Dr £k	Cr £k	Dr £k	Cr £k
Correctly account for two assets which are not owned by the Council but were on the balance sheet. The assets were revalued in year and then removed as disposals from the balance sheet.			700	
		700		
Post the impact of a schools valuation adjustment to the income and expenditure account.	3,717			3,717
Remove a prior period adjustment made in error.			2,710	
				2,710
Post movements on earmarked reserves to the income and expenditure account.	329			329
Include the pre-service transfer element of the pension liability of Tower Hamlets Homes within the balance sheet.	17,959			17,959
Correct an error in the calculation of Council Tax receivable in the year.	598			598
Income and expenditure were overstated due to the inclusion of internal re-charges	12,484			
		12,484		

Other adjustments to the notes to the accounts	£k
<hr/>	
Note 20 - Fixed Assets	
The write down of assets demolished was accounted for as a disposal instead of as an impairment.	10,718
Land which had previously held HRA dwellings was not reclassified to other land and buildings when the HRA dwellings were demolished.	4,594
The write down of the value of assets included in a stock transfer was treated as a disposal instead of as an impairment.	6,842
Revaluations and impairments were shown net in note 20 instead of gross as required by SORP:	
impairments	54,004
revaluations	54,004
(Since we reported to the Audit Committee on the 21st September, the Council has undertaken further work on the impairments and revaluations. As a result the amendments made to the accounts have changed. This table has been updated to reflect the revised amendments.)	
<hr/>	
Note 31 - Financial Instruments	
The following balance sheet financial instruments were omitted from the financial instruments note:	
Debtors	15,879
Creditors	44,314
Cash	37,010
The credit risk section of the financial instruments note has been amended:	
Debtors	17,240
Debtors past due but not impaired	3,028
<hr/>	
Note 57 - Prior Period Adjustments	
A reclassification of borrowing from long term to short term was incorrectly included as a PPA.	2,710
<hr/>	
Note 48 - Capital Adjustment Account	
Revenue expenditure financed by capital under statute (REFCUS) and amortisation were shown net as opposed to gross as required by the SORP:	
REFCUS	15,045
Amortisation	1,374
<hr/>	
Statement of Total Recognised Gains	
surplus/ deficit on the income and expenditure account	2,790
surplus/ deficit arising from revaluations	2,303
other gains and losses	598
<hr/>	

Note 47 - Pension Schemes

The actuarial losses in this note did not agree to the statement of total recognised gains and losses. 16,693

Appendix 2 Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Description of error	Accounts affected	Value of error £ '000
As part of a reconciliation exercise the Council has identified a number of assets not currently included within the balance sheet fixed assets figure. A provisional valuation provided by the Council's internal valuer indicates that the value of these assets is £4.2m.	Balance Sheet: - Fixed Assets - Revaluation Reserve	4,515
The Council have guaranteed to pay £1.3m of pension liabilities relating to the post-transfer service of Tower Hamlets Homes. This should be accounted for as a provision under FRS12. The Council have chosen to account for this as a pension liability under FRS17, along with the pre transfer service amount.	Balance Sheet: - Pension Liability - Pension Reserve - Provisions Income and Expenditure Account: - Net Cost of Services	1,300
The Council employed external consultants to review their leases. The consultants identified finance lease liabilities which the Council has accounted for as operating leases.	Balance Sheet: - Fixed Assets - Short Term Borrowing - Long Term Borrowing Income and	188

Description of error	Accounts affected	Value of error £ '000
	Expenditure Account: - Net Cost of Services - Interest Payable	
<hr/> Note 10 - Private Finance Initiative Schemes	- Short term liability overstated	321
	-Long term liability understated	321

Appendix 3 Draft letter of representation

Jon Hayes
District Auditor
Audit Commission
1st Floor,
Millbank Tower,
Millbank, London,
SW1P 4HQ
X October 2010

London Borough of Tower Hamlets - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Tower Hamlets, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's Accounts, Group Accounts and Pension Fund Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Audit Committee and the reasons for not correcting the items are as follows;

- We have not recognised the value of 13 assets identified in year on our balance sheet. We do not regard this decision as having a material impact on our financial statements.

- We recognise that we have accounted for three finance leases as operating leases. We do not regard this decision as having a material impact on our financial statements.
- £1.3m of provisions relating to a guarantee arrangement with Tower Hamlets Homes have been accounted for as pension liabilities under FRS17, rather than under FRS12. We do not regard this decision as having a material impact on our financial statements.
- We have not accounted for the Barkantine combined heat and power plant on balance sheet. We will review the accounting treatment of this asset in 2010/11. We do not regard this decision as having a material impact on our financial statements.
- The long and short term liabilities for the Private Finance Initiatives are misclassified. We do not regard this decision as having a material impact on our financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in notes 31 and 32 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties other than the guarantee already disclosed in the financial statements.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred, other than the disclosure relating to pension liabilities, which would require additional

adjustment or disclosure in the financial statements other than those items already disclosed.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

I have considered the Council's long-term contracts in line with IFRIC 12 and other relevant financial reporting standards and confirm that, other than those already disclosed in the accounts, these are not considered to include leases, service concession arrangements or any embedded derivatives that would require separation from the host contract.

Signed on behalf of the London Borough of Tower Hamlets.

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Appendix 4 Action Plan

Recommendations

Recommendation 1

As part of the 2010/11 closedown process, ensure that internal recharges are excluded from the financial statements.

Responsibility	Chief Accountant
Priority	Medium
Date	By 30 June 2011
Comments	Transactions will be reviewed to ensure that internal recharges do not gross up expenditure or income.

Recommendation 2

Review the accounting treatment of the Barkantine Combined Heat and Power plant for the 2010/11 financial statements.

Responsibility	Chief Accountant
Priority	Medium
Date	By 30 June 2011
Comments	Accounting treatment will be reviewed and approach agreed with auditors prior to closing accounts.

Recommendation 3

Ensure all reconciliations between underlying systems and the general ledger are completed at the year end and investigate any differences.

Responsibility	Chief Accountant
Priority	High
Date	By 30 June 2011
Comments	Systems reconciliations will be reviewed during the year to ensure differences are investigated and corrected.

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



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October 2010

Annual Governance Report Addendum

London Borough of Tower Hamlets Pension Fund
Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Pension Fund Addendum AGR

Introduction

1 My work on the audit of the Pension Fund's financial statements has continued since I drafted my Annual Governance Report. This work has identified matters I wish to bring to your attention. This addendum should be read in conjunction with my Annual Governance Report delivered to the Audit Committee on 21 September 2010. The attached appendices show the final position on amendments made to the accounts and unadjusted mis-statements.

2 My work is now complete and I intend to give an unqualified opinion on the accounts on 6 October 2010.

Main Conclusions

Derivative Contracts

3 The Pension Fund has engaged in forward foreign exchange contracts which are a form of financial derivatives. These contracts had incorrectly been accounted for as equity instruments. Details of the amendments made to correct this error are included in Appendix 1.

4 The effect of this was to understate the value of the assets and liabilities of the Fund. The disclosure in the draft accounts did not adequately inform the reader of the accounts of the type of risks which could impact upon the Fund's investments.

5 Note 10 to the accounts now discloses realised gains from forward foreign exchange contract of £0.684m. Officers cannot fully support this figure. Officers have agreed to look into this and provide working papers to support the figure in 2010/11.

6 Reporting to Members is not as clear as it could be on the risks inherent in these complex investments. Officers should improve their own understanding of the nature of these transactions and appraise members. This will help improve governance and financial reporting in this area.

Recommendation

R1 Gain a full understanding of the nature of the forward foreign exchange contracts and ensure that members of the Pension Fund Committee are fully updated and informed.

Pensioner numbers

7 Officers have not been able to reconcile the number of pensioners in the payroll system to the number in the pension system. The nature of pensions systems means that, unlike the payroll system, some members have more than one valid record on the system.

8 The membership numbers in both systems should be reconciled to demonstrate all pensions payments were to valid pensioners. Our work did not identify any pension payments to people who are not members of the pension fund. However, the lack of reconciliation is a control weakness which should be addressed.

Recommendation

R2 Reconcile the number of pensioners in the payroll system to the pensions system as part of the closedown process.

Appendix 1 Amendments to the draft accounts

I identified the following misstatements during my audit and officers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 1:

Description of adjustment	Income & Expenditure		Balance Sheet	
	Dr £k	Cr £k	Dr £k	Cr £k
Mis-classification of investments: Pooled Investments were incorrectly disclosed as Fixed Interest Securities in the Net Asset Statement			54,082	54,082
Pooled Investments were incorrectly disclosed as Equity Investments in the Net Asset Statement			19,213	19,213
The net asset from open derivative contracts at year end has been disaggregated from equities on the face of the net asset statement.			774	774
Adjustment to notes				£k
Note 10 – Investments				
The accounting treatment of forward foreign exchange contracts was incorrect:				
<ul style="list-style-type: none"> ■ A note has been added to explain what type of derivatives are held and what they are used for. ■ Purchases and sales have been disclosed in the accounts which shows movement on investments in year. ■ A note has been added to the accounts to show the gross value of open contracts to purchase and sell resulting from forward foreign exchange contracts. The disclosure also shows the expected gain or loss on these contracts: <ul style="list-style-type: none"> – Currency contracted to purchase (£45,640k) – Currency contracted to purchase, equal and opposite obligation £47,492k – Currency contracted to sell £46,646k – Currency contracted to sell, equal and opposite obligation (£47,724k) 				£33,997k

Appendix 2 Unadjusted mis-statements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 2:

Description of error	Accounts affected	Value of error £ '000
The wrong contribution rate had been applied due to an incorrect manual amendment to the employee's record. I have extrapolated this error and consider that employee contributions may be overstated.	Fund account - employee contributions - creditors	88
Debtors are overstated in the accounts because the monies had been received by the balance sheet date.	Fund Account: - debtors	55

Appendix 3 Draft letter of representation

Jon Hayes
District Auditor
Audit Commission
1st Floor,
Millbank Tower,
Millbank, London,
SW1P 4HQ
X October 2010

London Borough of Tower Hamlets - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Tower Hamlets, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's Accounts, Group Accounts and Pension Fund Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Audit Committee and the reasons for not correcting the items are as follows;

- We have not recognised the value of 13 assets identified in year on our balance sheet. We do not regard this decision as having a material impact on our financial statements.

- We recognise that we have accounted for three finance leases as operating leases. We do not regard this decision as having a material impact on our financial statements.
- £1.3m of provisions relating to a guarantee arrangement with Tower Hamlets Homes have been accounted for as pension liabilities under FRS17, rather than under FRS12. We do not regard this decision as having a material impact on our financial statements.
- We have not accounted for the Barkantine combined heat and power plant on balance sheet. We will review the accounting treatment of this asset in 2010/11. We do not regard this decision as having a material impact on our financial statements.
- The long and short term liabilities for the Private Finance Initiatives are misclassified. We do not regard this decision as having a material impact on our financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in notes 31 and 32 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties other than the guarantee already disclosed in the financial statements.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred, other than the disclosure relating to pension liabilities, which would require additional

adjustment or disclosure in the financial statements other than those items already disclosed.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

I have considered the Council's long-term contracts in line with IFRIC 12 and other relevant financial reporting standards and confirm that, other than those already disclosed in the accounts, these are not considered to include leases, service concession arrangements or any embedded derivatives that would require separation from the host contract.

Signed on behalf of the London Borough of Tower Hamlets.

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Appendix 4 Action Plan

Recommendations

Recommendation 1

Gain a full understanding of the nature of the forward foreign exchange contracts and ensure that members of the Pension Fund Committee are updated and understand the nature of these transactions/investments.

Responsibility	Chief Financial Strategy Officer
Priority	High
Date	By 31 January 2011
Comments	Use of forward foreign exchange contracts to be reviewed and Pension Fund Committee to be briefed on usage.

Recommendation 2

Reconcile the number of pensioners in the payroll system to the pensions system as part of the closedown process.

Responsibility	HR Pension Manager
Priority	Medium
Date	By 30 June 2011
Comments	It has been agreed that additional year end reports will be produced to support the figures in the accounts and to help with the reconciliation of the systems.

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October 2010

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Agenda Item 66

COMMITTEE: Audit Committee	DATE: 14 December 2010	CLASSIFICATION: Unrestricted	REPORT NO.:	AGENDA NO.:
REPORT OF: Corporate Director of Resources		TITLE: Treasury Management Activity for Period Ending 31 October 2010		
ORIGINATING OFFICER(S): Oladapo Shonola, Chief Financial Strategy Officer		Ward(s) affected: N/A		

Lead Member	Cllr Alibor Choudhury – Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 October 2010 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the contents of this report.

3. REASONS FOR DECISIONS

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 require that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 3.2 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

4. ALTERNATIVE OPTIONS

- 4.1 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.
- 4.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council

5 **BACKGROUND**

- 5.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the TM Code. The TM 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.
- 5.2 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.
- 5.3 This report details the current credit criteria/risk level adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

6. **TREASURY ACTIVITY FOR PERIOD 1 April to 31 October 2010**

- 6.1 This section of the report sets out:
- The current credit criteria being operated by the Council.
 - The treasury investment strategy for the current financial year and the progress in implementing this.
 - The transactions undertaken in the period and the investment portfolio outstanding as at 31 October 2010.

7 **CREDIT CRITERIA**

- 7.1 The following credit criteria for investment counterparties were established by the Council in February 2010 as part of the budget setting exercise. Explanation of credit ratings criteria is attached at Appendix I.

Institution	Minimum High Credit Criteria	Use
Debt Management Office (DMO) Deposit Facility	Not applicable	In-house
Term deposits – Other Local Authorities	Not applicable	In-house
Term deposits – banks and building societies	Short-term F1+, Long-term AA-	In-house
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating	In-house
Institutions with UK Government support.	Sovereign rating	In-house
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)		
Money Market Funds (MMF)	AAA rated	In-house

8 INVESTMENT STRATEGY

- 8.1 Sector provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so that Sector's role is purely advisory.
- 8.2 In addition to providing cash management services, Sector also provides treasury consultancy/advisory service to the Council.
- 8.3 Sector's interest rate projections are that base rate will remain static at 0.5% for the current financial year with no movement in rates until we are well into Q4 of 2010. Against this macro-economic perspective Sector has developed a strategy which delivers enhanced performance through maximising the investment term of the portfolio. This will enable the portfolio to obtain exposure to the higher rates associated with investment in the longer term.
- 8.4 Sector initially calculated that the Council will have an effective investment balance of £100million for 2010-11. However, this has been revised upwards, but average balances will vary throughout the year.
- 8.5 The current balance of £150.761M is higher than anticipated at the start of the year due to increased business rates collection in the early part of the financial year, funds set aside to manage the expected abolition of HRA Subsidy and funds that are as yet unspent but have been earmarked to fund the capital programme. It is envisaged that the cash balance will reduce in the medium term especially toward the end of the financial year.
- 8.6 The Council's bankers, the Co-operative Bank plc, are used as depositors of last resort for investment of additional funds received after the treasury transactions have been completed and the money markets have closed.
- 8.7 The current investment strategy within the constraints of the Councils credit criteria and liquidity requirement is as set out below.

Investment Strategy

Projection			Actual Deal			
Term	Amount £M	Rate %	Counterparty	Maturity	Amount £M	Rate
Overnight	10.000	0.80%	Santander UK	Call	5.000	0.80%
Overnight	10.000	0.75%	Clydesdale Bank plc	Call	24.536	0.75%
Overnight		0.75%	Bank of Scotland plc	Call	19.225	0.75%
			SUB TOTAL		48.761	
1 Month	2.000	0.35%	Redditch BC	22 November 2010	2.000	0.35%
			LB Brent	26 November 2010	5.000	0.45%
2 Months						
3 Months	20.000	0.85%				
6 Months	20.000	0.99%	Royal Bank of Scotland	10 November 2010	25.000	0.92%
			Nationwide	17 January 2010	5.000	0.95%
			Barclays	03 December 2010	5.000	0.95%
9 Months	15.000	1.30%	Nationwide	10 January 2011	10.000	1.02%
			Barclays	10 February 2011	10.000	1.15%
12 Months	20.000	2.00%	Cater Allen (Santander)	13 May 2011	3.000	1.50%
			Cater Allen	18 July 2011	5.000	2.50%
			Cater Allen (Santander)	13 January 2011	5.000	2.20%
			Cater Allen (Santander)	11 April 2011	5.000	2.20%
			Cater Allen (Santander)	14 May 2011	2.000	2.10%
			Nationwide	03 June 2011	5.000	1.35%
			Barclays	03 June 2011	10.000	1.40%
			Nationwide	14/10/2011	5.000	1.37%
			SUB TOTAL		102.000	
	£100.000		TOTAL		£150.761	

9 INVESTMENT RETURNS

- 9.1 Investment returns since inception of the new arrangement with Sector has been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). Performance has improved from the last reporting date (31 August) from 1.03% average return to 1.09%.
- 9.2 Although there has been an improvement in return this year in the average return on investment at 1.09% (as at 31 October), this is below the benchmark of 1.25%. However, it is above the LIBID rate by 0.58% and represents good performance given the issues around level of additional funds that need to be invested under the current investment strategy.
- 9.3 Other factors affecting average return on investment include the increase in available for investment cash balances and the contraction in counterparty list due to the very limited number of institutions and jurisdictions that now meet the counterparty ratings. Consequently, a higher than envisaged percentage of the portfolio has had to be placed with the Government's Debt Management Office (DMO) on an ongoing basis at low rates of return of 0.25%.
- 9.4 Officers are always looking to maximise returns on investment within the confines of the approved investment strategy. Following a recent review, it was decided that funds that would have previously been deposited with the DMO should now be invested in AAA rated UK money market funds. Investing in money market funds should push returns up by 0.25% when compared against placements with the DMO, whilst still maintaining a secure and liquid portfolio of short term investments.

10. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 10.1. The comments of the Corporate Director Resources have been incorporated into the report.

11. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 11.1. Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. 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.
- 11.2. 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. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

11.3. The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

12. ONE TOWER HAMLETS CONSIDERATIONS

12.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

13.1 There are no Sustainable Actions for A Greener Environment implications.

14. RISK MANAGEMENT IMPLICATIONS

14.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

15. CRIME AND DISORDER REDUCTION IMPLICATIONS

15.1 There are no crime and disorder reduction implications arising from this report.

16. EFFICIENCY STATEMENT

16.1 Monitoring and reporting of treasury management activities ensures 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.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

Brief description of "background papers"

October 2010 Investment Portfolio Analysis Report

***Name and telephone number of holder
And address where open to inspection***

*Oladapo Shonola Ext. 4733
Mulberry Place, 4th Floor.*

Appendix 1: Definition of Credit Ratings

Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long-term Ratings

Rating	Current Definition (August 2003)
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

Rating	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
B	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects
C	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
D	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
E	A bank with very serious problems, which either requires or is likely to require external support.