

# AUDIT COMMITTEE

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Tuesday, 21 July 2015 at 7.00 p.m.

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

**This meeting is open to the public to attend.**

**Members:**

Chair: Councillor Candida Ronald

Vice-Chair:

Councillor Sabina Akhtar, Councillor Rachel Blake, Councillor Abjol Miah, Councillor Ayas Miah, Councillor Mohammed Mufti Miah and Councillor Andrew Wood

**Deputies:**

Councillor Amina Ali, Councillor Dave Chesterton, Councillor Joshua Peck, Councillor Gulam Kibria Choudhury and Councillor Muhammad Ansar Mustaqim

[The quorum for this body is 3 Members]

**Contact for further enquiries:**

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Web: <http://www.towerhamlets.gov.uk/committee>

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QR code for smart phone users.

**1. APPOINTMENT OF VICE-CHAIR**

**APOLOGIES FOR ABSENCE**

**2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

**1 - 4**

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

**3. MINUTES OF THE PREVIOUS MEETING(S)**

**5 - 12**

To confirm the minutes of the Audit Committee held on 17 March 2013.

**4. AUDIT COMMITTEE TERMS OF REFERENCE, QUORUM, MEMBERSHIP AND DATES OF MEETINGS**

**13 - 22**

To confirm the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2015/16 and to determine the preferred start time for the meetings in the municipal year.

**5. UNRESTRICTED EXTERNAL AUDIT (KPMG) REPORTS**

**5.1 External Audit Plan 2014/15**

**23 - 54**

To note the report.

**6. TOWER HAMLETS ITEMS FOR CONSIDERATION**

**6.1 Annual Financial Report 2014/15**

**55 - 168**

To consider the Annual Financial Report.

**6.2 Treasury Management Quarter 3 Report - Year to 31 December 2014**

**169 - 182**

To note the Council's borrowing and investment activities during 2014/15 to 31 December 2014.

**6.3 Treasury Management Outturn Report - (including Quarter 4 Updates)**

**183 - 208**

To consider the council's treasury management activities for the financial year ended 31 March 2015.

- |             |  |                  |
|-------------|--|------------------|
| <b>6 .4</b> | <b>Head of Audit Annual Report for 2014/15</b>   | <b>209 - 312</b> |
|             | To consider the annual internal audit opinion in accordance with the Public Sector Internal Audit Standards.                       |                  |
| <b>6 .5</b> | <b>Annual Governance Statement 2014/15</b>   | <b>313 - 340</b> |
|             | To consider the framework for reviewing and reporting on the Council's system of internal control and its governance arrangements. |                  |
| <b>6 .6</b> | <b>Annual Anti-Fraud Report 2014-15</b>  | <b>341 - 350</b> |
|             | To consider an update of sensitive and reactive Anti-Fraud work undertaken during 2014/15.   |                  |
| <b>6 .7</b> | <b>National Fraud Initiative (NFI) 2012 - Outcome</b>  | <b>351 - 360</b> |
|             | To consider the outcome of the last NFI exercise 2012 which completed recently.  |                  |

**7. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

**Next Meeting of the Committee:**

Thursday, 24 September 2015 at 7.00 p.m. to be held in the Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG



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# Agenda Item 2

## **DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER**

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

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

### **Interests and Disclosable Pecuniary Interests (DPIs)**

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

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

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

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

### **Effect of a Disclosable Pecuniary Interest on participation at meetings**

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

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

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

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

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

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

### **Further advice**

For further advice please contact:-

John Williams, Service Head, Democratic Services, 020 7364 4204



## APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

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

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**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT TIME NOT SPECIFIED ON TUESDAY, 17 MARCH 2015**

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

**Members Present:**

Councillor Amina Ali (Chair)  
Councillor Ayas Miah (Cabinet Member for Environment)  
Councillor Rachel Blake  
Councillor Alibor Choudhury  
Councillor Gulam Robbani  
Councillor Andrew Wood

**Other Councillors Present:**

**Apologies:**

Councillor Ohid Ahmed

**Officers Present:**

Chris Holme – (Acting Corporate Director - Resources)  
Dinar Hossain – (Head of Youth and Connexions Services Children's Schools and Families Services)  
Minesh Jani – (Head of Audit and Risk Management , Resources)  
Bharat Mehta – (Audit Manager)  
Kevin Miles – (Chief Accountant, Resources)  
Tony Qayum – (Anti Fraud Manager, Internal Audit, Resources)  
Nishaat Ismail – (Democratic Services)

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

None declared.

**2. MINUTES OF THE PREVIOUS MEETING(S)**

The minutes of the previous meeting held on 4<sup>th</sup> February 2015 were presented for approval.

The Chair moved and it was:

**RESOLVED**

That the unrestricted minutes of the meeting of the Audit Committee held on 4<sup>th</sup> February, be agreed as a correct record of the proceedings, and the Chair be authorised to sign them accordingly.

### **3. TOWER HAMLETS ITEMS FOR CONSIDERATION**

#### **3.1 Quarterly Assurance Report**

The Head of Risk Management and Audit presented the Quarterly Assurance Report, which summarized the work of the Internal Audit period December 2014 to February 2015.

The Committee heard that;

- 16 Audits were undertaken
- 2 were assigned Full Assurance, these were the Housing Rents and Management and Control of In-house Temporary Resource Service.
- 8 were assigned Substantial Assurance.
- 6 were assigned Limited Assurance
- 9 out of 10 recommendations had already been implemented.

#### **Management and Control of On-Street Parking Income**

The audit found that there were no contract specific procedures covering collection of cash income, monitoring and reconciliation of cash income with audit rolls.

The contract monitoring procedures and how to pay contracts needed updating.

Jamie Blake informed the Committee that during the last audit, Management and Control of On-Street Parking Income had been assigned Substantial Assurance but since there have been many staff changes.

The Committee were told that there was still a substantial amount of income still in cash and the controls in place were no longer effective.

#### **Youth Connexions**

The weaknesses identified from the audit were that DBS checks for 17 of the 224 staff within Youth Services had expired. In addition, no DBS records could be evidenced for a further 23 staff.

The Committee were informed that was a process in place already to check all departments were up to date with regards to DBS checks as well as to ensure the process was being carried out correctly.

Dinar Hossain, informed the Committee that at the time of the audit the 17 individuals with expired DBS's had not been provided by Tower Hamlets.

Bishop Challoner was updated every 10 years as opposed to 3 years.

Some DBS forms had already been dispatched but they had not been completed and handed back to human resources and it was up to the individual employee to do this.

Dinar informed the Committee that he had written to all employees concerned, informing them of a specified time in which the DBS forms had to be completed and sent back and if employees failed to do this, they would face a potential freeze in their salaries or disciplinary action would be taken if not handed back at all.

#### **Information Governance Training:**

The Committee were told that 17 employees had completed the training with exception of 1 member of staff due to being on maternity leave.

#### **Electronic Home care:**

The Committee were told that this had been assigned Limited Assurance as the system used had not been fully utilized by all service providers and that there was a manual system in operation as well as an electronic one.

It had been difficult for management to keep a track of payment and some had been delayed.

The Council ceased using the IT system referred to in the report in September 2014 and the contract came to an end on 31<sup>st</sup> December 2014. Agilysis have procured a new solution on the Council's behalf (supplied by a company called Ulysses) and the Council is currently working on its implementation.

Dorne Kanareck informed the Committee that the new system should have been tested longer. Dorne Kanareck had taken over in September 2014 and since had reverted back to paper invoices.

The Committee heard that the new system was being tested before going live. Training is being provided to members of staff already and there is a report documenting exactly what went wrong with the previous system.

#### **Tower Hamlets Homes**

This audit followed up recommendations made at the conclusion of the original audit finalized in July 2013. It had been assigned Limited Assurance.

The committee heard;

- The testing showed that out of the two priority recommendations made in the original report, both had been progressed.

- Of the six medium priority recommendations, five had been progressed

The Committee were also told that there needed to be more formal and rigorous training in place when people first joined the service.

Kevin S Jones informed the Committee that a number of actions were already underway and staff would be trained accordingly.

### **Monitoring of MSG**

With regards to this audit the Committee were informed that the directorate of Communities Localities and Culture needed improvement.

The operational systems had not been as robust and the reliance was on desktop exercises to evaluate organizations. The audit trail relating to payments to organizations were found to be poor and payments made did not reflect outcome.

The Committee also heard that since the last audit committee recommendations had already been applied and a governance system was in place. Desktop monitoring was no longer being used extensively, only for those organizations which had been allocated less than £5,000

29 organizations had been agreed to the new governance system and 6 had been terminated. Organizations were being researched to see how compliance could be improved.

It was recommended that all officers administering MSG receive training and this was carried out on 19<sup>th</sup> February.

### **Tele-care services:**

This service, provided mainly to adults was assigned Limited Assurance. It is a service free of charge. The audit found that the service was operating under difficult conditions as it was not fully funded and due to shortage of staff. Assessment of adults using the service was not well documented with audit trail being poor, procedures needed updating.

The Committee heard that tele-care services historically had never been fully funded to reflect the service.

The Committee were told that a spreadsheet had been implemented which was monitored quarterly to monitor how calls were processed.

In response to Members questions the Committee were told that;

- There was no funding to provide cover for staff who were on leave or off sick
- And the department has had to bring in people from outside to maintain the service

### **Bulk Rubbish**

The main objectives of the audit were to assure management as to whether the systems of control around the Bulk Rubbish Collection system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.

The Committee heard that the main weaknesses identified were, that there was no confirmation being obtained by the Council that people requesting collections are in receipt of Housing Benefit and therefore not required to pay the £15 fee.

The review of the contract between Veolia and the Council did not identify any key performance indicators (KPIs) against which the performance of Veolia can be monitored.

### **RESOLVED**

That the contents of the report be noted.

## **3.2 Annual Internal Audit Plan 2015-16**

This report presented by the Head of Risk Management and Audit and it presents the proposed Annual Internal Audit Plan for 2015/16. The plan was compiled using the Governance Based Audit Assessment Methodology and the Internal Audit Charter approved by the Audit Committee in June 2014.

The Committee were informed that the Internal Audit Plan should be presented in March to the Committee each year. The process used 4 assessment categories to produce a risk index for each auditable area.

The Internal Audit Plan for 2015/16 was presented in Appendix 1 of the agenda pack (page 58)

The Committee were told about the Governance based Audit Assessment Methodology (Appendix 2, page 83) The Charter provided by the Unified Institute of Auditors provided standards which everyone was expected to adhere and work to.

The Head of Risk Management and Audit informed the Committee that the Audit Plan is always under revision because of risks that arise. He also stated that a great amount of work had been done this year on systems in ESCW.

In response to Members questions;

- the Acting Corporate Director said that he could provide the internal audit plan of the last 3 years.
- Every school would be audited once every 3 years.

- There will be coverage of governance of those key areas identified by the audit.
- The paper which would be presented to the Committee in December 2015 would show changes made to the Internal Audit Plan, in order to reflect the risks identified
- There is a significant cost to the Council if sickness is not managed properly, checks and balances need to be reviewed and ensured that they are properly in place.
- The Head of Risk Management and Audit would be bring to the next Committee the Quarterly Plan of the Systems Audit.
- The last Section 101 Audit was carried out in 2014 and the report was presented to the Committee in the September meeting and there is a scheduled Section 101 Audit this year.

**RESOLVED**

- That the Committee endorsed the Annual Internal Audit Plan for 2015/16 and the Internal Audit Charter.
- And the remainder of the report be noted.

**3.3 Anti-Fraud and Corruption Strategy and Proactive Anti-Fraud Plan 2015-16**

The Corporate Anti-Fraud Manager presented this report providing the Committee with an updated Anti-Fraud and Corruption Strategy and outlines a summary of the proposed Proactive Anti-Fraud Plan for 2015-16.

The Committee heard the role of the Anti-Fraud team and about the need for effective anti-fraud work within local authorities has also been reflected by the Audit Commission.

The legislative framework states under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems.

One of the main issues discussed was the system in place to track down applicants who have more than one property and come to Tower Hamlets Homes more than once.

In response to Members questions the Committee heard that;

- It was difficult to compare figures of whistle-blowers to other boroughs.
- There was a robust process to evaluate each referral received

**RESOLVED**

That the contents of the report be noted.



### **3.4 Protecting the Public Purse 2014 and Transparency Code**

The Anti-Fraud Manager presented this report to the Committee, updating the Committee of the main findings of the Audit Commission's publication "Protecting the Public Purse" 2014 and informs the Committee of the requirements of the Transparency Code 2014 in regard to Fraud investigation.

The Committee were told that the report focuses on fighting fraud against local government and has been written for councillors and senior officers responsible for governance.

The report highlighted that reported fraud had increased in value to £188 million which is the highest amount ever recorded by the Commission.

The Committee were also informed about the Local Government Transparency Code which requires Local Authorities to publish data about various areas of their activities.

The new transparency code was introduced in 2014 to meet the government's desire to place more power into citizens' hands enabling demonstrable democratic accountability and ease for local people to contribute and help shape public services.

#### **RESOLVED**

That the contents of the report be noted.

### **3.5 Treasury Management Activity for Period Ending 31 January 2015**

This report presented to the Committee by the Investment and Treasury Manager, advises the Committee of treasury management activity for the current financial year up to 31<sup>st</sup> January 2015 and the continued appropriateness of the Treasury Management Strategy and Treasury Prudential Indicators, which were approved by Council on 26<sup>th</sup> February 2014 as required by the Local Government Act 2003.

The Committee heard that LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management/investment returns against those of similar authorities.

- Tower Hamlets lies close to the expected return given the Council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.
- Investment returns since inception of the cash management arrangement with Capita has been above the portfolio benchmark.
- Interest rates set to remain low

#### **RESOLVED**

That the contents of the treasury management activity report for period ending 31<sup>st</sup> January 2015 be noted.


**4. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

Nil items.

The meeting ended at Time Not Specified

Chair, Councillor Amina Ali  
Audit Committee

# Agenda Item 4

Non-Executive Report of the:  <b>Audit Committee</b>  21 <sup>st</sup> July 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Meic Sullivan Gould, Interim Director, Law Probity and Governance	<b>Classification:</b> Unrestricted
<b>Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings</b>	

<b>Originating Officer(s)</b>	Antonella Burgio
<b>Wards affected</b>	All Wards

## Summary

This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2015/16 for the information of members of the Committee and asks Committee Members to determine its preferred start time for the meetings in the municipal year.

## Recommendations:

The Audit Committee is recommended to:

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

**1. REASONS FOR THE DECISIONS**

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

**2. ALTERNATIVE OPTIONS**

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

**3. DETAILS OF REPORT**

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

**4. Audit Committee Arrangements**

- 4.1 At the reconvened Annual General Meeting of the full Council held on 24<sup>th</sup> June 2015, the Authority approved proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto. The membership of Audit Committee for the municipal year 2015/16 was among the committees' memberships approved and these details are set out at Appendix 2 to the report.
- 4.2 Having been established by Council, it is customary that the committee (at its first meeting of the municipal year) note its terms of reference, and quorum. These are set out in Appendix 1 to the report.
- 4.3 The Committee's meetings for the remainder of the year, as agreed at the same meeting of the Council, are also provided at Appendix 3.
- 4.4 The Constitution provides that, the meetings will take place at 7.30pm unless the Chair otherwise decides. The Chair and Audit Committee Members, in the past, have agreed the meetings will take place at 7.00pm in accordance with the programme of meetings for principal committees as this time is deemed to be more convenient for members and public. Additionally any meetings that fall during the holy month of Ramadan are scheduled to commence at 5.30pm. Members may wish to determine their own meeting time in the forthcoming municipal year and are permitted to offer their views to the Chair.

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

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

**6. LEGAL COMMENTS**

The information provided for the Committee to note is in line with part 3.3.11 of the Council's Constitution and the resolutions made by Full Council on 24<sup>th</sup> June 2015 There are no specific legal implications arising from this report.

**7. ONE TOWER HAMLETS CONSIDERATIONS**

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

**8. BEST VALUE (BV) IMPLICATIONS**

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

**9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

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

**9. RISK MANAGEMENT IMPLICATIONS**

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

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

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

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**Linked Reports, Appendices and Background Documents**

**Linked Reports**

- NONE.

**Appendices**

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

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

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

- NONE

**Officer contact details for documents:**

- N/A

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

**Delegation of Council Function**

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

**Terms of Reference**

**3.3.11 Audit Committee**

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

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

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

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

**Quorum**

Three Members of the Committee



**APPENDIX 2**

**APPOINTMENTS TO AUDIT COMMITTEE 2015-16**

<b>AUDIT COMMITTEE</b> (Seven members of the Council)		
<b><i>Labour Group (4)</i></b>	<b><i>Independent Group (1)</i></b>	<b><i>Conservative Group (1)</i></b>
<p>Councillor Candida Ronald (Chair) Councillor Sabina Akhtar Councillor Ayas Miah</p> <p>Deputies:-</p> <p>Councillor Dave Chesteron Councillor Amina Ali Councillor Joshua Peck</p>	<p>Councillor Mufti Miah</p> <p>Deputies:-</p> <p>Councillor Ansar Mustaquim Councillor Gulam Kibria</p>	<p>Councillor Andrew Wood</p> <p>Deputies:-</p> <p>t.b.c.</p>
<b><i>Independent Other (1)</i></b>		
Councillor Abjol Miah		

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**AUDIT COMMITTEE**

**SCHEDULE OF MEETING DATES 2015-16**

- Tuesday 21<sup>st</sup> July 2015
- Thursday 24<sup>th</sup> September 2015
- Tuesday 8<sup>th</sup> December 2015
- Tuesday 22<sup>nd</sup> March 2016

**Note**

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

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*cutting through complexity*

# External Audit Plan 2014/15

London Borough of Tower Hamlets

June 2015



## Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1<sup>st</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.



## Section one Introduction

This document describes how we will deliver our audit work for the London Borough of Tower Hamlets and the Pension Fund.

### Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for the London Borough of Tower Hamlets ('the Authority') and the London Borough of Tower Hamlets Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2014/15

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. In this regard we note that the audit of 2013/14 has yet to be concluded and consequently additional matters may arise during finalisation which will also impact on the 2014/15 audit.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission ceased to exist on 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority

As noted above the Audit Commission ceased to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission's successor bodies as the new arrangements are established. This plan restricts itself to reference to the Audit Commission's arrangements.

### Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 provides further detail on the audit risks for the pension fund
- Section 6 explains our approach to VFM arrangements work.
- Section 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



## Section two Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

<b>Background</b>	<p>The 2013/14 is currently ongoing having been initially delayed to enable consideration of matters contained in the 'Best Value Inspection of London Borough of Tower Hamlets' report (the BV Inspection report) produced by PricewaterhouseCoopers LLP (PwC), dated 16 October 2014. The consideration of these matters, and other matters brought to our attention as auditors is ongoing but expected to be finalised in the near future.</p> <p>Notwithstanding the delay in the finalisation of the 2013/14 financial statements we plan to progress with the audit of the 2014/15 financial statements work and this plan details our planning considerations in this regard.</p>
<b>Audit approach</b>	<p>Our overall audit approach remains similar to last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Acting Corporate Director, Resources.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year, and as we finalise the 2013/14 audit, and should any new risks emerge we will evaluate these and respond accordingly.</p>
<b>Key financial statements audit risks</b>	<p>We have completed our initial risk assessment for the financial statements audit and have identified the following significant risks:</p> <ul style="list-style-type: none"> <li>■ Property, Plant and Equipment – The scale of the asset base and the potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty;</li> <li>■ Accounting for Local Authority Maintained Schools – LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties and this is a key area of judgement and there is a risk, depending upon specific circumstances of individual schools, that Authorities could omit or include school assets from their balance sheet;</li> <li>■ Payment of grants and connected decisions – PricewaterhouseCoopers LLP completed a Best Value Inspection on behalf of the Department for Communities and Local Government (DCLG) in 2014. The report concluded that the Authority had not achieved its best value duty with regard to the payment of grants totalling £12.2 million and connected decisions in the period from 25 October 2010 to 4 April 2014. Consequently, the award of grants became the responsibility of independent Commissioners who were appointed by the Secretary of State for CLG from January 2015;</li> <li>■ Section 106 agreements – the Commissioners have highlighted this an additional area of concern from the enquiries they have made at the Authority.</li> </ul> <p>These are described in more detail on pages 11 to 14.</p>





## Section two Headlines

<p><b>Key financial statements audit risks for the Pension Fund</b></p>	<p>Our initial risk assessment for the Pension Fund's financial statements audit has identified the following area of significant audit risk:</p> <ul style="list-style-type: none"> <li>■ LGPS Reform – From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility for members and requires significant changes to pension administration systems.</li> </ul> <p>We have described this in more detail on page 15.</p>
<p><b>VFM audit approach</b></p>	<p>We have completed our initial risk assessment for the VFM conclusion and have identified three areas of focus at this stage, although the risk assessment process is on going. If we identify any new VFM risks during this on going process we will communicate these to you. The areas of focus are:</p> <ul style="list-style-type: none"> <li>■ Medium Term Financial Standing – The Authority estimates that it needs to find £90m of further savings during the three years 2015/18 to address further reductions to local authority funding and continued cost pressures. In the February 2015 Plan the Authority had identified £26m of savings and was planning to use £24m of reserves; leaving £40m of savings remaining to be identified.</li> <li>■ Best Value (BV) Inspection - identified areas where the Authority had failed to comply with its best value duty including: payment of grants and connected decisions; disposal of property and the granting of leasehold interests; and spending on publicity. Furthermore, the BV Inspection report also commented that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the three areas highlighted.</li> <li>■ Governance in Authority schools - the 2013/14 Annual Governance Statement referred to weaknesses in the governance arrangements within schools, with the majority of those reviewed by internal audit falling below the minimum standard of financial control, and management. Internal Audit have also investigated other schools where external referrals alleging irregularity at some schools have been received.</li> </ul> <p>Further detail of this and our approach is set out on page 20 to 21.</p>
<p><b>Audit team, deliverables, timeline and fees</b></p>	<p>There has been one change to the audit team from last year. Ian Livingstone is now the Assistant Manager for both the Authority and the Pension Fund. The Partner and Manager remain the same on both the Authority and the Pension Fund.</p> <p>Our audit fieldwork is currently planned to commence in July 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £279,890. This is an increase of £2,600 from the position set out in our <i>Audit Fee Letter 2014-15</i>, and was caused by the additional audit work needed on the financial statements audit now that there is no requirement to certify the National Non-Domestic Rates Return.</p>

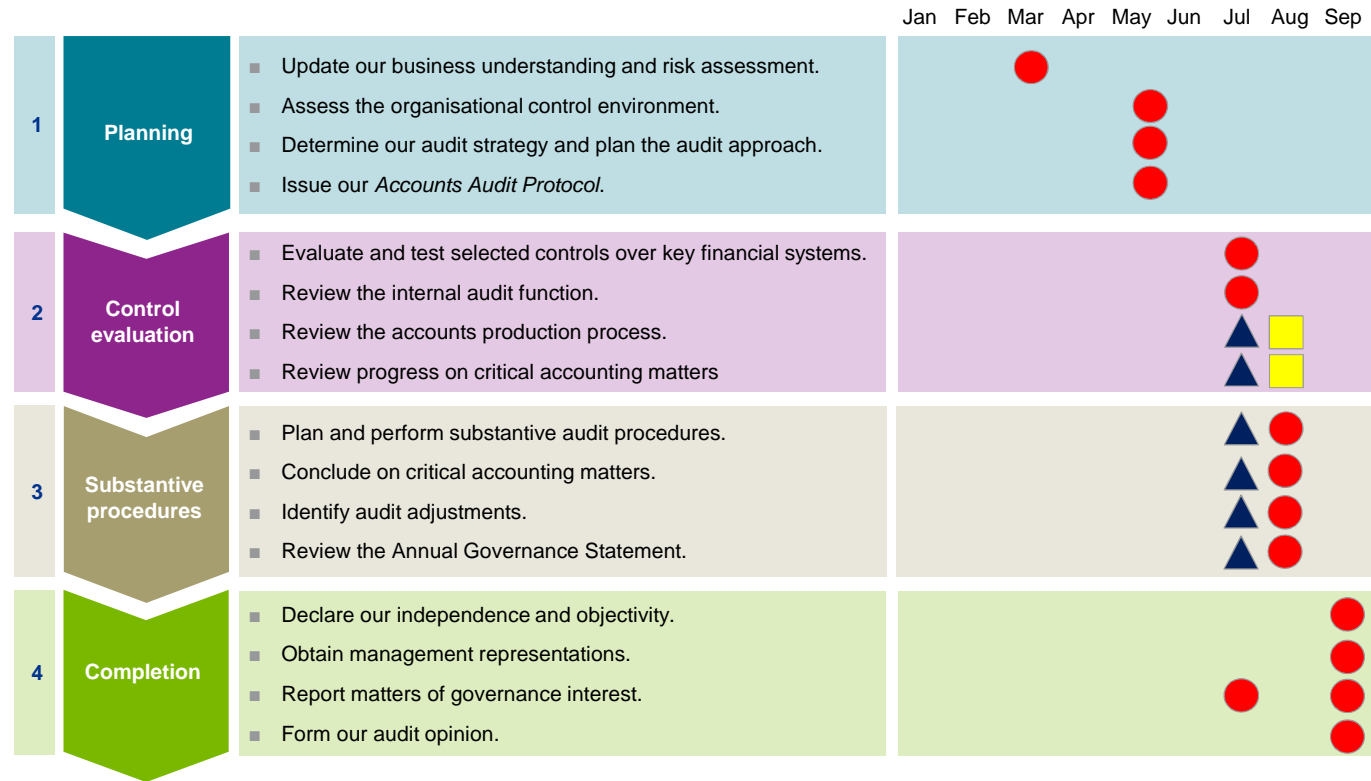


## Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2015:

- Planning (March).
- Control Evaluation (July).
- Substantive Procedures (July to August).
- Completion (planned for September).

We have summarised the four key stages of our financial statements audit process for you below.



Key: ● Authority and Pension Fund    ■ Pension Fund only    ▲ Authority only



## Section three Our audit approach – planning (continued)

**During March to June 2015 we complete our planning work.**

**We assessed the key risks affecting the Authority's financial statements and discussed these with officers.**

**We assess if there are any weaknesses in respect of central processes that would impact on our audit.**

Our planning work took place between March and June 2015. This involves the following aspects:

### Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

#### Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team and internal audit lead on a monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

#### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

#### Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 7 of this document.

#### Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. Separate documents will be issued for the Authority and the Pension Fund. These important documents sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

#### Group audit

The Authority is again not proposing to produce group accounts this year on the basis that Tower Hamlets Homes (THH) is not significant in the context of consolidation with the authority. We reviewed this decision in the prior year and do not have any issues with this.



Section three  
**Our audit approach –planning (continued)**

**When we determine our audit strategy we set a monetary materiality level for planning purposes.**

**For 2014/15 we have set this at £15 million based on the draft 2014/15 financial statements.**

**We will report all audit differences over £1 million to the Audit Committee.**

**Materiality**

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader’s perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for planning purposes has been set at £15 million, which equates to less than 1.5 percent of gross expenditure. For the Pension Fund, the corresponding figure is £20 million equating to approximately 1.8 per cent of total net assets at 31 March 2015.

We design our procedures to detect errors in specific accounts at a lower level of precision.

**Reporting to the Corporate Committee**

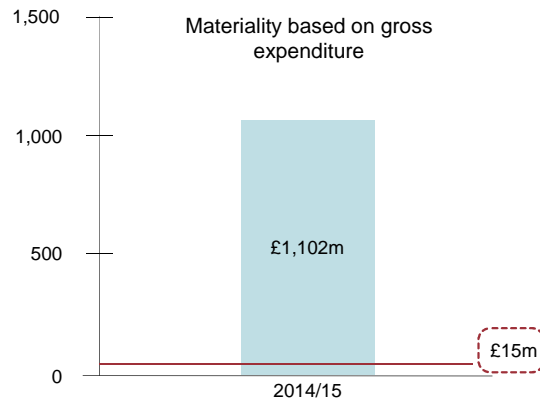
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK&I) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), ‘Evaluation of misstatements identified during the audit’, requires us to request that uncorrected misstatements are corrected.

In the context of the Authority and the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.





## Section three

## Our audit approach – control evaluation

During July 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visit will be completed during July 2015. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

#### Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

#### Accounts production process

We raised a number of recommendations in our *ISA 260 Report 2013/14* relating to the accounts production process. The most significant of these were to:

- The need to complete key reconciliations throughout the year and not just at year-end (including the main Authority bank account; main Authority payroll); and
- There were some very old reconciling items in year-end school bank reconciliations.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

#### Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in September 2015.



## Section three

### Our audit approach – substantive procedures

During July to August 2015 we will be on site for our substantive work. We will conduct our work on the Pension Fund at the same time.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* for the Authority and the Pension Fund to the Audit Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled for the period July to August for both the Authority and the Pension Fund. During this time, we will complete the following work:

#### Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

#### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

#### Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Chief Accountant as part of our regular meetings throughout the audit, prior to reporting to the Audit Committee in September 2015.

#### Audit adjustments

During our on site work, we will meet with the Chief Accountant on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

#### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

#### Pension Fund Annual Report

We also issue an opinion on the consistency of the Pension Fund's accounts included in the *Pension Fund Annual Report* with those included in the Statement of Accounts. We intend to issue this opinion at the same time as our opinion on the accounts.



## Section three Our audit approach – other matters

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified audit approach for 2014/15 have not yet been confirmed.

### Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 23.

### Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

### Non-audit work

At this stage the only non-audit work that has been undertaken is advice provided by our tax team throughout 2014/15. We have considered the scope of the work in the context of the Auditing Practices Board's (APB) Ethical Standards and Audit Commission requirements and concluded it does not impair our independence.

### Confirmation statement

We confirm that as of June 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



Section four  
Key financial statements audit risks

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

We have identified four significant risks at this stage together with two other areas of audit focus.

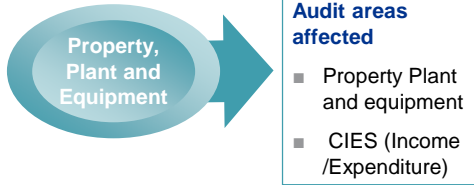
For each risk and other area of focus we have outlined the impact on our audit plan.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

Our initial assessment has identified two significant risks that are specific to the Authority. These are set out in the table below together with the other areas of audit focus that we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

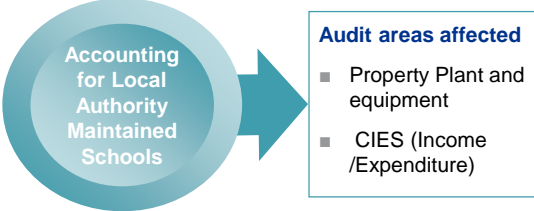
Significant Risk	Impact on audit
	<p><b>Risk</b> The Council has a significant asset base primarily relating to Council dwellings; and operational buildings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty. We also identified several significant (by value) presentational audit adjustments in this area in our <i>ISA 260 Report</i> on the 2013/14 financial statements.</p> <p><b>Our proposed audit work</b></p> <ul style="list-style-type: none"> <li>■ Reviewing management's assessment of property valuations and impairment calculations.</li> <li>■ Confirming the information provided to the valuer from the Authority.</li> <li>■ Comparing the assumptions made by your valuer to benchmarks and to the assumptions used for 2013/14 for consistency.</li> <li>■ Ensure that your valuer explicitly considers upward trends as well as impairments in conducting the valuations; and also whether there are material changes in valuations for asset classes valued more than 12 months ago.</li> <li>■ Considering the accounting treatment and valuation of the PFI scheme and disposals/decommissioning of assets.</li> </ul>





Section four  
**Key financial statements audit risks (continued)**

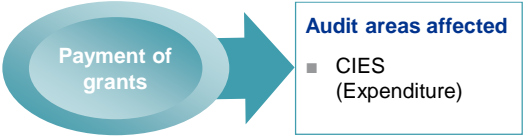
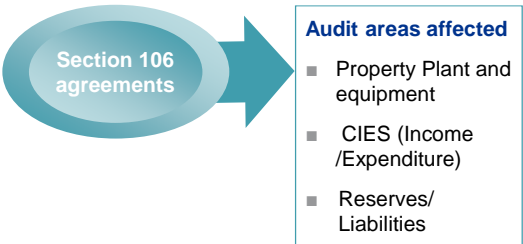
For each area we have outlined the impact on our audit plan.

Significant Risk	Impact on audit
 <p><b>Accounting for Local Authority Maintained Schools</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Property Plant and equipment</li> <li>■ CIES (Income /Expenditure)</li> </ul>	<p><b>Risk</b></p> <p>LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.</p> <p>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</p> <p><b>Our proposed audit work</b></p> <p>As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include:</p> <ul style="list-style-type: none"> <li>■ Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools;</li> <li>■ Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary; and</li> <li>■ Determining whether the basis of valuation of assets which are brought on balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers (if applicable).</li> </ul>



Section four  
Key financial statements audit risks (continued)

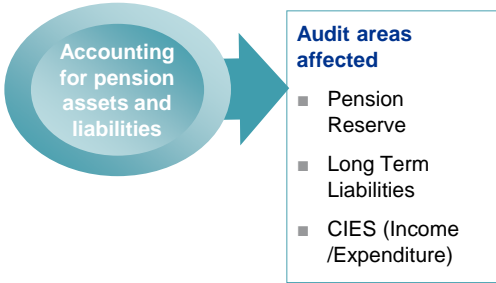
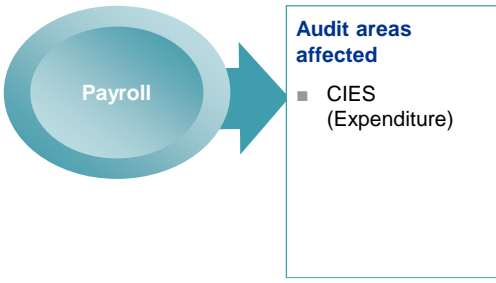
For each key risk area we have outlined the impact on our audit plan.

Significant Risk	Impact on audit
	<p><b>Risk</b></p> <p>Payment of grants and connected decisions – PricewaterhouseCoopers LLP completed a Best Value Inspection on behalf of the Department for Communities and Local Government (DCLG) in 2014. The report concluded that the Authority had not achieved its best value duty with regard to the payment of grants totalling £12.2 million and connected decisions in the period from 25 October 2010 to 4 April 2014. Consequently, the award of grants became the responsibility of independent Commissioners who were appointed by the Secretary of State for CLG from January 2015.</p> <p><b>Our proposed audit work</b></p> <p>We will liaise with the Commissioners and consider the detailed work they have undertaken to identify all grants paid by the Authority and consider the extent of testing needed for our audit opinion purposes.</p>
	<p><b>Risk</b></p> <p>Section 106 agreements – the Commissioners have highlighted this an additional area of concern from the enquiries they have made at the Authority.</p> <p><b>Our proposed audit work</b></p> <p>We will continue the work we have completed in 2013/14 when we reviewed a selection of schemes and the overall controls employed by the Council to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process.</p>



Section four  
Key financial statements audit risks (continued)

For each area we have outlined the impact on our audit plan.

Other areas of audit focus	Impact on audit
 <p><b>Accounting for pension assets and liabilities</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Pension Reserve</li> <li>■ Long Term Liabilities</li> <li>■ CIES (Income /Expenditure)</li> </ul>	<p><b>Risk</b></p> <p>Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.</p> <p><b>Our proposed audit work</b></p> <p>Our audit will include:</p> <ul style="list-style-type: none"> <li>■ Confirming the information provided to the actuary from the Authority.</li> <li>■ Reviewing the actuarial valuation and considering the disclosure implications.</li> <li>■ Considering the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2014/15 for consistency.</li> </ul>
 <p><b>Payroll</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ CIES (Expenditure)</li> </ul>	<p><b>Risk</b></p> <p>Payroll represents a significant proportion of the Authority's annual expenditure (approaching 35% of gross spend at £484m in 2013/14). Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.</p> <p><b>Our proposed audit work</b></p> <p>Our audit will include:</p> <ul style="list-style-type: none"> <li>■ Reviewing and testing reconciliations for gross pay and deductions (eg pensions, tax and national insurance).</li> <li>■ Completing substantive analytical review of payroll costs and testing supporting system information used to compile the review.</li> </ul>



Section five  
**Key financial statements audit risks – the Pension Fund**


In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2014/15.

For each key risk area we have outlined the impact on our audit plan.

As for the Authority's financial statements, professional standards require us to consider two standard risks for all Pension Funds. To recap, these are:

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risk we have identified through our planning work that are specific to the audit of the Pension Fund's financial statements for 2014/15. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
	<p><b>Risk</b></p> <p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p> <p><b>Our audit work</b></p> <p>We will review the controls and processes that the Pension Fund have put in place to accurately capture the data required by LGPS 2014. Our work will also focus on testing that the system has been set up to accurately calculate future benefit entitlement.</p>



Section six  
**VFM audit approach**

Our approach to VFM work follows guidance provided by the Audit Commission.

**Background to approach to VFM work**

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>



Section six  
**VFM audit approach (continued)**

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

**Overview of the VFM audit approach**

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>information from the Audit Commission's VFM profile tool ;</li> <li>evidence gained from previous audit work, including the response to that work; and</li> <li>the work of other inspectorates and review agencies.</li> </ul>



Section six  
**VFM audit approach (continued)**

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>



## Section six VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have identified three specific risk areas in relation to our VFM conclusion. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>local savings review guides based on selected previous Audit Commission national studies; and</li> <li>update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We have completed our initial VFM risk assessment and have identified three specific risk areas in relation to our VFM conclusion. We will update our assessment throughout the year should any further issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>





Section six  
**VFM audit approach (continued)**

**We have identified a number of specific VFM risks.**


**In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.**

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

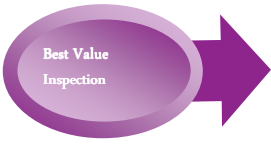

- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion, We will report our final conclusions in our *ISA 260 Report 2014/15*.

VFM risk focus area	Risk description and link to VFM conclusion	Preliminary assessment
	<p>The Authority is estimating a small over spend (of around £1.7m) for 2014/15. The Authority has a balanced budget for 2015/16 which includes a cut of £36m to the Authority's Government Funding.</p> <p>The Authority currently estimates that a further £40m in savings will need to be achieved during 2016/17 to 2017/18. We are aware the Authority is in the process of developing and agreeing proposals with Members for these future estimated savings.</p> <p>The need for savings could have a significant impact on the Authority's financial resilience. Consequently, the Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability.</p>	<p>Our VFM work will focus on how the Authority is planning and managing its savings plans, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. For example, that the Plan has duly taken into consideration:</p> <ul style="list-style-type: none"> <li>• salary inflation;</li> <li>• general inflation;</li> <li>• demand pressures;</li> <li>• restructuring costs; and</li> <li>• sensitivity analysis given the degree of variability in the above factors.</li> </ul>



Section six  
**VFM audit approach (continued)**

VFM risk focus areas	Risk description and link to VFM conclusion	Preliminary assessment
	<p>The BV Inspection undertaken by PricewaterhouseCoopers LLP identified areas where the Authority had failed to comply with its best value duty:</p> <ul style="list-style-type: none"> <li>■ Payment of grants and connected decisions;</li> <li>■ The disposal of property and the granting of leasehold interests; and</li> <li>■ Spending on publicity.</li> </ul> <p>In addition to the above specific points, the BV Inspection report also commented that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the areas highlighted above.</p> <p>This is relevant to the economy, efficiency and effectiveness criterion of the VFM conclusion.</p>	<p>The Secretary of State for Communities and Local Government appointed Commissioners to oversee the work of the Authority in these areas of operation. The Commissioners will also play a consultative role in the development of a plan to deal with weaknesses in the processes for entering into contracts identified in the BV Inspection report.</p> <p>We will meet with the Commissioners to assess whether specific additional work is needed, informed by their assessment and knowledge in the specific areas where they have been Directed by the Secretary of State.</p>
	<p>In relation to Authority schools, the 2013/14 Annual Governance Statement referred to weaknesses in the governance arrangements within schools. In particular the Annual Internal Audit Report for Schools 2013/14 states that over half of the schools audited (14 out of 27) fell below the minimum standard of financial control, and management. Internal Audit have also investigated other schools where external referrals alleging irregularity at some schools have been received. Whilst these investigations have not been finalised, it is clear that there are also weaknesses in the governance arrangements of these schools.</p> <p>This is relevant to the economy, efficiency and effectiveness criterion of the VFM conclusion.</p>	<p>Whilst the Internal Audit investigations have not been finalised, it is clear that there are weaknesses in, or concerns about, the governance arrangements of a significant proportion of the Authority's schools.</p> <p>The Authority will be reviewing its governance arrangements for schools and ensure that their effectiveness is improved for all schools and that there are robust mechanisms in place to support schools in understanding their governance responsibilities and provide appropriate guidance, training and support.</p>



## Section seven Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the London Borough of Tower Hamlets audit last year. There has been a change to the audit team from last year, and Ian Livingstone is now the Assistant Manager for both the Authority and the Pension Fund.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Andrew Sayers  
**Partner**

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee, Head of Paid Service and Corporate Directors."



Antony Smith  
**Manager**

"I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with Andrew to ensure we add value.

I will liaise with the Acting Corporate Director, Resources, the Chief Accountant and the Head of Internal Audit."



Ian Livingstone  
**Assistant Manager**

"I will be responsible for the on-site delivery of our work on the Authority's financial statements and the Pension Fund.

I will liaise with the Finance Team and also supervise the work of our Audit Assistants."



## Section seven Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports, statements and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outlines our audit approach.</li> <li>■ Identifies areas of audit focus and planned procedures.</li> </ul>	<b>July 2015</b>
<b>Control evaluation and Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communicates adjusted and unadjusted audit differences.</li> <li>■ Highlights performance improvement recommendations identified during our audit.</li> <li>■ Comments on the Authority's value for money arrangements.</li> </ul>	<b>September 2015</b>
<b>Completion</b>		
<b>Auditor's Report</b>	<ul style="list-style-type: none"> <li>■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement).</li> <li>■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2015</b>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>■ Provide our assurance statement on the Authority's WGA pack submission.</li> </ul>	<b>September 2015</b>
<b>Pension Fund Annual Report</b>	<ul style="list-style-type: none"> <li>■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts,</li> </ul>	<b>September 2015</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2015</b>



## Section seven Audit timeline

We will be in continuous dialogue with you throughout the audit.

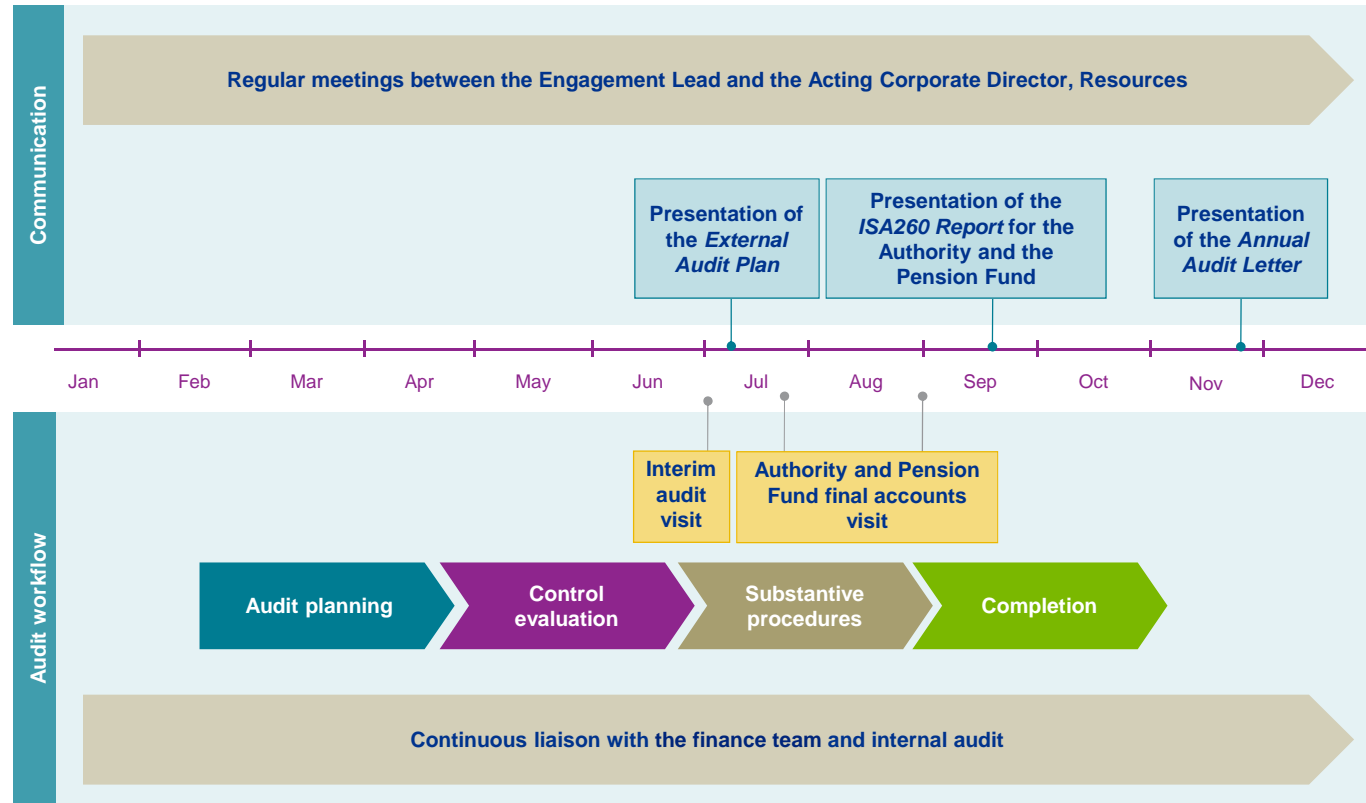
Key formal interactions with the Audit Committee are:

- July – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during July.
- Final accounts audit during July and August for both the Authority and the Pension Fund.



Key: ● Audit Committee meetings.



## Section seven Audit fee

The main fee for 2014/15 audit of the Authority is £279,890. The fee for our audit of the Pension Fund is £21,000. The fee has not changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014. The fee for the Authority has increased by £2,600 to reflect the additional audit work needed following the ending of the requirement to certify the National Non Domestic Rates Return.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

### Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. The fee has increased following consultation by the Audit Commission to reflect the additional audit work needed following the ending of the requirement to certify the National Non Domestic Rates Return.

Element of the audit	2014/15 (planned)	2013/14 (expected)
Main audit fee	£277,290	£277,290
Additional fee (eg objections)	0	£64,291
Pension Fund audit fee	£21,000	£21,000

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

### Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;

- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

### Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Acting Corporate Director, Resources.



## Appendices

### Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

#### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.



Appendices

**Appendix 2: KPMG Audit Quality Framework**

Page 50

**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.**

**The diagram summarises our approach and each level is expanded upon.**

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Andrew Sayers as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.





## Appendices

### Appendix 2: KPMG Audit Quality Framework

**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**Quality must build on the foundations of well trained staff and a robust methodology.**

#### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

#### **Our quality review results**

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.



Appendices

**Appendix 3 : Assessment of fraud risk**

**We are required to consider fraud and the impact that this has on our audit approach.**

**We will update our risk assessment throughout the audit process and adapt our approach accordingly.**

Members'/Officers' responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management.

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.



## Appendix 4: Transfer of Audit Commissions' functions

**The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.**

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.




*cutting through complexity™*

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Non-Executive Report of the:  <b>Audit Committee</b>  21 July 2015	
<b>Report of:</b> Chris Holme, Acting Corporate Director, Resources.	<b>Classification:</b> Unrestricted
<b>Annual Financial Report 2014/15</b>	

<b>Originating Officer(s)</b>	Kevin Miles, Chief Accountant
<b>Wards affected</b>	All wards

### Summary

- 1.1 This report presents the Annual Financial Report for 2014/15 which comprises an Explanatory Foreword by the Acting Corporate Director, Resources and the draft Statement of Accounts which is subject to audit. The full Annual Financial Report will also contain the Annual Governance Statement which is the subject of a separate report on this Committee's agenda. The draft is both for information and comment prior to the commencement of the external audit proper by KPMG (some preliminary work has already been undertaken).
  
- 1.2 Some minor changes may become necessary as a result of the audit process but these are not expected to have any material impact on the Council's overall financial position. The audit is planned to be concluded in late August and the results reported to the Committee on 24th September 2015.

### Recommendations:

The Audit Committee is recommended to:

- 1 Note the Annual Financial Report for the financial year ending 31<sup>st</sup> March 2015 comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.

## **1. REASONS FOR THE DECISIONS**

1.1

## **2. ALTERNATIVE OPTIONS**

2.1

## **3. BACKGROUND**

3.1 The Annual Financial Report 2014/15 comprises three elements:

- An Explanatory Foreword
- The Statement of Accounts
- The Annual Governance Statement

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

3.2 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The accounts must be prepared and certified by 30<sup>th</sup> June by the Corporate Director, Resources (the 'responsible financial officer') that it presents a true and fair view of the financial position of the Council. By no later than 30<sup>th</sup> September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value in giving Members early notification of the financial outcome of the previous financial year. Due to the timings of the Audit Committee for 2014/15 it was not possible to lay these before the Audit Committee prior to publishing on the statutory deadline of 30 June 2015.

3.3 For 2014/15 the audit will be carried out by KPMG. The main audit is due to commence in July, 2015 although some interim work has already been conducted. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 24<sup>th</sup> September for consideration and formal approval.

3.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to the September Audit Committee. The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to the Audit Committee at the end of September.

## **4. STATEMENT OF ACCOUNTS 2014/15**

4.1 The draft Statement of Accounts is attached to the report as Appendix 1. The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Code of Practice on Local Authority Accounting" and "Standard of Professional Practice on Financial Reporting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on

International Financial Reporting Standards (IFRSs). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.

- 4.2 The title of the document tabled is the Annual Financial Report rather than the Statement of Accounts. The title is to acknowledge that the Auditor’s opinion will just apply to the Statement of Accounts section of the document. Though the Auditor’s will consider the Explanatory Foreword and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 4.3 The purpose of the Statement of Accounts is to provide clear information about the authority’s finances and should answer such questions as :
- What did the authority’s services cost in the year?
  - Where did the money come from?
  - What were the authority’s assets and liabilities at the year end

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

- 4.4 The Council’s 2014/15 outturn report, detailing net expenditure against individual service budgets, will be reported to Cabinet and Overview and Scrutiny Committee in July.
- 4.5 Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

<p>Comprehensive Income and Expenditure Account</p>	<p>This summarises the revenue activities of the Council during 2014/15 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of service income and expenditure is one used by all local authorities for comparison purposes and differs from the Council’s own budget and service organisational structure.</p> <p>The draft accounts show gross revenue spend in 2013/14 of £1.1 billion with a net surplus of £251 million. This surplus includes a number of accounting entries which do not form part of the Council’s actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund</p>
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	<p>adjustments are then 'reversed out' in the Movement in Reserves Statement.</p>
<p>Movement in Reserves Statement</p>	<p>The Movement in Reserves Statement combines the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The statement analyses the movements in reserves as they appear on the balance sheet.</p> <p>The adjusted increase in the General Fund Balance was £6.5 million leaving a balance as at 31<sup>st</sup> March 2014 of £71.5 million.</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. These total £224.75 million including school balances of £35.9 million, the HRA reserve, the insurance reserve of £23.09 million and various Directorate ear-marked reserves. The accounts assume certain transfers to Earmarked reserves requested by Directorates which have yet to be formally approved, and are reported in full to the July Cabinet. In the event that Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process subject to the auditor's agreement.</p>
<p>Balance Sheet</p>	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31<sup>st</sup> March 2015. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment have increased to £2.04 billion in value, an increase of around £200 million due to general increase in value of housing stocks and spend on the capital programme.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure</p>



	<p>and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £1.5 billion, which was an increase from 31<sup>st</sup> March 2014 when the figure was £1.39 billion. The main reason for the increase is the general increase in Long Term Assets.</p>
Housing Revenue Account	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 12,100 dwellings.</p> <p>The HRA balance as at 31<sup>st</sup> March 2015 is £21.15 million including an ear-marked future housing supply reserve of £1 million. The increase was due to recovery of previous stock transfer costs and lower energy costs. The required bad debt provision was lower than originally anticipated.</p>
Group Accounts	<p>For 2014/15 it has been agreed in principle with the auditors that the Group Accounts is not required as the asset and liabilities of Tower Hamlets Homes (THH) are not material enough to warrant the production of a group account. THH is 100% owned by the Council and does all of its business with the Council.</p>
Collection Fund	<p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of itself, the Greater London Authority) and National Non-Domestic Rates (NNDR) which is collected on behalf of the Government. The account shows the distribution of the amount of Council Tax collected between the Council and the GLA and the payment of non-domestic rates to the Government pool. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000. The supplementary business rates is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their</p>

	<p>share of tax income drawn from the fund. The Fund showed a surplus of £15 million for 2014/15. The overall balance carried forward on the Fund is surplus of around £15.8 million.</p> <p>This is the second year that new arrangements have been in place for collection of business rates (NNDR). Previously the Council used to collect NNDR on behalf of CLG. The new system requires NNDR receipts to be split between the Council (30%), GLA (20%) and the CLG (50%). This means the Council retained some of the business rates collected; however there has been a reduction in Revenue Support Grant (RSG).</p>
Cash Flow Statement	The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.
Pension Fund Accounts	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31<sup>st</sup> March 2015.</p> <p>The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The market value of the assets of the fund at the end of the year was £1,138 million (an increase of 12.3% from the £1,013 million March 2014 valuation). This increase largely reflects unrealised gains in the value of pension fund investments over the last year.</p> <p>The results of the triennial revaluation completed during 2013/14 estimated a funding deficit of £365 million and a funding level of 71.8%. The next triennial valuation will be in 2017.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p>

4.6 Members are now invited to note the Annual Financial Statement and the Statement of Accounts in particular and to contact Financial Services if there

are any queries that arise after the Committee Meeting. The auditor is expected to issue his opinion in September. Any material issues arising from the audit will be reported back to the Committee. Any immaterial but more than merely trifling issues will be reported to the Audit Committee.

## **5. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

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

## **6. LEGAL COMMENTS**

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

6.2 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.

6.3 As indicated in section 3 of the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.

## **7. ONE TOWER HAMLETS CONSIDERATIONS**

7.1 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.

7.2 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.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)**

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

## **9. RISK MANAGEMENT IMPLICATIONS**

9.1 There are no specific risk management implications.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no crime and disorder reduction implications.

## **11. EFFICIENCY STATEMENT**

11.1 There are no specific efficiency implications although KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31<sup>st</sup> March 2015 (subject to audit)

#### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of "Background Papers" used in the preparation of this report**

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

# LONDON BOROUGH OF TOWER HAMLETS

## DRAFT ANNUAL FINANCIAL REPORT 2014-15

## DRAFT ANNUAL FINANCIAL REPORT 2014-15

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## **EXPLANATORY FOREWORD**

### **Overview by Chris Holme, Acting Corporate Director of Resources**

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2014/15, which reports our financial results for the year.

The accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produces a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

Although the UK economy has shown signs of improvement, on-going reductions in main stream government grant funding and a continuing upward trend in the demand for key front line services in adult social care, children's services and housing have collectively created a challenging financial environment for the Council.

Through sound financial management the Council's spend for the year is in line with the revenue budget and the level of general reserves increased by £6.5 million to £71.5 million. This increase is in line with the revised plan in the 2015/16 budget and is the result of unallocated contingencies for price increases that did not materialise and additional income from core grants.

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

Key achievements in 2014/15 include:

1. Supporting delivery of over 600 affordable homes.
2. Bringing more than 3,000 homes up to the Decent Homes standard.
3. Improving our public realm, including new street lighting, undertaking a borough-wide deep clean and road resurfacing works.
4. Making our borough greener, including a programme of tree planting in streets, parks and open spaces.
5. Providing free school meals to all primary school children in the borough.
6. Continuing to raise attainment - Tower Hamlets' Key Stage 2 and GCSE results are better than the national average.
7. Reducing the number of young people not in education, employment or training.

8. Supporting more than 1,000 residents into jobs; the Borough's employment rate is now at its highest recorded level.

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

The Council has continued to invest in its infrastructure with £137 million spent on its capital programme. The main areas of investment were in housing and schools, with £77 million of improvement works through the housing capital programme and £11.7 million through the Building Schools for the Future programme. Other major projects included the acquisition of sites for the new civic centre and a burial ground.

On 4th April 2014 DCLG appointed PricewaterhouseCoopers to carry out an inspection of compliance by the London Borough of Tower Hamlets with the requirements of Part 1 of the Local Government Act in relation to the authority's functions in respect of governance, particularly in respect of the authority's functions under Section 151 of the Local Government Act 1972 and as they relate to the following:

- The authority's payment of grants and connected decisions;
- Transfer of property to third parties;
- Spending and decisions in relation to publicity; and
- Processes and practices relating to entering of contracts.

Under the legislation the Council is required to pay for the inspection, and £1m has been provided in 2014/15 to re-imburse DCLG for the cost of PwC's work.

DCLG concluded that with regard to the processes and practices relating to entering of contracts the Council had not failed in its duty to deliver best value, as required by the local government act of 1999, but with regard to the other areas (grants, disposals and publicity), it had.

As a result, the Government has appointed Commissioners to oversee decision making and improvement in the areas affected, and furthermore take over the role of the Council in grant-making. The DCLG subsequently extended the scope of directions and appointed two further commissioners. Under the legislation, the council is required to pay the pay for the cost of the Commissioners and their reasonable expenses.

In addition, an Electoral Court, after being petitioned under the Representation of the Peoples Act 1983, declared the Mayoral Election held in May 2014 to be void.



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

Looking forward the Council will continue to face significant financial challenges. The 2015-2018 Medium Term Financial Plan agreed by Full Council in March 2015 includes a £68m million savings programme in the years to 2017/18 and work is underway to deliver £28m of this target during 2015/16. This forms the basis of a balanced budget over the next three years, Major external challenges include the potential impact of government welfare reforms and changes to the way in which local authority services are funded. Following the outcome of the recent General Election, the next spending review is unlikely to be before Autumn 2015, but there are likely to be more austerity cuts announced. The Council is currently reviewing the Medium Term Financial Plan to 2018/19 with a view to developing longer term strategies to deliver savings.

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

## **Review of the Year**

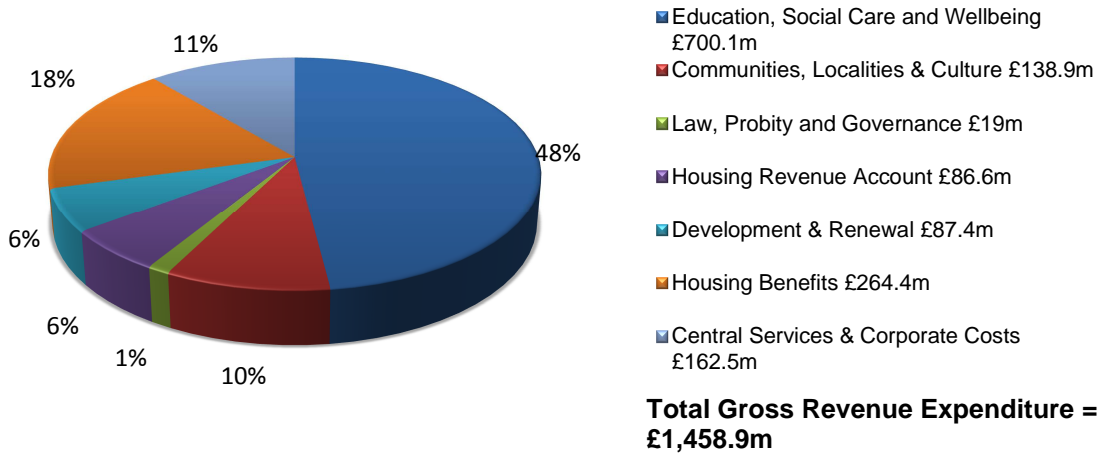
### **Revenue Income and Expenditure**

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

Overall, the Council's Directorate spend was breakeven against the net General Fund budget of £293.9 million after the planned transfer of £6.4 million of unused contingencies to General Fund Reserves. The HRA account showed an additional surplus of some £2.9 million against budget.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.5 billion (£1.4 billion in 2013/14). An analysis by directorate is shown in the following diagram.

## Analysis of Gross Revenue Expenditure by Service Area

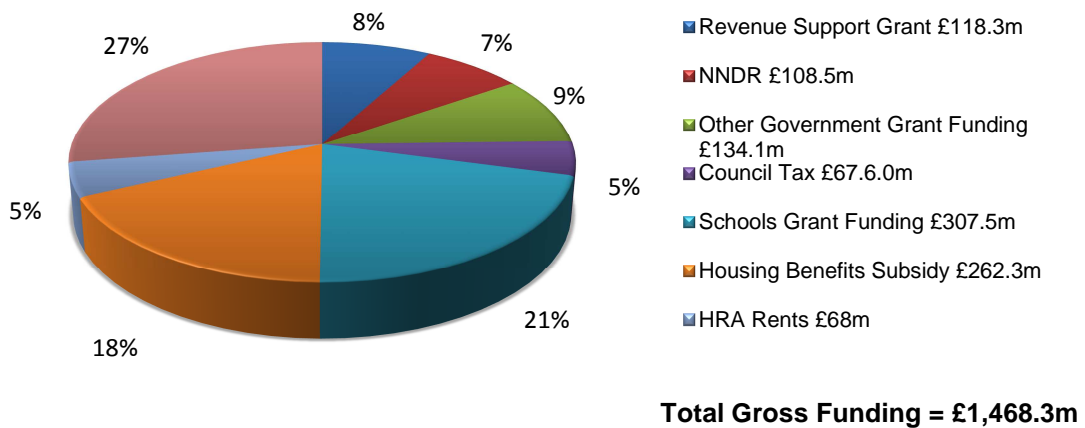


### Revenue Funding

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

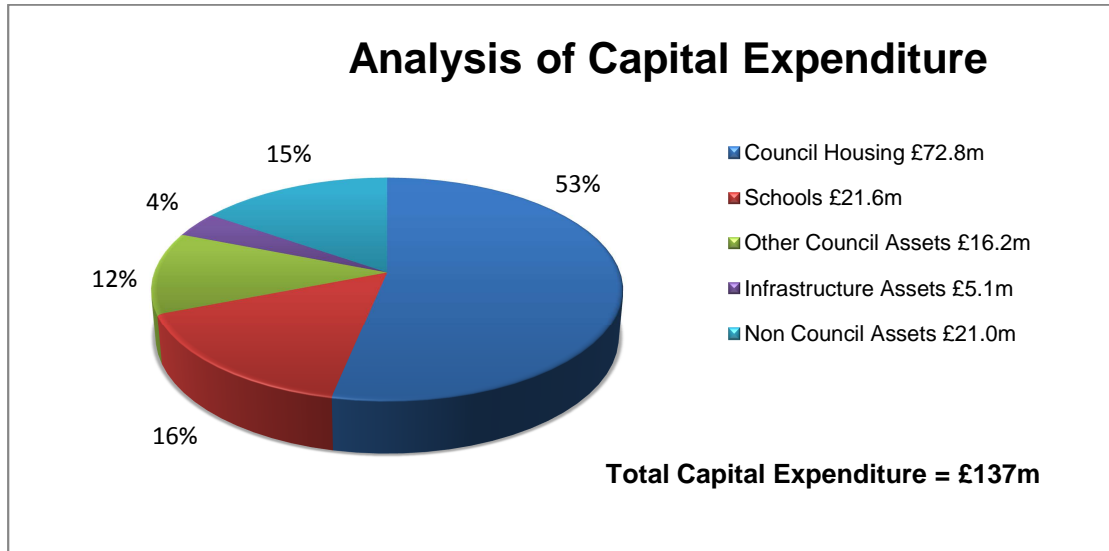
The main specific grant continues to be the Dedicated Schools Grant which can only be used to fund the education services and is largely 'passported' directly to the schools. An analysis of all the funding sources is shown in the diagram below.

## Analysis of Revenue Funding Sources



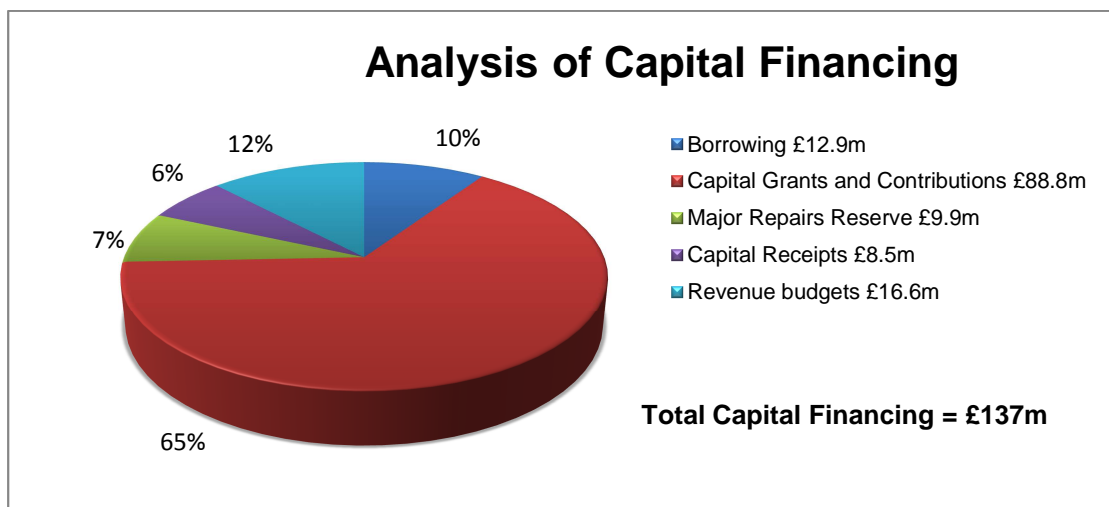
## Capital Investment

The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on schools (primarily through the Building Schools for the Future Programme) and housing where the Council spent £72.8 million on its housing assets.



Investment shown as being in 'non-Council assets' includes £7.3 million of expenditure on schools and children centres not owned by the Council and £3.9m of expenditure on leaseholder properties.

The table below shows the sources of funding for the capital programme. The majority of this funding was from capital grants and contributions. In addition, £9.9 million was also used from the Major Repairs Reserve which is set aside from the Housing Revenue Account for capital investment.



## **Borrowing**

At the year end the Council had outstanding borrowings of £89 million (£90 million 2013/14). This was reduced by PWLB loans that matured during the year.

## **Pensions**

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

At the end of 2014/15 there was a net liability of £638 million (£496 million 2013/14). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed by increased contributions to the scheme in future years. These increased contributions have been reflected in the Council's Medium Term Financial Plan.

Though pension investments increased in value by £125m in the year, the IAS19 deficit increased as at 31 March 2015 compared to the value reported at 31 March 2014. This is principally due to the impact of unfavourable financial assumptions used at 31 March 2015. A significant increase in the net present value discount rate has led to a higher value being placed on liabilities - this has been the case for most LGPS funds. This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes took place at 31 March 2013 reporting a deficit of £365 million (LBTH only).

### **FURTHER INFORMATION**

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

## THE ACCOUNTING STATEMENTS

These comprise:

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

### The **Core Financial Statements**:

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

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

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

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

### **Notes to the Core Financial Statements**

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

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

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

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

## MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES							UNUSABLE RESERVES							TOTAL AUTHORITY RESERVES	
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEFERRED CAPITAL RECEIPTS £'000		TOTAL UNUSABLE RESERVES £'000
<b>Balance as at 31 March 2013</b>		38,060	135,153	16,233	12,364	20,642	55,701	<b>278,153</b>	324,685	1,153,640	(522,962)	1,588	1,032	(3,369)	110	<b>954,724</b>	<b>1,232,877</b>
<b>Movement in reserves during 2013/14</b>																	
Surplus or (Deficit) on the Provision of Services		20,382	0	61,812	0	0	0	<b>82,194</b>	0	0	0	0	0	0	0	<b>0</b>	<b>82,194</b>
Other comprehensive expenditure and income		0	0	0	0	0	0	<b>0</b>	32,686	0	44,724	0	0	0	0	<b>77,410</b>	<b>77,410</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>20,382</b>	<b>0</b>	<b>61,812</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>82,194</b>	<b>32,686</b>	<b>0</b>	<b>44,724</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>77,410</b>	<b>159,604</b>
Adjustments between accounting basis and funding basis under regulations		13,197	0	(59,893)	4,032	306	(1,164)	<b>(43,522)</b>	(10,263)	72,615	(17,708)	(821)	(180)	(58)	(63)	<b>43,522</b>	<b>0</b>
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>33,579</b>	<b>0</b>	<b>1,919</b>	<b>4,032</b>	<b>306</b>	<b>(1,164)</b>	<b>38,672</b>	<b>22,423</b>	<b>72,615</b>	<b>27,016</b>	<b>(821)</b>	<b>(180)</b>	<b>(58)</b>	<b>(63)</b>	<b>120,932</b>	<b>159,604</b>
Transfers to or from earmarked reserves	8	(3,800)	3,800	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
Transfers to or from school reserves	8	(2,853)	2,853	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
<b>Increase or (Decrease) in 2013/14</b>		<b>26,926</b>	<b>6,653</b>	<b>1,919</b>	<b>4,032</b>	<b>306</b>	<b>(1,164)</b>	<b>38,672</b>	<b>22,423</b>	<b>72,615</b>	<b>27,016</b>	<b>(821)</b>	<b>(180)</b>	<b>(58)</b>	<b>(63)</b>	<b>120,932</b>	<b>159,604</b>
<b>Balance as at 31 March 2014 carried forward</b>		<b>64,986</b>	<b>141,806</b>	<b>18,152</b>	<b>16,396</b>	<b>20,948</b>	<b>54,537</b>	<b>316,825</b>	<b>347,108</b>	<b>1,226,255</b>	<b>(495,946)</b>	<b>767</b>	<b>852</b>	<b>(3,427)</b>	<b>47</b>	<b>1,075,654</b>	<b>1,392,481</b>
<b>Movement in reserves during 2014/15</b>																	
Surplus or (Deficit) on the Provision of Services		(7,202)	0	258,213	0	0	0	<b>251,011</b>	0	0	0	0	0	0	0	<b>0</b>	<b>251,011</b>
Other comprehensive expenditure and income		0	0	0	0	0	0	<b>0</b>	(1,477)	0	(139,066)	0	0	0	0	<b>(140,543)</b>	<b>(140,543)</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>(7,202)</b>	<b>0</b>	<b>258,213</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>251,011</b>	<b>(1,477)</b>	<b>0</b>	<b>(139,066)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(140,543)</b>	<b>110,468</b>
Adjustments between accounting basis and funding basis under regulations		28,511	0	(255,220)	5,778	28,188	947	<b>(191,796)</b>	(3,367)	202,316	(14,552)	7,280	(284)	439	(36)	<b>191,796</b>	<b>0</b>
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>21,309</b>	<b>0</b>	<b>2,993</b>	<b>5,778</b>	<b>28,188</b>	<b>947</b>	<b>59,215</b>	<b>(4,844)</b>	<b>202,316</b>	<b>(153,618)</b>	<b>7,280</b>	<b>(284)</b>	<b>439</b>	<b>(36)</b>	<b>51,253</b>	<b>110,468</b>
Transfers to or from earmarked reserves	8	(13,581)	13,581	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
Transfers to or from school reserves	8	(1,264)	1,264	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
<b>Increase or (Decrease) in Year</b>		<b>6,464</b>	<b>14,845</b>	<b>2,993</b>	<b>5,778</b>	<b>28,188</b>	<b>947</b>	<b>59,215</b>	<b>(4,844)</b>	<b>202,316</b>	<b>(153,618)</b>	<b>7,280</b>	<b>(284)</b>	<b>439</b>	<b>(36)</b>	<b>51,253</b>	<b>110,468</b>
<b>Balance as at 31 March 2015</b>		<b>71,450</b>	<b>156,651</b>	<b>21,145</b>	<b>22,174</b>	<b>49,136</b>	<b>55,484</b>	<b>376,040</b>	<b>342,264</b>	<b>1,428,571</b>	<b>(649,564)</b>	<b>8,047</b>	<b>568</b>	<b>(2,988)</b>	<b>11</b>	<b>1,126,907</b>	<b>1,502,949</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Gross Expenditure	2013/14	Net Expenditure	Note	Gross Expenditure	2014/15	Net Expenditure
	Gross Income				Gross Income	
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
113,847	20,092	93,755	Adult Social Services	108,770	21,733	87,037
8,478	6,866	1,612	Central Services	6,193	5,035	1,158
562,042	461,430	100,612	Children's and Education Services	565,398	452,525	112,873
28,507	10,650	17,857	Corporate and Democratic Core	37,476	18,720	18,756
23,797	4,192	19,605	Cultural and Related Services	37,369	5,071	32,298
45,162	9,413	35,749	Environment and Regulatory Services	46,528	7,625	38,903
29,943	20,411	9,532	Highways and Transport Services	31,249	21,935	9,314
345,700	323,860	21,840	Housing Services	333,104	306,415	26,689
53,883	90,274	(36,391)	Local Authority Housing (Housing Revenue Account) <sup>1</sup>	(118,296)	89,126	(207,422)
0	1,023	(1,023)	Non-distributed Costs	38	0	38
26,748	15,283	11,465	Planning Services	22,084	13,544	8,540
30,279	32,369	(2,090)	Public Health	32,355	33,434	(1,079)
<b>1,268,386</b>	<b>995,863</b>	<b>272,523</b>	<b>NET COST OF SERVICES</b>	<b>1,102,268</b>	<b>975,163</b>	<b>127,105</b>
		14,201	Other Operating Expenditure			(1,533)
		34,018	Financing and Investment Income and Expenditure			28,660
		(402,937)	Taxation and Non-Specific Grant Income			(405,243)
		<b>(82,195)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(251,011)</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		(32,686)	(Surplus)/Deficit on revaluation of non-current assets			1,477
		(44,724)	Actuarial (gains) or losses on pension assets and liabilities			139,066
		<b>(77,410)</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>140,543</b>
<b>(159,605) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>				<b>(110,468)</b>		

<sup>1</sup> HRA gross expenditure includes reversal of previous valuation losses of £194m

## BALANCE SHEET

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

31 March 2014 £'000	Notes	31 March 2015 £'000
<b>Long-term Assets</b>		
1,839,299	Property, plant and equipment <a href="#">12</a>	2,042,623
9,310	Heritage Assets <a href="#">43</a>	9,310
590	Long Term Debtors <a href="#">13</a>	613
<b>1,849,199</b>	<b>Total Long-term assets</b>	<b>2,052,546</b>
<b>Current Assets</b>		
185,636	Short-term investments <a href="#">15</a>	215,748
225	Assets held for sale <a href="#">21</a>	225
1,739	Inventories <a href="#">16</a>	0
128,136	Short-term debtors <a href="#">19</a>	115,248
138,111	Cash and cash equivalents <a href="#">20</a>	202,357
<b>453,847</b>	<b>Total Current Assets</b>	<b>533,578</b>
<b>Current liabilities</b>		
1,984	Short-term borrowing <a href="#">15</a>	1,710
199,552	Short-term creditors <a href="#">22</a>	215,640
9,338	Provisions <a href="#">23</a>	4,741
<b>210,874</b>	<b>Total Current liabilities</b>	<b>222,091</b>
<b>Long Term Liabilities</b>		
9,587	Provisions <a href="#">23</a>	7,340
88,892	Long-term borrowing <a href="#">15</a>	88,528
495,946	Liability related to defined benefit pension schemes <a href="#">41</a>	649,564
64,475	Capital grants receipts in advance <a href="#">37</a>	76,190
38,472	Deferred liabilities <a href="#">40</a>	37,509
2,318	Deferred Income - Receipt in Advance	1,947
<b>699,690</b>	<b>Total Long-Term Liabilities</b>	<b>861,078</b>
<b>1,392,482</b>	<b>NET ASSETS</b>	<b>1,502,956</b>
<b>Reserves</b>		
<b>Usable Reserves</b>		
64,989	General Fund	71,457
18,152	Housing Revenue Account	21,145
107,080	Earmarked reserves <a href="#">8</a>	120,663
34,724	Schools reserves <a href="#">8</a>	35,988
20,948	Capital receipts reserve	49,136
54,537	Capital grants unapplied	55,484
16,396	Major repairs reserve	22,174
<b>316,826</b>	<b>Total Usable Reserves</b>	<b>376,047</b>
<b>Unusable Reserves <a href="#">25</a></b>		
347,108	Revaluation Reserve	342,264
1,226,255	Capital Adjustment Account	1,428,571
767	Collection Fund Adjustment Account	8,047
852	Financial Instruments Adjustment Account	568
(495,946)	Pensions reserve	(649,564)
(3,427)	Accumulated Absences Account	(2,988)
47	Deferred capital receipts	11
<b>1,075,656</b>	<b>Total Unusable Reserves</b>	<b>1,126,909</b>
<b>1,392,482</b>	<b>TOTAL RESERVES</b>	<b>1,502,956</b>



## CASH FLOW STATEMENT

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

2013/14 £'000		Notes	2014/15 £'000
82,195	Net surplus or (deficit) on the provision of services		251,011
47,185	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	(43,815)
(62,227)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(59,632)
<b>67,153</b>	<b>Net cash flows from Operating Activities</b>		<b>147,564</b>
(64,145)	Investing Activities	<u>27</u>	(81,972)
(893)	Financing Activities	<u>28</u>	(1,346)
<b>2,115</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>64,246</b>
135,996	Cash and cash equivalents at the beginning of the reporting period		138,111
<b>138,111</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<u>20</u>	<b>202,357</b>

## **NOTE 1. STATEMENT OF ACCOUNTING POLICIES**

### **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the *Service Reporting Code of Practice (SeRCOP) 2014/15*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31st March 2015 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

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

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

### **2. Accruals of Income and Expenditure**

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

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

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

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

### **3. Cash and Cash Equivalents**

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

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

### **4. Exceptional Items**

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions,

other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise or not material) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

### **Changes in Accounting Policy:**

**Property, Plant and Equipment** – The materiality level for assessing whether assets contain separately depreciable components has been reviewed and has changed from £0.5m to £1m. This threshold is considered appropriate as it encompasses 90% of the asset value for those assets subject to componentisation.

**Future Changes in Accounting Policy** - The Code of Practice on Local Council Accounting in the United Kingdom 2015/16 (the Code) has introduced several changes in accounting policies which will be required from 1<sup>st</sup> April 2015. If these had been adopted for the financial year 2014/15 there would be no material changes as detailed below.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. These include:

- **IFRS13 Fair Value Measurement (May 2011)** – This standard requires that valuations are based on transfer prices in principal or most advantageous markets.
  - **IFRIC21 Levies** – This standard outlines how levies imposed by Government are to be recognised. This standard is unlikely to materially affect how the Council accounts for levies as disclosed in note 9 – Other Operating Expenditure
  - **Annual Improvements to IFRSs (2011-2013 cycle)** – A cyclical review of IFRS standards clarifies some standards. The issues covered are as follows:
    - **IFRS1 – Meaning of effective IFRSs** – this allows the early introduction of standards before they become mandatory.
    - **IFRS3 – Scope exceptions for joint ventures** – this applies to accounts for joint ventures. There are no material joint ventures that apply to the Council at present.
    - **IFRS13 – Fair Value Measurement** - This permits the netting off of related assets and liabilities in some cases.
    - **IAS40 – Investment Property** - Clarifies the interrelationship of IFRS3, Business Combinations and IAS40, Investment Property when classifying property as investment property or owner occupied. At present the Council has no investment properties.

## **6. Charges to Revenue for Long-term Assets**

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

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

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

replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2014/15 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

## **7. Employee Benefits**

### **a. Benefits Payable during Employment**

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

### **b. Termination Benefits**

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

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

### **c. Post-Employment Benefits**

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

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

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the

Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

### **The Local Government Pension Scheme**

The Local Government scheme is a defined benefits scheme.

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

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and estimates of projected earnings for current employees.

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2015.

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- expected rate of return (on assets) – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

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

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

### **Discretionary Benefits**

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

### **8. Events after the Balance Sheet date**

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

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

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

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

### **9. Financial Instruments**

#### **a. Financial Liabilities**

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where

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

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

## **b. Financial Assets**

Financial assets are classified into two types:

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

### **Loans and Receivables**

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

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

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

## **10. Foreign Currency Translation**

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

## **11. Government Grants and Contributions**



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

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

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

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

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

## **12. Heritage assets**

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

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £9.3 million at 31 March 2015. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

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

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its 2014/15 balance sheet. Where this information is not available and the historical cost information cannot be obtained the asset is excluded from the balance sheet.

Heritage assets (other than operational heritage assets) shall normally be included in the balance sheet at their current value where material. The Council has a materiality threshold

of £50,000 for considering heritage assets for valuation. Where it is not practical to obtain a valuation at a reasonable cost heritage assets are valued at cost where known. Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value.

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

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

### **13. Intangible Long Term Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Annual software licence fees are charged to capital and amortised in that year

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **14. Interests in Companies and Other Entities**

The Council has an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be

prepared (a summary of this interest can be found in note 47). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. (May need to include the new one if registered in 2014/15)

## **15. Inventories and Long Term Contracts**

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

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

## **16. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

## **17. Leases**

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

### **The Council as a Lessee**

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

#### **a. Finance Leases**

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

- a charge for the acquisition of the interest in the property, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible property, plant or equipment asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

## **b. Operating Leases**

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

### **The Council as a Lessor**

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

#### **Operating Leases**

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

## **18. Overheads and Support Services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

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

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

## **19. Property, Plant and Equipment**

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

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

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

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

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

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

### **Impairment**

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

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

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

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

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

Any assets with a depreciable value below £1 million are not considered material for containing separate components. Separate components will be considered in an asset with

a value greater than £1 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

### **Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

## **20. Private Finance Initiative (PFI) and Similar Contracts**

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

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

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

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

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

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

## **21. Provisions, Contingent Liabilities and Contingent Assets**

### **a. Provisions**

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

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

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



## **b. Contingent Liabilities**

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

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

## **c. Contingent Assets**

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

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

## **22. Reserves**

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

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

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

## **23. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

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

## **24. VAT**

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

## **25. Collection Fund**

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

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

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

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

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

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

## **26. Carbon Reduction Commitment Scheme**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **NOTE 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in note 1, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Council is accounted for on a going concern basis this is supported by the Council's medium term financial plan which Assets have been valued at an appropriate level - property is regularly reviewed to identify possible impairment and there is a rolling five-year valuation programme.
- All assets are reflected in the Council's balance sheet – the Council maintains a comprehensive asset register and contracts have been reviewed to identify potential embedded service concessions or embedded leases. Included in property, plant & equipment are community schools and PFI schools that are owned by the council or in the case of PFI schools, will revert to council ownership at the end of the contract. Voluntary aided, academies, foundation and trust schools are not owned by the council so are not included on the council's balance sheet.
- The Pension Fund deficit can be managed within the constraints of the medium term financial plan - the Council's pension fund investment strategy and funding level is closely monitored in conjunction with the Fund's Advisors and Actuary and appropriate provision is included in the accounts to ensure that pension liabilities can be met over the longer term.
- The level of creditors shown in the accounts properly reflects the level of such liabilities - the Council has an effective purchase ledger system and associated internal control procedures to ensure that all creditors are recognised in the accounts with an appropriate value based on the expected value of goods ordered and received in the prior financial year but not paid.
- To ensure that the carrying value of the PPE assets are not materially different from the fair value the council engages the professional services of a firm of external property valuers to review the Council's property portfolio in line with the CIPFA and RICS guidelines. Given the size, value and complexity of the asset base it is likely that a revaluation could have a significant impact on the financial statements, however any adjustments should not impact materially on usable reserves.

National Non Domestic Rates appeals – NNDR bills are based on the valuation of properties. The accounts have been prepared on the basis of the valuations included within bills raised, however payers have the right to appeal against valuations. There are outstanding appeals going back to 2005. Resolution of these appeals is due by mid 2015. The Council has made provision to meet some of the potential revaluations.

### 3 Restated Accounting Statements

The split between creditor types in note 22 has been restated in 2013/14 figures to reflect a change of categorisation.

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

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

The items in the Council's Balance Sheet at 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Valuations at 1st April 2014 are used to construct the balance sheet. However the Valuers have indicated that market values for housing properties have increased by roughly 12.5%, this would equate to £113m. The impact of these increases will be taken into account in a more detailed valuation exercise for the 2015/16 Accounts.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1.2 million for every year that useful lives had to be reduced.

**Heritage Assets** - In valuing material heritage assets, valuations have been obtained from independent Valuers where practicable. Where a value has been given between a certain band, then the mid-point valuation is used. However, because of their unique nature the value of heritage assets is difficult to predict. There is a risk that the value of heritage assets is incorrectly stated, but this would only become apparent if the asset is sold. Most heritage items have been given a nil value in the Accounts as their values are significantly below the materiality threshold - any risk is the assets' value is understated. A London Borough has taken legal action to question the Council's ownership of a sculpture, this asset has a book value of £8.5 million.

**Debtors** - The Council has a balance of £79.7 million sundry debtors as at 31st March 2015 (£87.8 m at March 2014).

**Creditor Accruals** - creditor accruals are raised based on the value of goods received in the old financial year where payment has not been made to the supplier. The value of year-end creditor is based on the expected value of the order to be paid, however there is the possibility that the final amount payable might vary. At 31st March 2015, the value of these creditors was £71.7 million (£76.9 million at 31st March 2014).

**NNDR Appeals** - There are over 5,400 NNDR (Business Rates) appeals that are yet to be heard by the Government's Valuation Tribunal. These appeals relate to both the 2005 and 2010 valuation list.

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

The assumptions interact in complex ways. During 2014/15, the Council's actuaries advised that the net pensions liability had increased by £153.6 million to £649.6 million mainly as a result of a lower discount factor used to calculate the net present value of future pension payments. This is despite investments increasing in value by £127 million in the year.

### 5 Material Items of Income and Expense

#### Current Year Items

**Actuarial gain on pension fund** - there was a £153.6 million actuarial loss on the pension fund mainly due to a lower discount factor used to calculate the net present value of future pension payments.

**Revaluation of HRA dwellings** - The valuation of property, plant and equipment as at 1st April 2014 resulted in an increase in the value of dwellings of £198m, of which £194m was credited to HRA gross expenditure as a reversal of previous revaluation losses.

### 6 Events After the Balance Sheet Date

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

## 7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

## 7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2013/14	USABLE RESERVES							UNUSABLE RESERVES	
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000

### Adjustments involving the Capital Adjustment Account

#### Reversal of items debited or credited to the Comprehensive I&E

Charges for depreciation and impairment of non current assets	23,405	0	0	15,831	0	0	39,236	(39,236)	0
Revaluation losses on PPE (charged to SDPS)	374	0	(21,748)	0	0	0	(21,374)	21,374	0
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0	0	0	0	0
Capital grants and contributions applied	(45,478)	0	0	0	0	(49,653)	(95,131)	95,131	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	29,010	0	1,994	0	0	0	31,004	(31,004)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	21,753	0	5,754	0	0	0	27,507	(27,507)	0
Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	0	0	0	0	0	0	0	0	0

#### Inclusion of items not debited or credited to the Comprehensive

Statutory provision for the financing of capital investment	(6,836)	0	0	0	0	0	(6,836)	6,836	0
Capital expenditure charged against the General Fund and HRA balances	(1,175)	0	(9,083)	0	0	0	(10,258)	10,258	0

### Adjustments involving the Capital Receipts Reserve

Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(5,870)	0	(10,189)	0	16,059	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(14,701)	0	(14,701)	14,701	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,807	0	0	0	(1,807)	0	0	0	0
Unattached capital receipts	(666)	0	(26)	0	692	0	0	0	0
Deferred Capital Receipts	0	0	0	0	63	0	63	(63)	0

### Adjustment involving the Major Repairs Reserve

Reversal of Major Repairs Allowance credited to the HRA	0	0	0	(11,799)	0	0	(11,799)	11,799	0
Use of the Major Repairs Reserve to finance new capital expenditure									0

### Adjustments involving the Financial Instruments Adjustment

Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	79	0	0	0	180	(180)	0
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### Adjustment involving the Pensions Reserve

Reversal of items relating to retirement benefits debited or credited to the CIES	53,378	0	3,480	0	0	0	56,858	(56,858)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(36,837)	0	(2,313)	0	0	0	(39,150)	39,150	0

### Adjustments involving the Collection Fund Adjustment Account

Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	821	0	0	0	0	0	821	(821)	0
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### Adjustments involving the Unequal Pay Back Pay

Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
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#### Other adjustments include

Adjustments involving the Capital Grants Unapplied Account	(20,648)	0	(27,841)	0	0	48,489	0	0	0
Capital grants and contributions unapplied credited to CIES when receivable									

Adjustment between the Capital Adjustment Account and the Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0

Transfers from General Fund (as directed by Secretary of State)	58	0	0	0	0	0	58	(58)	0
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Adjustments involving the Accumulated Absences Account	0	0	0	0	0	0	0	0	0
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements									

<b>Total Adjustments</b>	<b>13,197</b>	<b>0</b>	<b>(59,893)</b>	<b>4,032</b>	<b>306</b>	<b>(1,164)</b>	<b>(43,522)</b>	<b>43,522</b>	<b>0</b>
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## 8 TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2014/15

	BALANCE AT 1 APRIL 2013 £'000	TRANSFERS OUT 2013/14 £'000	TRANSFE-RS IN 2013/14 £'000	BALANCE AT 31 MARCH 2014 £'000	TRANSFERS OUT 2014/15 £'000	TRANSFERS IN 2014/15 £'000	BALANCE AT 31 MARCH 2015 £'000
<b>GENERAL FUND</b>							
General Fund Reserve	38,060	0	26,929	64,989	0	6,467	71,456
<b>EARMARKED RESERVES</b>							
<b>Corporate</b>							
1 Improvement & Efficiency	9,412	(1,446)	4,527	12,493	(927)	5,351	16,917
2 Severance	7,000	0	4,000	11,000	0	4,000	15,000
3 Finance Systems	2,100	0	410	2,510	0	0	2,510
4 ICT Refresh	1,355	0	500	1,855	(676)	370	1,549
5 Olympic Legacy Schemes	711	(60)	0	651	0	0	651
6 Education Grant Reduction	2,569	(670)	194	2,093	(760)	0	1,333
7 Employment and other Corporate Initiatives	11,905	(5,656)	8,215	14,464	(3,366)	2,747	13,845
8 Other	2,135	(162)	1,491	3,464	0	70	3,534
<b>Service Specific</b>							
9 Homelessness	3,024	(449)	0	2,575	(361)	0	2,214
10 Parking Control	1,756	(1,383)	540	913	0	1,006	1,919
11 Development & Renewal Other	3,201	(415)	79	2,865	(100)	1,789	4,554
12 Communities, Localities & Culture	1,089	(209)	336	1,216	(88)	709	1,837
13 Children, Schools & Families	1,172	(380)	803	1,595	(402)	988	2,181
14 Adults, Health & Wellbeing	5,293	(4,493)	0	800	0	1,138	1,938
15 Chief Executives & Resources	464	0	100	564	0	0	564
<b>Revenue Reserves - Other</b>							
16 Insurance	23,108	(2,255)	58	20,911	(582)	2,736	23,065
17 Schools Balances	31,871	0	2,853	34,724	(2,148)	3,412	35,988
18 CSF - Early Intervention	4,969	(3,359)	706	2,316	0	146	2,462
19 Housing Revenue Account (HRA)	15,233	0	1,920	17,153	(1)	2,993	20,145
20 Housing Revenue Account - Future Housing Supply	1,000	0	0	1,000	0	0	1,000
<b>Capital Reserves</b>							
21 Capital Programme (General Fund)	22,019	(751)	3,527	24,795	(7,800)	7,593	24,588
<b>Earmarked Reserve Total</b>	<b>151,386</b>	<b>(21,688)</b>	<b>30,259</b>	<b>159,957</b>	<b>(17,211)</b>	<b>35,048</b>	<b>177,794</b>
<b>Total Usable Reserve Total</b>	<b>189,446</b>	<b>(21,688)</b>	<b>57,188</b>	<b>224,946</b>	<b>(17,211)</b>	<b>41,515</b>	<b>249,250</b>

### Corporate Reserves

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

### Service Specific Reserves

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

### Revenue Reserves - Other

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

### Capital Reserves

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

## 9 Other Operating Expenditure

2013/14 £'000	Note	2014/15 £'000
<b>Levies</b>		
235	- Lee Valley Regional Park Authority	236
171	- Environment Agency	173
1,233	- London Pensions Fund Authority	1,261
<b>1,639</b>	<b>Total Levies</b>	<b>1,670</b>
1,807	Payments to Housing Capital Receipts Pool	1,572
11,447	Net (gain)/loss on disposal of non-current assets	(1,316)
(692)	Unattached capital receipts	(3,459)
<b>14,201</b>	<b>Total</b>	<b>(1,533)</b>

Nine burial subsidy payments totalling £2,250 were paid after the commissioners were appointed. As these payments have been considered grants and were not approved by the commissioners before paying, this expenditure is considered unlawful. As the Council does not have a cemetery within its boundaries, these subsidy payments are to assist with the cost of burials in three cemeteries in Redbridge and Newham. This expenditure is shown within the Central Services line of the CI&E.

## 10 Financing and Investment Income and Expenditure

2013/14 £'000		2014/15 £'000
13,186	Interest payable and similar charges	9,745
23,137	Pensions interest cost and expected return on pensions assets	21,175
(2,336)	Interest receivable and similar income	(2,254)
31	Surplus or deficit of trading operations	(6)
<b>34,018</b>	<b>Total</b>	<b>28,660</b>

## 11 Taxation and Non Specific Grant Income

2013/14 £'000		2014/15 £'000
(64,266)	Council Tax income	(67,576)
(96,259)	Non domestic rates	(108,528)
(172,749)	Non-ringfenced Government grants	(146,321)
(69,663)	Capital grants and contributions	(82,818)
<b>(402,937)</b>	<b>Total</b>	<b>(405,243)</b>



## 12 PROPERTY, PLANT AND EQUIPMENT

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

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2013/14	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLU S ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
At 1 April 2013	856,007	929,231	22,629	138,660	49,381	16,537	4,206	<b>2,016,651</b>	250,283
Additions	48,260	47,247	785	5,315	296	0	0	<b>101,903</b>	27,282
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(14,223)	16,603	0	0	0	6,837	0	<b>9,217</b>	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	21,748	(3,660)	0	0	0	1,214	0	<b>19,302</b>	0
Derecognition - Disposals	(4,979)	(19,780)	0	0	0	0	0	<b>(24,759)</b>	(6,711)
Derecognition - Other	0	(515)	0	0	0	0	0	<b>(515)</b>	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	<b>0</b>	0
Other Reclassification of Assets	(900)	5,106	0	0	0	0	(4,206)	<b>0</b>	0
<b>At 31 March 2014</b>	<b>905,913</b>	<b>974,232</b>	<b>23,414</b>	<b>143,975</b>	<b>49,677</b>	<b>24,588</b>	<b>0</b>	<b>2,121,799</b>	<b>270,854</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2013	152,722	55,856	17,380	35,466	0	1,402	0	<b>262,826</b>	830
Depreciation charge	14,234	19,360	1,726	3,510	0	604	0	<b>39,434</b>	6,258
Depreciation written out to the Revaluation Reserve	(14,223)	(3,099)	0	0	0	(1,647)	0	<b>(18,969)</b>	0
Impairment losses/(reversals) recognised in the Revaluation Reserve								<b>0</b>	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services								<b>0</b>	0
Derecognition - Disposals	0	(742)	0	0	0	0	0	<b>(742)</b>	(366)
Derecognition - Other	0	(49)	0	0	0	0	0	<b>(49)</b>	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	<b>0</b>	0
Other Reclassification of Assets	0	0	0	0	0	0	0	<b>0</b>	0
<b>At 31 March 2014</b>	<b>152,733</b>	<b>71,326</b>	<b>19,106</b>	<b>38,976</b>	<b>0</b>	<b>359</b>	<b>0</b>	<b>282,500</b>	<b>6,722</b>
<b>Net Book Value</b>									
<b>At 31 March 2014</b>	<b>753,180</b>	<b>902,906</b>	<b>4,308</b>	<b>104,999</b>	<b>49,677</b>	<b>24,229</b>	<b>0</b>	<b>1,839,299</b>	264,132
<b>At 31 March 2013</b>	<b>703,285</b>	<b>873,375</b>	<b>5,249</b>	<b>103,194</b>	<b>49,381</b>	<b>15,135</b>	<b>4,206</b>	<b>1,753,825</b>	<b>249,453</b>

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

### Depreciation

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

- Council Dwellings – As a method of depreciation, the council has used the Major Repairs Allowance (MRA) to adjust the value of the housing stock to reflect the effects of use, deterioration and obsolescence. In 2014/15, the council compared the MRA figure to a depreciation figure calculated based on figures from a qualified valuer to ensure the depreciation charge to the HRA was adequate to finance the HRA's long-term financial plan.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £98.525 million at 31st March 2015 (£92.197 million at 31st March 2014).

	Committed sum £m	Costs to 31/3/2015 £m	2015/16 onwards £m	Contract End Date
Decent Homes Contract	175.000	76.475	98.525	31/03/2017
<b>TOTAL</b>	<b>175.000</b>	<b>76.475</b>	<b>98.525</b>	

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. A summary of total valuation per asset category is shown below.

In 2014/15, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2010'.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	9,697	3,999	106,411	53,577	-	2,840	176,524
Valued at fair value in:								
2014/15	973,479	77,047	-	-	-	-	-	1,050,526
2013/14	-	66,667	-	-	-	23,907	-	90,574
2012/13	-	657,377	-	-	-	-	-	657,377
2011/12	-	25,411	-	-	-	-	-	25,411
2010/11	-	42,211	-	-	-	-	-	42,211
<b>Value at 31 March 2015</b>	<b>973,479</b>	<b>878,410</b>	<b>3,999</b>	<b>106,411</b>	<b>53,577</b>	<b>23,907</b>	<b>2,840</b>	<b>2,042,623</b>

## 13 LONG TERM DEBTORS

	1st April 2013 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2014 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2015 £'000
Mortgages on Right to Buy properties	128	5	(72)	61	4	(37)	28
Sundry Loans	544	154	(169)	529	183	(127)	585
	<b>672</b>	<b>159</b>	<b>(241)</b>	<b>590</b>	<b>187</b>	<b>(164)</b>	<b>613</b>

## 14 INTANGIBLE ASSETS

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

## 15 FINANCIAL INSTRUMENT NOTES

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

### Amortised Cost

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

### Fair Value

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

### Compliance

The Council has:

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

### Types of Financial Instruments

Financial Instrument Categories	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2014	2015	2014	2015	2014	2015
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>						
Borrowings at amortised cost	88,892	88,528	1,046	746	89,938	89,274
Deferred Liabilities (PFI)	38,472	37,509	938	964	39,410	38,473
Creditors - Financial Liabilities carried at contract amount	0	0	87,343	71,728	87,343	71,728
<b>Total Liabilities</b>	<b>127,364</b>	<b>126,037</b>	<b>89,327</b>	<b>73,438</b>	<b>216,691</b>	<b>199,475</b>
<b>Financial Assets</b>						
Loans and receivables	0	0	185,636	215,748	185,636	215,748
Debtors - financial assets carried at contract amounts	0	0	25,348	25,655	25,348	25,655
Cash held at bank and cash equivalents	0	0	138,111	202,357	138,111	202,357
<b>Total Financial Assets</b>	<b>0</b>	<b>0</b>	<b>349,095</b>	<b>443,760</b>	<b>349,095</b>	<b>443,760</b>

### NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing.
2. Included in loans and receivables is £10m of deposits due to be settled within 1 and 3 years as at 31 March 2015.
3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, two collar deposits, two call accounts and money market funds.
4. The terms of the collar deposits, referenced to 3 month LIBOR are: £5m from 10.01.2014 - 09.01.2017, with a floor of 1.74% and a cap of 2.50%; £5m from 20.03.2014 - 20.03.16, with a floor of 1.25% and a cap of 1.80%.
5. Balances in the money market funds and call accounts at 31 March 2015 are shown under 'cash and cash equivalent' in the balance sheet. Cash equivalents are highly liquid deposits which are readily convertible into cash at short notice. They include £165.9 million (£107.6 million as at 31st March 2014) of short-term deposits with banks and building societies excluded from loans and receivables.
6. The above long term figures are based on paragraph B9, Module 7 of the 2014/15 code of practice guidance notes which states an instrument will be held for its full term unless the Council has a specified intention to repay/call in early or reliable experience of similar instruments being derecognised before the full term.
7. In addition to the above financial liabilities, the Council has contingent liabilities for warranties provided to landlords. Details are outlined in note 45 to the accounts. The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.

## FINANCIAL INSTRUMENTS (continued)

### Gains and Losses on Financial Instruments

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

	2013/14		2014/15	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£'000	£'000	£'000	£'000
Interest expense	13,186	0	9,745	0
Interest income	0	2,336	0	2,254
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>13,186</b>	<b>2,336</b>	<b>9,745</b>	<b>2,254</b>

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

#### Methods and Assumptions in valuation technique

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

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

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2015.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

Fair Value of Liabilities Carried at Amortised Cost	31 March 2014	31 March 2014	31 March 2015	31 March 2015
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	12,131	14,996	11,455	14,598
Lender's option, borrower's option loans	77,807	76,876	77,818	100,297
Deferred liabilities - Private Finance Initiatives (PFI)	39,410	39,410	38,473	38,473
Creditors - Financial Liabilities carried at contract amount	87,343	87,343	71,728	71,728
<b>Financial Liabilities</b>	<b>216,691</b>	<b>218,625</b>	<b>199,474</b>	<b>225,096</b>

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

Fair Value of Assets Carried at Amortised Cost	31 March 2014	31 March 2014	31 March 2015	31 March 2015
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	185,629	185,807	215,741	215,945
Equity Shares (not quoted in an active market)	7	7	7	7
Debtors - financial assets carried at contract amounts	25,348	25,348	21,615	21,615
Cash held at Bank	30,544	30,544	67,188	67,188
Cash equivalents (deposits with banks and other financial institutions)	107,567	107,567	135,169	135,129
<b>Financial Assets</b>	<b>349,095</b>	<b>349,273</b>	<b>439,720</b>	<b>439,884</b>

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

## 15 FINANCIAL INSTRUMENTS (continued)

### Nature and extent of risks arising from Financial Instruments

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

#### 1. Credit Risk

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

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

	Amounts at 31 March 2014 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2014 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	40,549	0%	0%	0%
Money Market Funds	97,562	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	25,056	0%	0%	0%
6 - 12 months	125,468	0%	0%	0%
Over 12 months	35,105	0%	0%	0%
<b>TOTAL</b>	<b>323,740</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

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

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

The Council does not generally allow credit for customers, such that £6 million of the £75 million balance (2013/14 - £5.6 million of the £87.8 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

## 15 FINANCIAL INSTRUMENTS (continued)

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

Credit Risk	31 March 2014 £'000	31 March 2015 £'000
Three to six months	1,307	1,191
Six months to one year	1,104	1,496
More than one year	3,178	3,334
<b>TOTAL</b>	<b>5,589</b>	<b>6,021</b>

### 2. Liquidity Risk

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

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

Loans outstanding	31 March 2014 £'000	31 March 2015 £'000
Public Works Loans Board	12,131	11,455
Market debt	77,807	77,818
PFI	39,410	38,473
<b>TOTAL</b>	<b>129,348</b>	<b>127,746</b>
Less than 1 year	1,984	1,710
Between 1 and 2 years	2,032	3,094
Between 2 and 5 years	8,626	9,590
Between 5 and 10 years	17,886	19,580
More than 10 years	98,820	93,772
<b>TOTAL</b>	<b>129,348</b>	<b>127,746</b>

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

### 3. Market Risk

#### Interest rate risk

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

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

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

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

## 15 FINANCIAL INSTRUMENTS (continued)

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

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

According to this assessment, at 31st March 2015, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2013/14 £'000	2014/15 £'000
Increase in interest payable on variable rate borrowings	706	775
Increase in interest receivable on variable rate investments	(4,140)	(3,909)
<b>Impact on Income and Expenditure Account</b>	<b>(3,434)</b>	<b>(3,134)</b>

Fair Value Movements	2013/14 £'000	2014/15 £'000
Decrease in fair value of fixed rate investments	861	956
Decrease in fair value of fixed rate borrowing liabilities	2,890	3,993
<b>Impact on Income and Expenditure Account</b>	<b>3,751</b>	<b>4,949</b>

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

### Equity Shares (not quoted on an active market)

	2013/14 £'000	2014/15 £'000
The Tower Hamlets Local Education Partnership	7	7
<b>Total</b>	<b>7</b>	<b>7</b>

## 16 INVENTORIES

	Consumable Stores		Client Services Work in Progress		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
<b>Balance outstanding at start of year</b>	20	14	370	1,725	390	1,739
Purchases	0	0	1,664	0	1,664	0
Recognised as an expense in the year	(6)	(14)	(309)	(1,725)	(315)	(1,739)
<b>Balance outstanding at year-end</b>	<b>14</b>	<b>0</b>	<b>1,725</b>	<b>0</b>	<b>1,739</b>	<b>0</b>

Note: consumable stores consists of pre-paid postage rechargeable to services. Consumerable stores to be charged direct to revenue in future as not material. Work in progress charged to revenue in 2014/15.

## 17 CONSTRUCTION CONTRACTS

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

## 18 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 12 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2015 and concluded that there was no significant impairment to report.



## 19 DEBTORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	38,044	26,850
Other local authorities	0	5,851
Other entities and individuals	87,851	79,708
Payments in advance	2,241	2,839
<b>Total</b>	<b>128,136</b>	<b>115,248</b>

## 20 CASH AND CASH EQUIVALENTS

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

	31 March 2014 £'000	31 March 2015 £'000
Cash held by the Council	30,544	67,188
Short-term deposits with banks and building societies	107,567	135,169
<b>Total Cash and Cash Equivalents</b>	<b>138,111</b>	<b>202,357</b>

## 21 ASSETS HELD FOR SALE

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

	Current		Non Current	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
<b>Value at 1st April</b>	3,248	225	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	0	0	0	0
Assets sold	(3,023)	0	0	0
<b>Value at 31st March</b>	<b>225</b>	<b>225</b>	<b>0</b>	<b>0</b>

## 22 CREDITORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	33,694	40,483
Other local authorities	10,638	10,407
Other entities and individuals	62,912	76,895
Accruals*	76,949	71,728
Receipts in advance	15,359	16,127
<b>Total</b>	<b>199,552</b>	<b>215,640</b>

The above creditors include provision for an external audit inspection of the Council undertaken by PricewaterhouseCoopers. This was an inspection of compliance under Part 1 of the Local Government Act in respect of governance, particularly in respect of the Authority's functions under Section 151 of the Local Government Act 1972 and as they relate to the Council's payment of grants and connected decisions; the transfer of property to third parties; spending and decisions on relation to publicity; and processes and practices relating to the entering of contracts. The DCLG notified the Council that £998,044 is to be charged to the Council.

## 23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000	Amounts used in 2014/15 £'000	Contributions in 2014/15 £'000	Balance at 31 March 2015 £'000
(a) Single Status	329	(155)	0	174	0	0	174
(b) ICT provision and other corporate provisor	0	0	772	772	(195)	878	1,455
(c) Adoption Fees	40	0	0	40	(40)	0	0
(d) Redundancy provisions	117	(117)	0	0	0	0	0
(e) Carbon Reduction provision	333	(333)	0	0	0	0	0
(f) Contract disputes	102	(102)	102	102	0	0	102
(g) Business rates appeals provision	0	0	8,250	8,250	(7,040)	1,800	3,010
<b>TOTAL</b>	<b>921</b>	<b>(707)</b>	<b>9,124</b>	<b>9,338</b>	<b>(7,275)</b>	<b>2,678</b>	<b>4,741</b>

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

LONG-TERM PROVISIONS	Balance at 1 April 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000	Amounts used in 2014/15 £'000	Contributions in 2014/15 £'000	Balance at 31 March 2015 £'000
(h) Insurance Fund	12,508	(4,112)	628	9,024	(2,247)	0	6,777
(i) Repayment of deposits	169	0	0	169	0	0	169
(j) Repayment of European funding	394	0	0	394	0	0	394
<b>TOTAL</b>	<b>13,071</b>	<b>(4,112)</b>	<b>628</b>	<b>9,587</b>	<b>(2,247)</b>	<b>0</b>	<b>7,340</b>

**12,081**

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provision.
- (c) Provision required in 2013/14 for the final payment to other authorities should particular children placed with potential adopters resident in other boroughs ultimately be legally adopted.
- (d) Provision for redundancy settlements outstanding at 31st March 2015.
- (e) Provision created to cover the council's liability towards the Governments carbon reduction energy efficiency scheme.
- (f) Provision for contract disputes.
- (g) Council share of provision for NNDR business rates appeals.
- (h) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.
- (i) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.
- (j) There are a number of European funded schemes where there is a probability that grant will need to be repaid. The potential for repayment will expire in 2017, ten years after the grant has been received.

The above provisions exclude provision for an external audit inspection of the Council being undertaken by PricewaterhouseCoopers. This is an inspection of compliance under Part 1 of the Local Government Act in respect of governance, particularly in respect of the Authority's functions under Section 151 of the Local Government Act 1972 and as they relate to the Council's payment of grants and connected decisions; the transfer of property to third parties; spending and decisions on relation to publicity; and processes and practices relating to the entering of contracts.

## 24 USABLE RESERVES

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

## 25 UNUSABLE RESERVES

31 March 2014 £'000		31 March 2015 £'000
347,108	Revaluation Reserve	342,264
0	Available for Sale Financial Instruments Reserve	0
1,226,255	Capital Adjustment Account	1,428,571
852	Financial Instruments Adjustment Account	568
(495,946)	Pensions Reserve	(649,564)
767	Collection Fund Adjustment Account	8,047
(3,427)	Accumulating Compensated Absences Adjustment Account	(2,988)
47	Deferred Capital Receipts	11
<b>1,075,656</b>	<b>Total Unusable Reserves</b>	<b>1,126,909</b>

### Revaluation Reserve

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

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

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

2013/14 £'000		2014/15 £'000
324,686	<b>Balance at 1 April</b>	347,109
33,643	Upward revaluation of assets	14,170
(957)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(15,647)
<u>32,686</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(1,477)
(3,595)	Difference between fair value depreciation and historical cost depreciation	(3,228)
(6,668)	Accumulated gains on assets sold or scrapped	(139)
(10,263)	Amount written off to the Capital Adjustment Account	(3,367)
<b>347,109</b>	<b>Balance at 31 March</b>	<b>342,265</b>

## 25 UNUSABLE RESERVES

### Capital Adjustment Account

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

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

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

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

2013/14 £'000		2014/15 £'000
<b>1,153,639</b>	<b>Balance at 1 April</b>	<b>1,226,254</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(39,236)	Charges for depreciation and impairment of non current assets	(39,350)
21,374	Revaluation losses and reversals on Property, Plant and Equipment	162,161
(31,004)	Revenue expenditure funded from capital under statute	(20,995)
(27,507)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(33,497)
(76,373)		68,319
10,263	Adjusting amounts written out of the Revaluation Reserve	3,367
(66,110)	Net written out amount of the cost of non current assets consumed in the year	71,686
	Capital financing applied in the year:	
14,701	Use of the Capital Receipts Reserve to finance new capital expenditure	8,549
11,799	Use of the Major Repairs Reserve to finance new capital expenditure	9,940
95,131	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	88,685
6,836	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,882
10,258	Capital expenditure charged against the General Fund and HRA balances	16,575
138,725		130,631
<b>1,226,254</b>	<b>Balance at 31 March</b>	<b>1,428,571</b>

## 25 UNUSABLE RESERVES (continued)

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2015 will be charged to the General Fund over the next 10 years.

2013/14 £'000		2014/15 £'000
1,032	<b>Balance at 1 April</b>	852
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in	
(180)	accordance with statutory requirements	(284)
<b>852 Balance at 31 March</b>		<b>568</b>

### Pensions Reserve

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

2013/14 £'000		2014/15 £'000
(522,962)	<b>Balance at 1 April</b>	(495,946)
44,724	Actuarial gains or losses on pensions assets and liabilities	(139,066)
(56,858)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(56,899)
39,150	Employer's pensions contributions and direct payments to pensioners payable in the year	42,347
<b>(495,946) Balance at 31 March</b>		<b>(649,564)</b>

## 25 UNUSABLE RESERVES

### Collection Fund Adjustment Account

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

2013/14 £'000		2014/15 £'000
1,588	<b>Balance at 1 April</b>	767
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for	
(821)	the year in accordance with statutory requirements	7,280
<b>767</b>	<b>Balance at 31 March</b>	<b>8,047</b>

### Deferred Capital Receipts

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

2013/14 £'000		2014/15 £'000
110	<b>Balance at 1 April</b>	48
(62)	Transfer to the Capital Receipts Reserve upon receipt of cash	(37)
<b>48</b>	<b>Balance at 31 March</b>	<b>11</b>

## 26a NOTE A TO THE CASH FLOW STATEMENT

2013/14 £'000		2014/15 £'000
<b>82,195</b>	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>251,011</b>
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>	
39,235	Depreciation	39,349
(21,374)	Impairment and downward valuations	(162,161)
(244)	Adjustments for effective interest rates	57
(969)	Increase/Decrease in Interest Creditors	(602)
38,160	Increase/Decrease in Creditors	(13,290)
1,225	Increase/Decrease in Interest and Dividend Debtors	0
(57,651)	Increase/Decrease in Debtors	49,890
(1,349)	Increase/Decrease in Inventories	1,739
17,712	Pension Liability	14,550
4,933	Contributions to/(from) Provisions	(6,844)
27,507	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	33,497
<b>47,185</b>		<b>(43,815)</b>
	<b><u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u></b>	
(45,477)	Capital Grants credited to surplus or deficit on the provision of services	(20,551)
0	Premiums or Discounts on the repayment of financial liabilities	(808)
(16,750)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(38,273)
<b>(62,227)</b>		<b>(59,632)</b>
<b>67,153</b>	<b>Net cash flows from operating activities</b>	<b>147,564</b>

## 26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2013/14 £'000		2014/15 £'000
3,688	Interest received	2,311
(14,299)	Interest paid	(10,347)
<b>(10,611)</b>		<b>(8,036)</b>

## 27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2013/14 £'000		2014/15 £'000
(90,462)	Purchase of property, plant and equipment, investment property and intangible assets	(123,351)
(39,300)	Purchase of short-term and long-term investments	(30,112)
(159)	Other payments for investing activities	0
16,122	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	34,815
49,654	Proceeds from short-term and long-term investments	36,676
<b>(64,145)</b>	<b>Net cash flows from investing activities</b>	<b>(81,972)</b>

## 28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2013/14 £'000		2014/15 £'000
841	Billing Authorities - Council Tax and NNDR adjustments	808
	Other receipts from financing activities	(1,216)
(845)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0
(889)	Repayments of short- and long-term borrowing	(938)
<b>(893)</b>	<b>Net cash flows from financing activities</b>	<b>(1,346)</b>

## 29 TRADING OPERATIONS

The following services are reported as trading activities

	2013/14			2014/15			Balance 31/03/2015 £'000
	Expenditure	Income	Surplus/ (Deficit)	Expenditure	Income	Surplus/ (Deficit)	
	£'000	£'000	£'000	£'000	£'000	£'000	
Street Trading	2,419	2,388	(31)	2,482	2,488	6	216
<b>TOTAL TRADING ACCOUNTS</b>	<b>2,419</b>	<b>2,388</b>	<b>(31)</b>	<b>2,482</b>	<b>2,488</b>	<b>6</b>	<b>216</b>

## 30 AGENCY SERVICES

The Council has an agency agreement with the Thames Water Authority 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 2014/15 this commission amounted to £820,555 (£788,521 in 2013/14).

## 31 POOLED BUDGETS

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

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)

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 Comprehensive Income and Expenditure Account.

2014/15	ICES £'000	LDSA £'000
<b>Income</b>		
The Council	984	1,706
Barts and the London Trust health services	813	1,420
	1,797	3,126
<b>Expenditure</b>	1,961	3,126
<b>Surplus/(Deficit) for the year</b>	<b>(164)</b>	<b>0</b>

2013/14	ICES £'000	LDSA £'000
<b>Income</b>		
The Council	986	1,196
Barts and the London Trust health services	851	1,721
	1,837	2,917
<b>Expenditure</b>	1,723	3,016
<b>Surplus/Deficit for the year</b>	<b>114</b>	<b>(99)</b>

## 32 MEMBERS' ALLOWANCES

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

	2013/14 £'000	2014/15 £'000
Allowances	959	836
<b>Total</b>	<b>959</b>	<b>836</b>

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



### 33 OFFICERS' REMUNERATION

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

2013/14	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr S Halsey - Head of Paid Service & Corporate Director CLC	160,915	0	0	25,004	0	185,919
<b>Total Head of Paid Service</b>	<b>160,915</b>	<b>0</b>	<b>0</b>	<b>25,004</b>	<b>0</b>	<b>185,919</b>
<b>Corporate Directors</b>						
Assistant Chief Executive (Legal Services) <sup>1</sup>	85,260	0	127,138	9,948	0	222,346
Resources (Acting)	122,100	0	0	18,866	0	140,966
Development and Renewal	143,054	0	0	22,116	0	165,170
Education, Health and Wellbeing <sup>2</sup>	74,000	0	0	11,449	0	85,449
Children, Schools & Families (Acting) <sup>3</sup>	13,043	0	69,341	434	0	82,818
Education, Social Care & Wellbeing (Acting) <sup>4</sup>	58,859	0	0	8,051	0	66,911
<b>Other</b>						
Interim Monitoring Officer <sup>6</sup>	22,295	0	0	3,523	0	25,818
Monitoring Officer <sup>7</sup>	23,839	0	0	0	0	23,839
Public Health <sup>5</sup>	89,786	0	0	12,570	0	102,356
	<b>793,151</b>	<b>0</b>	<b>196,479</b>	<b>111,962</b>	<b>0</b>	<b>1,101,592</b>

<sup>1</sup> Left 31/08/2013

<sup>2</sup> Commenced 01/10/2013

<sup>3</sup> Left 07/04/2013

<sup>4</sup> Ceased as Corporate Director of ESCW on 30/09/13

<sup>5</sup> Director transferred to the authority from NHS Primary Care Trust to form LBTH Public Health 01/04/2013

<sup>6</sup> Commenced 18/09/2013, left 31/12/2013

<sup>7</sup> Commenced 20/01/2014

2014/15	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr S Halsey - Head of Paid Service & Corporate Director CLC	161,329	0	0	25,004	0	186,333
<b>Total Head of Paid Service</b>	<b>161,329</b>	<b>0</b>	<b>0</b>	<b>25,004</b>	<b>0</b>	<b>186,333</b>
<b>Corporate Directors</b>						
Resources (Acting)	123,417	0	0	19,094	0	142,511
Education, Health and Wellbeing	148,000	0	0	22,898	0	170,898
Development and Renewal	142,086	0	0	21,963	0	164,049
Public Health	101,265	0	0	14,177	0	115,442
<b>Other</b>						
Monitoring Officer	119,840	0	0	0	0	119,840
	<b>795,936</b>	<b>0</b>	<b>0</b>	<b>103,137</b>	<b>0</b>	<b>899,073</b>

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

Remuneration band (£)	2013/14						2014/15					
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff		Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	
50,000 - 54,999	201	(2)	82	(2)	283		212	(2)	103	(2)	315	
55,000 - 59,999	134	(2)	43	(3)	177		130	(1)	44	(1)	174	
60,000 - 64,999	48	(1)	40	(1)	88		60	0	52	(3)	112	
65,000 - 69,999	31	0	23	0	54		28	0	20	(1)	48	
70,000 - 74,999	23	0	26	0	49		25	0	30	(1)	55	
75,000 - 79,999	17	0	5	(1)	22		14	0	5	(1)	19	
80,000 - 84,999	8	0	4	0	12		9	(1)	3	0	12	
85,000 - 89,999	3	0	8	(1)	11		6	0	4	(1)	10	
90,000 - 94,999	8	(1)	3	(1)	11		4	0	1	0	5	
95,000 - 99,999	4	(1)	6	(1)	10		4	0	7	(2)	11	
100,000 - 104,999	2	0	7	0	9		4	0	7	(1)	11	
105,000 - 109,999	1	0	1	0	2		1	0	4	(1)	5	
110,000 - 114,999	1	0	2	(1)	3		1	0	0	0	1	
115,000 - 119,999	1	0	0	0	1		1	0	0	0	1	
120,000 - 124,999	1	0	0	0	1		1	0	0	0	1	
125,000 - 129,999	0	0	0	0	0		1	0	0	0	1	
130,000 - 134,999	0	0	0	0	0		0	0	0	0	0	
135,000 - 139,999	2	0	0	0	2		0	0	0	0	0	
140,000 - 144,999	1	0	0	0	1		3	0	0	0	3	
170,000 - 174,999	0	0	1	(1)	1		0	0	0	0	0	
	<b>486</b>	<b>(7)</b>	<b>251</b>	<b>(12)</b>	<b>737</b>		<b>504</b>	<b>(4)</b>	<b>280</b>	<b>(14)</b>	<b>784</b>	

\*2013/14 includes 12 higher paid staff that have transferred over from NHS PCT to form LBTH Public Health

## Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
0 - 20,000	8	4	28	14	36	18	414	153
20,001 - 40,000	0	1	6	11	28	12	583	326
40,001 - 60,000	0	0	26	6	11	6	794	306
60,001 - 80,000	0	0	12	3	8	3	520	203
80,001 - 100,000	0	0	9	2	4	2	551	174
100,001 - 150,000	0	0	3	4	5	4	368	477
150,001 - 200,000	0	0	0	0	0	0	0	0
200,001 - 250,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>8</b>	<b>5</b>	<b>84</b>	<b>40</b>	<b>92</b>	<b>45</b>	<b>3,229</b>	<b>1,639</b>

## 34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2013/14 £'000	2014/15 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	101,903	115,692
Intangible Assets	-	-
Heritage Assets	-	-
Revenue Expenditure Funded from Capital Under Statute	31,004	20,995
<b>TOTAL</b>	<b>132,907</b>	<b>136,687</b>
<b>Sources of Finance</b>		
Borrowing	1,018	12,939
Capital Grants and Contributions	95,131	88,685
Capital Receipts	14,701	8,548
Major Repairs Reserve	11,799	9,940
Direct Revenue Funding	10,258	16,575
<b>TOTAL</b>	<b>132,907</b>	<b>136,687</b>
	2013/14 £'000	2014/15 £'000
<b>Opening Capital Financing Requirement</b>	<b>225,848</b>	<b>220,720</b>
<b>Capital investment</b>		
Property, Plant and Equipment	101,903	115,692
Intangible Assets	-	-
Heritage Assets	0	0
Revenue Expenditure Funded from Capital under Statute	31,004	20,995
<b>Sources of finance</b>		
Capital grants and contributions	(95,131)	(88,685)
Capital receipts	(14,701)	(8,548)
Major repairs reserve	(11,799)	(9,940)
Sums set aside from revenue:		
• Direct revenue contributions	(10,258)	(16,575)
• Minimum Revenue Provision <sup>1</sup>	(6,146)	(6,142)
<b>Closing Capital Financing Requirement</b>	<b>220,720</b>	<b>227,517</b>
<b>Explanation of movements in year</b>		
Decrease in underlying need to borrow (supported by government financial assistance)	(5,493)	(2,842)
Decrease in underlying need to borrow (unsupported by government financial assistance)	365	9,639
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(5,128)</b>	<b>6,797</b>

<sup>1</sup> Capital Financing Requirement excludes PFI schemes

### 35 EXTERNAL AUDIT COSTS

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

	2013/14 £'000	2014/15 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	291	277
Addition fees payable to external Audit for inquiries relating to 2012/13 invoiced in 2013/14	12	6
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	35	30
Fees payable in respect of other services provided by external auditors during the year	26	55
<b>Total</b>	<b>365</b>	<b>369</b>

The fees payable to the external auditors for other services comprise of NNDR - £2.6k, £50k for various audit work related to 2013/14 but completed in 2014/15 & fees relating to provision of VAT advice - £2.5k.

The KPMG paid a rebate of £13.1k to reflect attaining internal efficiency savings in 2014/15. This has not been included in the table above but has the effect of reducing the overall cost to the Council.

The Audit commission paid a rebate of £30.7k in 2014/15. This has the effect of reducing the overall cost to the Council.

The cost of the Best Value Inspection by PwC has been accounted for in 2014/15. The amount charged will be £998,440. This will impact upon the overall cost to the council.

### 36 DEDICATED SCHOOLS GRANT

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

Notes	DSG Receivable for 2013/14	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2013/14 before Academy Recoupment	46,952	265,608	312,560
B	Academy figure Recouped 2013/14		(12,330)	(12,330)
C	Total DSG after Academy Recoupment 2013/14	46,952	253,278	300,230
D	Brought forward from 2012/13	5,554	0	5,554
E	Carry forward to 2014/15 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2013/14	52,506	253,278	305,784
G	In-year adjustments	428	0	428
H	Final budget distribution for 2013/14	52,934	253,278	306,212
I	Less actual central expenditure	(45,355)	0	(45,355)
J	Less actual ISB deployed to schools	0	(253,465)	(253,465)
K	Council contribution for 2013/14	0	0	0
<b>L</b>	<b>Carry forward to 2014/15</b>	<b>7,579</b>	<b>(187)</b>	<b>7,392</b>
A	DSG figure as issued by DfE in July 2013			
B	Academy figure Recouped 2013-14			
C	Total DSG after Academy Recoupment 2013/14			
D	Figure brought forward from 2012/13			
E	The amount which the Council decided after consultation with the schools forum to carry forward to 2014/15 rather than distribute in 2013/14			
F	Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.			
G	Changes to Initial distribution in 2013/14			
H	Budgeted distribution of DSG at year end			
I	Actual amount of central expenditure items in 2013/14			
J	Amount of ISB distributed to schools			
K	Contribution from the Council in 2013/14 which substituted for DSG in funding the Schools Budget			
L	Difference between budgeted distributions and actuals plus carry forward agreed in advance			

Notes	DSG Receivable for 2014/15	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2014/15 before Academy Recoupment	48,999	267,375	316,374
B	Academy figure Recouped 2014/15	0	(16,249)	(16,249)
C	Total DSG after Academy Recoupment 2014/15	48,999	251,126	300,125
D	Brought forward from 2013/14	7,579	(187)	7,392
E	Carry forward to 2015/16 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2014/15	56,578	250,939	307,517
G	In-year adjustments		0	0
H	Final budget distribution for 2014/15	56,578	250,939	307,517
I	Less actual central expenditure	(51,330)	0	(51,330)
J	Less actual ISB deployed to schools	0	(252,092)	(252,092)
K	Council contribution for 2014/15	3,818	0	3,818
<b>L</b>	<b>Carry forward to 2015/16</b>	<b>9,066</b>	<b>(1,153)</b>	<b>7,913</b>
A	DSG figure as issued by DfE in March 2015			
B	Academy figure Recouped 2014/15			
C	Total DSG after Academy Recoupment 2014/15			
D	Figure brought forward from 2013/14			
E	The amount which the Council decided after consultation with the schools forum to carry forward to 2015/16 rather than distribute in 2014/15			
F	Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum			
G	Changes to Initial distribution in 2014/15			
H	Budgeted distribution of DSG at year end			
I	Actual amount of central expenditure items in 2014/15			
J	Amount of ISB distributed to schools			
K	Contribution from the Council in 2014/15 which substituted for DSG in funding the Schools Budget			
L	Difference between budgeted distributions and actuals plus carry forward agreed in advance			

## 37 GRANT INCOME

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

	2013/14	2014/15
	£'000	£'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Non-Ringfenced Government Grants</b>		
Business Rate Related Grants	(4,981)	(7,025)
Council Tax Freeze Grant	(846)	(871)
Council Tax Related Grants	(788)	(209)
Education Services Grant	(1,889)	0
Local Service Support Grant	(135)	(135)
New Homes Bonus	(16,896)	(19,811)
Revenue Support Grant (Formula Grant)	(146,442)	(118,270)
RSG Capitalisation	(772)	0
<b>Total Non-Ringfenced Government Grants</b>	<b>(172,749)</b>	<b>(146,321)</b>
<b>Capital Grants and Contributions</b>		
Non-conditional grants:		
Schools-funded Capital Programme	(2,402)	(3,480)
Transport for London Funding	(2,781)	(2,992)
Major Works Contributions (cash received)	(2,716)	(3,384)
Capital Maintenance Grant	(3,554)	(3,095)
Basic Needs/New Pupil Places	(8,181)	(6,805)
Decent Homes Backlog Funding	(25,000)	(46,000)
Other Non-Conditional Grants Received	(2,334)	(1,138)
Conditional grants:		
Building Schools for the Future	(19,179)	(4,513)
Targeted Basic Need Grant	0	(4,383)
Other Conditional Grants Applied	(147)	(1,136)
Developers' Contributions	(3,369)	(5,892)
<b>Total Capital Grants and Contributions</b>	<b>(69,663)</b>	<b>(82,818)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(19,933)	(4,868)
Developers' Contributions (capital) funding REFCUS	(4,370)	(1,947)
Developers' Contributions (revenue)	(1,249)	(2,350)
PFI Credits	(8,124)	(8,037)
School Sixth Form Grant	(16,619)	(17,589)
Pupil Premium Grant	(20,658)	(24,753)
Public Health Grant	(31,382)	(32,261)
Other Revenue Grants	(20,372)	(24,016)
<b>Total Credited to Services</b>	<b>(122,707)</b>	<b>(115,821)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(365,119)</b>	<b>(344,960)</b>

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

	31st March 2014 £'000	31st March 2015 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions	45,454	53,124
Building Schools for the Future	71	0
Major Works Invoices	8,546	8,485
National Affordable Housing Programme	6,265	6,265
Energy Efficiency Programme (DECC)	2,254	2,254
Targeted basic need programme	1,179	0
GLA Building the Pipeline Grant	0	5,100
Other capital grants and contributions	706	962
<b>Total</b>	<b>64,475</b>	<b>76,190</b>

## 38 RELATED PARTIES

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

### Central Government

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

### Partnerships

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

### Pension Fund

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

### Subsidiary

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

### Membership of and relationship with other organisations

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

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2013/14 £'000	Payments by the Council over £10k 2014/15 £'000	Amounts due to Orgs. > £10k at 31/03/15 £'000
15billion	D Chesterton*	Member			
Aldgate and Allhallows Barking Foundation	S Islam	Council Representative			
	D Jones	Council Representative			
Balagonji Educational Trust	S Ali	Council Representative			
Bangladesh Youth Movement	A Khan	Employee		59	13
Bengali Educational Society	S Islam	Treasurer			
Bromley By Bow Centre	H Uddin	Employee	496	577	154
Central Foundation Girls School	M M Miah*	Governor		19	
Community Martial Arts Trust	A Miah*	Employee		16	
Developmental Council of Bangladeshis in the UK	K U Ahmed	Joint Treasurer			
Docklands Sailing & Watersports Centre	D Chesterton*	Member		21	
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	H Uddin	Board Member	239	586	36
	G Robanni	Member			
Friends of Tower Hamlets Cemetery Park	R Blake*	Member		33	11
GMB	A M O Ahmed	Member	95	101	24
	K U Ahmed	Member			
	A Khan	Member			
	R Blake*	Member			
Golapgonj Education Trust	A M O Ahmed	Trustee			
	S Khatun*	Member			
	A Miah*	Member			
Green Candle Dance Company	P Golds	Council Representative		26	
Heritage of London Trust	D Jones	Council Representative			
Heritage Primary School	M Alam*	Governor			
Ian Mikardo High School	D Hassell*	Governor			
Island Homes Housing Association	M Miah	Resident Board Member - receives a monthly allowance			
Island Sports Trust	P Golds				
Isle of Dogs Community Foundation	D J Edgar	Council Representative			
John Scurr Primary School	S Islam	Governor			
Leaside Regeneration Ltd	D J Edgar	Council Representative			
Lee Valley Regional Park Authority	D Jones	Council Representative		20	
	S Ali	Deputy Member			
London Education Trust	M A Mustaqim*				
London Youth Games	L Pavitt	Council Representative (2013/14 only)	18		
Mile End Park Partnership Board	D Jones	Council Representative			
	J Peck	Member			
Mulberry Girls School	D Jones			13	
National Union of Teachers	D Hassell*	Member			
Old Ford Housing Association	M Francis	Board Director	63		
Olga Primary School	C Harrison*	Governor		28	
Gateway Housing Association	H Uddin	Employer has a Working Relationship with this Organisation	258	1,541	279
Poplar Harca	A M O Ahmed		1,155	2,854	404
Rich Mix Cultural Foundation	D Jones	Director			
Solander Gardens Community & Education	H Miah	Secretary			
Smithy Street Primary School	A Khan	School Governor			
Spitalfields Housing Association Ltd	A Mukit*	Board Member			
St Katherine & Shadwell Trust	S Haque	Deputy			
	D Jones	Council Representative (Ceased in Oct 2013)			
	A Mukit*	School Governor			
St Matthias Primary School	M A Mustaqim*			82	27
St Peters Bengali Association	K U Ahmed	General Secretary			
Sylhet Divisional Welfare Council	A Whitelock				
The Childrens Society	D J Edgar	Member			
Tower Hamlets Cemetery	G Robanni	Council Representative	150	205	59
Tower Hamlets Community Housing	G Robanni	Member	13,318	15,677	
Tower Hamlets Homes	A Choudhury	Council Representative			
Trinity Buoy Wharf	D Jones	Director			
Unison	C Harrison*	Employee		467	119
	D Hassell*	Member			
Victoria & Albert Museum of Childhood	D Jones	Council Representative		11	
Wiltons Music Hall	D Jones	Trustee			

\*New Member from May 2014

## 39 LEASES

### Authority as Lessee

#### Finance Leases

As a Lessee the Council has no material finance leases to report.

#### Operating Leases

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

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

### Leased In Assets

	Land & Buildings 31 March 2014 £'000	Vehicles Plant & Equipment 31 March 2014 £'000	Land & Buildings 31 March 2015 £'000	Vehicles Plant & Equipment 31 March 2015 £'000
<b>Adults Health and Wellbeing</b>				
Not later than one year	164	0	150	0
Later than one year and not later than five years	654	0	601	0
Later than five years	1,992	0	1,678	0
<b>Chief Executive's</b>				
Not later than one year	0	0	0	164
Later than one year and not later than five years	0	0	0	80
Later than five years	0	0	80	0
<b>Children Schools and Families</b>				
Not later than one year	240	337	142	332
Later than one year and not later than five years	421	265	318	371
Later than five years	634	6	577	9
<b>Communities Localities and Culture</b>				
Not later than one year	0	654	0	649
Later than one year and not later than five years	0	1,775	0	1,452
Later than five years	0	651	0	410
<b>Development and Renewal</b>				
Not later than one year	2,896	6	2,895	0
Later than one year and not later than five years	11,579	0	11,579	0
Later than five years	7,818	0	2,136	0
<b>Total</b>				
<b>Not later than one year</b>	3,300	997	3,187	1,144
<b>Later than one year and not later than five years</b>	12,654	2,040	12,497	1,903
<b>Later than five years</b>	10,444	657	4,472	419
	<b>26,398</b>	<b>3,694</b>	<b>20,156</b>	<b>3,467</b>

## 39 LEASES (continued)

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

	Land & Buildings 31st March 2014 £'000	Vehicles Plant & Equipment 31st March 2014 £'000	Land & Buildings 31st March 2015 £'000	Vehicles Plant & Equipment 31st March 2015 £'000
<b>Adults Health and Wellbeing</b>				
Minimum Lease Payments	164	0	150	0
<b>Chief Executive's</b>				
Minimum Lease Payments	0	0	0	164
<b>Communities Localities and Culture</b>				
Minimum Lease Payments	0	809	0	673
<b>Children Schools and Families</b>				
Minimum Lease Payments	250	957	240	494
<b>Development and Renewal</b>				
Minimum Lease Payments	2,896	6	2,895	0
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>3,310</b>	<b>1,772</b>	<b>3,285</b>	<b>1,331</b>

### Authority as Lessor Finance Leases

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

### Operating Leases

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

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

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

	31st March 2014 £'000	31st March 2015 £'000
Not later than one year	(3,262)	(3,313)
Later than one year and not later than five years	(10,939)	(10,896)
Later than five years	(17,262)	(16,595)
	<b>(31,463)</b>	<b>(30,804)</b>

## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2014</b>	31,247	230,187	2,699	264,133
Depreciation	(757)	(6,642)	(303)	(7,702)
Revaluations	0	0	0	0
Enhancements	75	7,092	0	7,167
Derecognition	0	0	0	0
<b>Asset value at 31 March 2015</b>	<b>30,565</b>	<b>230,637</b>	<b>2,396</b>	<b>263,598</b>

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2014</b>	6,715	30,126	2,570	39,411
Repayments	(237)	(503)	(198)	(938)
<b>Liabilities at 31 March 2015</b>	<b>6,478</b>	<b>29,623</b>	<b>2,372</b>	<b>38,473</b>
<b>Consisting of:</b>				
Long term liability	6,228	29,107	2,174	37,509
Short-term liability	250	516	198	964
<b>Liability value at 31 March 2015</b>	<b>6,478</b>	<b>29,623</b>	<b>2,372</b>	<b>38,473</b>

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	250	516	198	964
Within 2 - 5 years	1,332	3,901	791	6,024
Within 6 - 10 years	2,185	13,202	988	16,375
Within 11 - 15 years	2,711	12,004	395	15,110
	<b>6,478</b>	<b>29,623</b>	<b>2,372</b>	<b>38,473</b>
<b>Interest</b>				
Within 1 year	727	4,661	0	5,388
Within 2 - 5 years	2,583	17,568	0	20,151
Within 6 - 10 years	2,338	16,485	0	18,823
Within 11 - 15 years	777	3,501	0	4,278
	<b>6,425</b>	<b>42,215</b>	<b>0</b>	<b>48,640</b>
<b>Service Charges</b>				
Within 1 year	673	4,423	0	5,096
Within 2 - 5 years	2,694	9,115	0	11,809
Within 6 - 10 years	3,367	13,414	0	16,781
Within 11 - 15 years	2,694	7,200	0	9,894
	<b>9,428</b>	<b>34,152</b>	<b>0</b>	<b>43,580</b>



## 41 PENSIONS SCHEMES - DEFINED BENEFIT

### Participation in pensions schemes

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

The Council participates in three pensions schemes:

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

The LGP schemes are funded defined benefit final salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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

### Transactions Relating to Retirement Benefits

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

	The Council		LPFA		Total	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Cost of Services</b>						
Current service costs	32,829	35,148	397	329	33,226	35,477
Impact of settlements and curtailments	495	209	0	38	495	247
<b>Total Service Cost</b>	<b>33,324</b>	<b>35,357</b>	<b>397</b>	<b>367</b>	<b>33,721</b>	<b>35,724</b>
Interest income on plan assets	(38,328)	(38,519)	(1,670)	(2,218)	(39,998)	(40,737)
Interest cost on defined benefit obligation	60,790	59,382	2,345	2,530	63,135	61,912
<b>Total Net Interest</b>	<b>22,462</b>	<b>20,863</b>	<b>675</b>	<b>312</b>	<b>23,137</b>	<b>21,175</b>
<b>Net Charge to the Comprehensive Income and Expenditure Account</b>	<b>55,786</b>	<b>56,220</b>	<b>1,072</b>	<b>679</b>	<b>56,858</b>	<b>56,899</b>
<b>Remeasurement of the Scheme Liabilities</b>						
Changes in demographic assumptions	(5,312)	0	671	0	(4,641)	0
Changes in financial assumptions	7,868	209,109	(3,579)	7,006	4,289	216,115
Other experience	(32,938)	(13,659)	(826)	72	(33,764)	(13,587)
Return on plan assets excluding amounts included in net interest	(467)	(70,160)	0	(1,384)	(467)	(71,544)
<b>Total remeasurements recognised in Comprehensive Income and Expenditure Statement</b>	<b>(30,849)</b>	<b>125,290</b>	<b>(3,734)</b>	<b>5,694</b>	<b>(34,583)</b>	<b>130,984</b>
<b>Movement in Reserves Statement - General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(55,786)	(56,220)	(1,072)	(679)	(56,858)	(56,899)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>38,357</b>	<b>41,554</b>	<b>793</b>	<b>793</b>	<b>39,150</b>	<b>42,347</b>

In 2014/15 the Council paid £11.133 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2013/14 were £11.139 million and 14.1% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2013/14 and 2014/15 there were no added year payments by the Council.

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial losses of £ 139.066 million (£47.143 million in 2013/14) were included in the Actuarial gains or losses on pension assets and liabilities within Other Comprehensive Income and Expenditure on the face of the Comprehensive Income and Expenditure Account. The cumulative amount of actuarial losses recognised is £519.370 million.

## 41 PENSION SCHEME (continued)

### Assets and Liabilities in Relation to Retirement Benefits

#### Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
1st April	(1,453,831)	(1,503,100)	(67,336)	(61,951)	(1,521,167)	(1,565,051)
In-year adjustment to exclude/(incorporate) THH deficit	(19,959)	(19,172)	0	0	(19,959)	(19,172)
Current service cost	(32,829)	(35,148)	(397)	(329)	(33,226)	(35,477)
Interest cost	(60,790)	(59,382)	(2,345)	(2,530)	(63,135)	(61,912)
Contributions	(8,858)	(9,638)	(79)	(81)	(8,937)	(9,719)
Actuarial gains / (losses)	30,382	(195,450)	3,734	(7,078)	34,116	(202,528)
Benefits paid	43,280	44,494	4,472	3,598	47,752	48,092
Losses on curtailments	(495)	(209)	0	(38)	(495)	(247)
<b>31st March</b>	<b>(1,503,100)</b>	<b>(1,777,605)</b>	<b>(61,951)</b>	<b>(68,409)</b>	<b>(1,565,051)</b>	<b>(1,846,014)</b>

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

	The Council		LPFA		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
1st April	947,684	1,012,951	50,521	56,154	998,205	1,069,105
In-year adjustment to exclude/(incorporate) THH deficit	22,537	11,090	0	0	22,537	11,090
Expected rate of return	38,328	38,519	1,670	2,218	39,998	40,737
Actuarial (losses) / gains	467	70,160	7,563	1,384	8,030	71,544
Members	8,858	9,638	79	81	8,937	9,719
Employer	38,357	41,554	793	793	39,150	42,347
Benefits paid	(43,280)	(44,494)	(4,472)	(3,598)	(47,752)	(48,092)
<b>31st March</b>	<b>1,012,951</b>	<b>1,139,418</b>	<b>56,154</b>	<b>57,032</b>	<b>1,069,105</b>	<b>1,196,450</b>

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

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Present value of liabilities:					
The Council	(1,042,983)	(1,214,784)	(1,453,831)	(1,503,100)	(1,777,605)
LPFA	(54,168)	(59,245)	(67,336)	(61,951)	(68,409)
Fair value of assets					
The Council	740,326	803,077	947,684	1,012,951	1,139,418
LPFA	48,135	48,405	50,521	56,154	57,032
Deficit in the scheme					
The Council	(302,657)	(411,707)	(506,147)	(490,149)	(638,187)
LPFA	(6,033)	(10,840)	(16,815)	(5,797)	(11,377)
<b>Total deficit in the schemes</b>	<b>(308,690)</b>	<b>(422,547)</b>	<b>(522,962)</b>	<b>(495,946)</b>	<b>(649,564)</b>

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 £649.5 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 2016 are £43.246 million to the Council's scheme and £0.824 million to the LPFA scheme (per actuary's reports).

## 41 PENSION SCHEME (continued)

### Basis for estimating assets and liabilities

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

	The Council		LPFA	
	2013/14	2014/15	2013/14	2014/15
Long-term expected rate of return on assets in the scheme <sup>1</sup>	4.3%	4.3%	4.0%	4.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.2 years	22.2 years	21.0 years	21.1 years
Women	24.2 years	24.2 years	24.4 years	24.4 years
Longevity at 65 for future pensioners:				
Men	24.3 years	24.3 years	23.4 years	23.5 years
Women	26.4 years	26.4 years	26.6 years	26.7 years
Rate of inflation			3.4%	3.0%
Rate of increase in salaries	4.1%	3.8%	4.4%	4.0%
Rate of increase in pensions	2.8%	2.4%	2.6%	2.2%
Rate for discounting scheme liabilities	4.3%	3.2%	4.2%	3.0%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%		

<sup>1</sup> The expected rates of return are set equal to the discount rate.

### Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2013/14	2014/15	2013/14	2014/15
Equities	65%	66%	53%	43%
Bonds	15%	17%	0%	0%
Property	10%	10%	3%	3%
Infrastructure	0%	0%	4%	5%
Commodities	0%	0%	1%	1%
Cash	1%	4%	3%	11%
Cash flow matching	0%	0%	6%	8%
Target return portfolio/other	9%	3%	30%	29%

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2014/15 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2015:

	2010/11	2011/12	2012/13	2013/14	2014/15
	%	%	%	%	%
<b>The Council</b>					
Experience gains and (losses) on assets	-8.88	-5.40	6.10	0.05	6.96
Experience gains and (losses) on liabilities	-16.98	5.98	9.89	-2.20	11.94
<b>London Pensions Fund Authority</b>					
Experience gains and (losses) on assets	17.75	-0.01	4.52	13.47	0.00
Experience gains and (losses) on liabilities	-1.58	8.19	12.05	-5.45	10.35

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

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

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

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

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

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

no charges are made to directorates for revaluation losses and revenue expenditure funded from capital under statute (REFCUS) whilst they are charged to services in the Comprehensive Income and Expenditure Statement;

the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;

the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Council's directorates to be recorded in the report to Cabinet in July 2014 is as follows:

DIRECTORATE CI&E 2013/14 COMPARATIVE FIGURES	Directorate of Law, Probity & Governance £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corp & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income	(9,401)	(109,742)	(61,930)	(71,710)	(41,515)	(68,265)	(90,345)	<b>(452,908)</b>
Government grants	(529)	(350,610)	(3,890)	(83)	(282,256)	0	0	<b>(637,368)</b>
<b>TOTAL INCOME</b>	<b>(9,930)</b>	<b>(460,352)</b>	<b>(65,820)</b>	<b>(71,793)</b>	<b>(323,771)</b>	<b>(68,265)</b>	<b>(90,345)</b>	<b>(1,090,276)</b>
Employee expenses	9,281	336,182	40,922	26,295	23,029	17,341	31,926	<b>484,976</b>
Other service expenses	4,113	240,021	47,648	47,148	248,195	2,661	51,223	<b>641,009</b>
Support service recharges	5,932	113,775	56,901	18,053	62,080	0	3,033	<b>259,774</b>
<b>TOTAL EXPENDITURE</b>	<b>19,326</b>	<b>689,978</b>	<b>145,471</b>	<b>91,496</b>	<b>333,304</b>	<b>20,002</b>	<b>86,182</b>	<b>1,385,759</b>
<b>NET EXPENDITURE</b>	<b>9,396</b>	<b>229,626</b>	<b>79,651</b>	<b>19,703</b>	<b>9,533</b>	<b>(48,263)</b>	<b>(4,163)</b>	<b>295,483</b>

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

	£'000
<b>Net expenditure in the Directorate Analysis</b>	295,483
<b>Net expenditure of services and support services not included in the Analysis</b>	0
<b>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis</b>	(23,859)
<b>Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement</b>	899
<b>COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT</b>	<b>272,523</b>

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

SUBJECTIVE ANALYSIS 2013/14 COMPARATIVE FIGURES	Amounts not reported to Management						
	Directorate analysis £'000	Services & support services not in analysis £'000	for Decision Making £'000	Amounts not included in I&E £'000	Cost of services £'000	Corporate amounts £'000	TOTAL £'000
Fees, charges and other service income	(452,908)	117,137	(757)	0	(336,528)	0	(336,528)
Interest and investment income	0	0	0	2,336	2,336	(2,336)	0
Unattached capital receipts	0	0	0	0	0	(692)	(692)
Government grants and contributions - service specific	(637,368)	0	0	0	(637,368)	0	(637,368)
Income from Council tax	0	0	0	0	0	(64,266)	(64,266)
Government grants and contributions - non-service specific	0	0	0	0	0	(172,749)	(172,749)
Distribution from non-domestic rates pool	0	0	0	0	0	(96,259)	(96,259)
Capital Grants and Contributions	0	0	(24,303)	0	(24,303)	(69,663)	(93,966)
HRA Settlement Determination (including premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	0	0	0	0
<b>TOTAL INCOME</b>	<b>(1,090,276)</b>	<b>117,137</b>	<b>(25,060)</b>	<b>2,336</b>	<b>(995,863)</b>	<b>(405,965)</b>	<b>(1,401,828)</b>
Employee expenses	484,976	0	(5,371)	0	479,605	0	479,605
Other service expenses	641,009	0	6,572	7,826	655,407	0	655,407
Support service recharges	259,774	(117,137)	0	0	142,637	0	142,637
Depreciation, amortisation and impairment	0	0	0	0	0	0	0
Interest payments	0	0	0	(7,594)	(7,594)	13,186	5,592
Precepts and levies	0	0	0	(1,639)	(1,639)	1,639	0
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1,807	1,807
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	11,447	11,447
Pensions interest costs and expected return on pensions assets	0	0	0	0	0	23,137	23,137
HRA Settlement Determination (including premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	(31)	(31)	31	0
<b>TOTAL EXPENDITURE</b>	<b>1,385,759</b>	<b>(117,137)</b>	<b>1,201</b>	<b>(1,437)</b>	<b>1,268,386</b>	<b>51,247</b>	<b>1,319,633</b>
<b>SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>295,483</b>	<b>0</b>	<b>(23,859)</b>	<b>899</b>	<b>272,523</b>	<b>(354,718)</b>	<b>(82,195)</b>

## 43 HERITAGE ASSETS

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

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

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

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

	Balance at 31st March 2013 £'000	2013/14 Acquisitions £'000	2013/14 Disposals £'000	2013/14 Revaluation £'000	Balance at 31st March 2014 £'000	2014/15 Acquisitions £'000	2014/15 Disposals £'000	2014/15 Revaluation £'000	Balance at 31st March 2015 £'000
<b>Value of Heritage Assets held by Council</b>									
(a) - Works of art	4,410	0	0	4,500	8,910	0	0	0	8,910
(b) - Civic Regalia	389	0	0	0	389	0	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0	0	0
(d) - Public Art (Middlesex Street)	11	0	0	0	11	0	0	0	11
<b>TOTAL HERITAGE ASSETS</b>	<b>4,810</b>	<b>0</b>	<b>0</b>	<b>4,500</b>	<b>9,310</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,310</b>

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

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

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

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

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

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

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

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



## 44 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 1/4/2013	2013/14 Expenditure	2013/14 Income	Balance at 31/3/2014	2014/15 Expenditure	2014/15 Income	Balance at 31/3/2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings / Client Financial Affairs	954	3,226	3,226	954	5,882	8,571	3,643
(b) Social Services Trust Funds - sundry other	1,630	91	5	1,544	1,792	315	67
(c) Tower Hamlets Further Education Trust	214	806	755	163	1,472	1,410	101
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	39	0	15	54	40	0	14
<b>TOTAL TRUST FUNDS</b>	<b>2,997</b>	<b>4,123</b>	<b>4,001</b>	<b>2,875</b>	<b>9,186</b>	<b>10,296</b>	<b>3,985</b>

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

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

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

## 45 CONTINGENT LIABILITIES

### Housing Transfers to Registered Social Landlords

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

### Legal Challenge Sculpture Ownership

The London Borough of Bromley has challenged the Council's ownership of a sculpture included within note 43, heritage assets. A court decision is awaited as at 31st March 2015. This asset has a book value of £8.5 million. The inclusion or exclusion of this asset will not change the Council's usable reserves at 31st March 2015.

## 46 CONTINGENT ASSETS

The Council has no material contingent assets.

## 47 TOWER HAMLETS HOMES

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

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

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

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

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

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

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

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

	The Council		THH		TOTAL	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Non-current assets - equipment	4,308	3,999	131	101	4,439	4,100
Inventories	1,739	0	0	0	1,739	0
Short-term debtors	128,136	78,238	(334)	(756)	127,802	77,482
Cash and cash equivalents	138,111	202,357	5,366	5,915	143,477	208,272
Short-term creditors	199,552	178,629	1,489	1,159	201,041	179,788
Pensions liability	495,946	649,564	0	0	495,946	649,564
Pensions reserve	(495,946)	(649,564)	0	0	(495,946)	(649,564)
Income and Expenditure Reserve	0	0	3,674	4,101	3,674	4,101

## 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	2013/14 £'000	2014/15 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		20,470	21,061
Supervision and management		31,946	32,098
Rents, rates, taxes and other charges		2,732	2,534
Depreciation of non-current assets	6		
On dwellings		14,234	14,141
On other assets		1,596	1,577
Revaluation losses (and reversals)		(19,676)	(194,063)
Debt management costs		73	73
Movement in the allowance for bad debts		514	239
Sums directed by the Secretary of State that are expenditure in accordance with the Code		1,994	4,044
<b>TOTAL EXPENDITURE</b>		<b>53,883</b>	<b>(118,296)</b>
<b>INCOME</b>			
Gross rental income			
Dwelling rents		66,530	67,966
Non dwelling rents		3,545	3,876
Charges for services and facilities		20,064	17,169
Contributions towards expenditure		135	115
HRA subsidy receivable	11	0	0
Movement in the allowance for bad debts		0	0
<b>TOTAL INCOME</b>		<b>90,274</b>	<b>89,126</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(36,391)</b>	<b>(207,422)</b>
HRA services share of Corporate and Democratic Core		157	157
HRA Share of other amounts included in the whole authority cost of services but not allocated to spe		0	0
<b>NET COST OF HRA SERVICES</b>		<b>(36,234)</b>	<b>(207,265)</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
(Gain)/loss on sale of HRA non-current assets		(4,435)	(1,317)
Unattached capital receipts		(26)	(2,778)
Interest payable and similar charges	12	3,312	3,338
Interest and investment income		(69)	(300)
Pensions interest cost and expected return on pension assets	7	3,481	1,296
Capital grants and contributions receivable		(27,841)	(51,187)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>(61,812)</b>	<b>(258,213)</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

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

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

	Note	2013/14		2014/15	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(15,234)		(17,153)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(61,812)		(258,213)	
Net additional amount required by statute to be credited to the HRA balance for the year		59,893		255,220	
Decrease (Increase) in the HRA Balance			<b>(1,919)</b>		<b>(2,993)</b>
Transfers to or (from) reserves			0		0
<b>Balance on the Statutory HRA Carried Forward</b>			<b>(17,153)</b>		<b>(20,146)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2013/14		2014/15	
	£'000	£'000	£'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(1,994)		(4,044)	
Capital grants and contributions	27,841		51,187	
Gain or loss on sale of HRA non-current assets	4,435		1,317	
Unattached capital receipts	26		2,778	
Reversal of revaluation losses on non-current assets	21,748		194,072	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(79)		(182)	
Net charges made for retirement benefits in accordance with IAS19	(1,167)		1,237	
Transfers from General Fund (as directed by Secretary of State)	<u>0</u>	50,810	<u>0</u>	246,365
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Capital expenditure financed from revenue	9,083		8,855	
Other adjustments (transfer to capital receipts reserve)	<u>0</u>	9,083	<u>0</u>	8,855
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>59,893</b>		<b>255,220</b>

## 2 HOUSING STOCK

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

	2013/14	2014/15
Low-rise flats (1-2 storeys)	265	262
Medium-rise flats (3-5 storeys)	7,282	7,115
High-rise flats (6 or more storeys)	4,089	3,927
Houses and bungalows	789	781
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>12,425</b>	<b>12,085</b>

## 3 NON-CURRENT ASSETS

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

	2013/14 £'000	2014/15 £'000
Dwellings	753,180	973,479
Other Land and Buildings	57,641	57,087
Surplus Assets Not Held for Sale	1,753	1,690
Assets Under Construction	0	2,840
Assets Held for Sale	225	225
<b>TOTAL</b>	<b>812,799</b>	<b>1,035,321</b>

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 1 <sup>st</sup> April 2013	703,285	54,224	1,264	0	525	759,298
Additions, disposals, transfers and revaluations	49,895	3,417	489	0	(300)	53,501
Total value at 31 <sup>st</sup> March 2014	753,180	57,641	1,753	0	225	812,799
Additions, disposals, transfers and revaluations	220,299	(554)	(63)	2,840	0	222,522
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2015</b>	<b>973,479</b>	<b>57,087</b>	<b>1,690</b>	<b>2,840</b>	<b>225</b>	<b>1,035,321</b>

The vacant possession value of dwellings within the Council's HRA was £3,700 million in 2014/15 (£2,878 million in 2013/14). 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

	2013/14 £'000	2014/15 £'000
<b>Balance at 1<sup>st</sup> April</b>	<b>12,364</b>	<b>16,396</b>
Transfer from Capital Adjustment Account - depreciation	15,831	15,718
Financing of capital expenditure	(11,799)	(9,940)
<b>Balance at 31<sup>st</sup> March</b>	<b>16,396</b>	<b>22,174</b>

## 5 CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2013/14			2014/15		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
<b>Expenditure</b>	49,061	1,194	<b>50,255</b>	72,810	4,044	<b>76,854</b>
<b>Sources of finance</b>						
Borrowing	0	0	<b>0</b>	0	144	<b>144</b>
Capital Receipts	4,356	0	<b>4,356</b>	7,620	0	<b>7,620</b>
Capital Grants and Contributions	25,016	0	<b>25,016</b>	48,409	0	<b>48,409</b>
Major Repairs Reserve	10,605	1,194	<b>11,799</b>	6,040	3,900	<b>9,940</b>
Direct Revenue Financing	9,083	0	<b>9,083</b>	10,741	0	<b>10,741</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>49,060</b>	<b>1,194</b>	<b>50,254</b>	<b>72,810</b>	<b>4,044</b>	<b>76,854</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2014/15 from the disposal of non-current assets within the HRA amounted to £34.813 million (£10.277 million in 2013/14) as follows:

	2013/14 £'000	2014/15 £'000
Dwellings	9,247	34,813
Other land and buildings	1,030	0
<b>TOTAL CAPITAL RECEIPTS</b>	<b>10,277</b>	<b>34,813</b>

## 6 DEPRECIATION

The total depreciation charge for the year was £15.718 million (£15.831 million in 2013/14), made up of £14.141 million (£14.234 million in 2013/14) in respect of council houses and £1.577 million (£1.596 million in 2013/14) in respect of other HRA assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance, as this is the amount (based on a 30-year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

	2013/14 £'000	2014/15 £'000
Dwellings	14,234	14,141
Other Land and Buildings	1,596	1,577
<b>TOTAL DEPRECIATION</b>	<b>15,830</b>	<b>15,718</b>

## 7 PENSION COSTS

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

Income and Expenditure Account	The Council		LPFA		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
<b>Net Cost of Services</b>						
Current service costs	2,029	2,170	12	10	2,041	2,180
<b>Net Operating Expenditure</b>						
Interest cost	3,756	3,665	71	76	3,827	3,741
Settlements / Curtailments	31	13	0	1	31	14
Expected return on assets in the scheme	(2,368)	(2,378)	(50)	(67)	(2,418)	(2,445)
Past Service Costs	0	0	0	0	0	0
<b>Net Charge to the Income and Expenditure Account</b>	<b>3,448</b>	<b>3,470</b>	<b>33</b>	<b>20</b>	<b>3,481</b>	<b>3,490</b>
<b>Statement of Movement in the HRA Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS19	(3,448)	(3,470)	(33)	(20)	(3,481)	(3,490)
<b>Employer's contribution to scheme</b>	<b>2,307</b>	<b>2,557</b>	<b>7</b>	<b>7</b>	<b>2,314</b>	<b>2,564</b>

## 8 RENT ARREARS

	2013/14 £'000	2014/15 £'000
Gross rent arrears at 31 <sup>st</sup> March	3,407	3,877
Arrears as % of rent receivable	5.1	5.7
Provision made for bad debts	2,478	2,869

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. No sums were transferred during 2014/15.

## 10 ITEM 8 INTEREST ADJUSTMENT

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



## COLLECTION FUND

	Note	2013/14 £'000	2013/14 £'000	2014/15 £'000	2014/15 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	86,556		92,504	
Transfers from General Fund - Council Tax Benefits			86,556		92,504
Distribution of prior year deficit on Collection Fund			0		0
National Non-Domestic Rates - Transitional Protection	3	352,905 449	353,354	369,804 1,364	371,168
Business Rate Supplement			12,026		12,156
<b>TOTAL INCOME</b>			<b>451,936</b>		<b>475,828</b>
<b>EXPENDITURE</b>					
<b>Council Tax</b>					
Precepts and demands					
London Borough of Tower Hamlets		63,342		66,395	
Greater London Authority		21,674	85,016	22,419	88,814
Increase in provision for Council Tax bad debts	5		292		2,111
Distribution of prior year Council Tax surplus on Collection Fund			2,212		0
National Non-Domestic Rates					
Interest		0		10	
Transitional Protection		1,264		0	
Cost of collection allowance		944	2,208	946	956
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets		96,361		102,429	
DCLG		160,602		170,714	
Greater London Authority		64,241	321,204	68,286	341,429
Distribution of Prior Year Surplus on NNDR Collection Fund					
London Borough of Tower Hamlets		0		2,085	
DCLG		0		3,474	
Greater London Authority		0	0	1,390	6,949
Business Rate Supplement	4				
Payment to Greater London Authority		12,000		12,065	
Cost of collection allowance		26	12,026	22	12,087
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		835		736	
DCLG		1,392		1,226	
Greater London Authority		557	2,784	491	2,453
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		8,250		1,800	
DCLG		13,750		3,000	
Greater London Authority		5,500	27,500	1,200	6,000
<b>TOTAL EXPENDITURE</b>			<b>453,242</b>		<b>460,799</b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>			<b>(1,306)</b>		<b>15,029</b>
<b>COLLECTION FUND BALANCE</b>					
Balance at the beginning of the year			2,139		833
(Deficit)/Surplus for the year			(1,306)		15,029
<b>BALANCE AT END OF YEAR</b>			<b>833</b>		<b>15,862</b>

# NOTES TO THE COLLECTION FUND

## 1. GENERAL

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

The Council Tax surplus on the Fund (£2.754m) is attributable to the Council (£2.059m) and the Greater London Authority (£0.695m). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a surplus of £13.039m in 2014/15 (deficit of £0.342m during 2013/14). Of this 30%, £3.911m (30%) is attributable to the Council, £2.608m (20%) to the GLA and £6.520m (50%) to the CLG.

## 2. COUNCIL TAX

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

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

When the 2014/15 Council Tax was set the position was as follows:

Band	2013/14 No. of Properties	2013/14 Council Tax Base	2014/15 No. of Properties	2014/15 Council Tax Base
A	2,356	752	3,005	628
B	25,738	16,271	25,897	16,634
C	35,703	27,674	36,342	28,666
D	22,837	20,085	23,643	21,032
E	17,094	18,485	17,631	19,228
F	7,969	10,365	8,108	10,627
G	3,129	4,704	3,179	4,817
H	458	1,226	469	858
<b>Total</b>	<b>115,284</b>	<b>99,562</b>	<b>118,274</b>	<b>102,490</b>

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:

	2013/14		2014/15		Increase / (Decrease)	
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	£	%
Tower Hamlets	885.52	63,342	885.52	66,395	0	0
Greater London Authority	303.00	21,674	299.00	22,419	-4.00	-1.32%
<b>TOTAL</b>	<b>1,188.52</b>	<b>85,016</b>	<b>1,184.52</b>	<b>88,814</b>	<b>-4.00</b>	<b>-0.34%</b>

### 3. NATIONAL NON-DOMESTIC RATES (NNDR)

NNDR, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1st April 2013, authorities keep a proportion of the business rates paid locally. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2014/15 was 48.2p in the £ (47.1p in the £ in 2013/14). The total rateable value in the borough as at 31 March 2015 was £827.6 million (£815.6 million at 31 March 2014). A periodic revaluation of business properties took place in April 2010. At March 2015 there were over 5,400 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. An estimated provision has been created to contribute towards recent valuation appeals that were upheld.

### 4. CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) in April 2010 to finance £4.1 billion of the costs of the £15.9 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2014/15 financial year are set out below.

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

The Crossrail BRS multiplier for 2014/15 is 2p per pound of rateable value. Reliefs for the Crossrail BRS will apply on the same basis and at the same percentage rate as for your National Non Domestic Rates (NNDR) bill, although no transitional relief is provided for the BRS.

[www.london.gov.uk/crossrail-brs](http://www.london.gov.uk/crossrail-brs)

2013/14 £'000		2014/15 £'000
13,431	Non Domestic Rates Due	12,467
	Less Allowances and Other Adjustments	
632	Mandatory & Discretionary Relief	376
772	Provision for Bad Debts	0
26	Cost of Collection	26
<b>12,001</b>	<b>Collectable from Business Rate Supplement Payers</b>	<b>12,065</b>

### 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 2014/15 the Council Tax bad debt provision was increased by £0.045 million (increased by £0.292 million in 2013/14) and £2.066 million of irrecoverable debts were written off (£1.949 million in 2013/14).

## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2013/14 £'000	2014/15 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	42,401	46,135
From members	3	9,982	11,031
<b>Transfers in</b>			
Transfers in from other pension funds	4	3,527	1,719
<b>Benefits</b>			
Pensions	4	(35,681)	(37,265)
Lump sum benefits	4	(8,178)	(8,055)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(3)	(125)
State scheme premiums		(3)	(132)
Transfers out to other pension funds		(2,778)	(7,263)
<b>Administrative expenses</b>	13	(1,087)	(803)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>8,180</b>	<b>5,242</b>
<b>RETURN ON INVESTMENTS</b>			
		2013/14 £'000	2014/15 £'000
Investment income	11	11,540	16,581
Taxes on Income		(410)	(329)
Change in market value of investments			
Realised		22,195	23,292
Unrealised	10	46,918	82,933
Investment management expenses	13	(2,364)	(2,450)
<b>NET RETURN ON INVESTMENTS</b>		<b>77,879</b>	<b>120,027</b>
Net increase in the Fund during the year		86,059	125,269
Add: Opening net assets of the scheme		926,871	1,012,930
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>1,012,930</b>	<b>1,138,199</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2014 £'000	2015 £'000
<b>Investments Assets</b>			
Equities		230,998	244,335
Pooled Investment Vehicles			
Unit Trusts		566,768	628,744
Property		102,073	116,945
Other		91,918	101,303
Derivative Contracts			
Forward Foreign Exchange Contracts		238	0
		991,995	1,091,327
Cash deposits	6	5,292	5,414
Other investment balances	5	817	978
<b>Investments Liabilities</b>			
Forward Foreign Exchange Contracts	10	(647)	0
Other investment balances	5	0	(223)
<b>Current Assets</b>	5	16,954	42,154
<b>Current Liabilities</b>	5	(1,481)	(1,451)
<b>TOTAL NET ASSETS</b>		<b>1,012,930</b>	<b>1,138,199</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## 1. INTRODUCTION

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

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

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

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

## 2. ACCOUNTING POLICIES

### (a) Accounts

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

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

### (b) Basis of preparation

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

- (c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2015. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

#### Fund Account - Revenue Recognition

##### Contribution Income

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

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

### (d) Investments

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

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2015.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2015.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2015.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2015. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.
- (vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

### (e) Investment Income

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

# NOTES TO THE PENSION FUND ACCOUNTS

## 2 ACCOUNTING POLICIES Cont...

### Fund account - expense items

#### (f) Management Expenses

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

##### Administrative Expenses

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

##### Oversight & Governance Costs

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

##### Investment Management Expenses

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

#### (g) Benefits Payable

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

##### **Net assets statement**

##### **Financial Assets**

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

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

##### (i) Market-quoted investments

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

##### (ii) Fixed interest securities

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

##### (iii) Unquoted investments

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

## 2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

There is just one item in the authority's net asset statement as at 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year.

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

The assumptions interact in complex ways. During 2014/15, the Council's actuaries advised that the net pensions liability had increased by £139.9 million to £628.5 million as a result of falling real bond yields.

### 3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2015 range from 15.9% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £18.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2013/14 £'000	2014/15 £'000
Members normal contributions		
Council	8,849	9,731
Admitted bodies	222	221
Scheduled body	911	1,079
<b>Total members</b>	<b>9,982</b>	<b>11,031</b>
Employers		
Normal contributions		
Council	21,210	22,356
Admitted bodies	1,064	1,015
Scheduled bodies	2,505	3,484
Deficit funding contributions		
Council	16,500	18,500
Other contributions		
Council	1,122	780
<b>Total employers</b>	<b>42,401</b>	<b>46,135</b>
<b>Total contributions</b>	<b>52,383</b>	<b>57,166</b>

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

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2014/15 employees made contributions of £60,530.28 (£26,465.94 in 2013/14) into the AVC Scheme operated by Aviva (Norwich Union) and £9,455.96 to Equitable Life (£6,444.33 in 2013/14). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

### 4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation. In April 2011, the method of indexation changed from the retail prices index to the consumer prices index.

Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2013/14				2014/15			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(33,852)	(968)	(861)	(35,681)	(35,259)	(1,126)	(880)	(37,265)
Lump sum retirement benefits	(6,817)	(31)	(288)	(7,136)	(6,027)	(307)	(379)	(6,713)
Lump sum death benefits	(990)	0	(52)	(1,042)	(1,232)	(42)	(68)	(1,342)
<b>Total Pensions and Benefits</b>	<b>(41,659)</b>	<b>(999)</b>	<b>(1,201)</b>	<b>(43,859)</b>	<b>(42,518)</b>	<b>(1,475)</b>	<b>(1,327)</b>	<b>(45,320)</b>
Transfer Values Received	3,527	0	0	3,527	1,719	0	0	1,719
Transfer Values Paid	(2,778)	0	0	(2,778)	(7,263)	0	0	(7,263)
<b>Total</b>	<b>(40,910)</b>	<b>(999)</b>	<b>(1,201)</b>	<b>(43,110)</b>	<b>(48,062)</b>	<b>(1,475)</b>	<b>(1,327)</b>	<b>(50,864)</b>

## 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.

	2013/14 £'000	2014/15 £'000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	27	8
Dividends receivable	514	583
Tax recoverable	276	387
	<u>817</u>	<u>978</u>
<b>Current Assets</b>		
Contributions due from admitted bodies	86	101
London Borough of Tower Hamlets Pension Fund	62	230
	<u>148</u>	<u>331</u>
<b>Total Debtors</b>	<b>965</b>	<b>1,309</b>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	0	223
<b>Current Liabilities</b>		
Unpaid benefits	1,171	1,138
Administrative expenses	263	313
London Borough of Tower Hamlets Pension Fund	47	0
	<u>1,481</u>	<u>1,451</u>
<b>Total Creditors</b>	<b>1,481</b>	<b>1,674</b>
<b>Net Debtors</b>	<b>(516)</b>	<b>(365)</b>

## 6. CASH

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

	2013/14 £'000	2014/15 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	3,803	2,930
Schroders: Multi Asset Portfolio	14	15
Schroders: Property Portfolio	1,465	2,458
London Borough of Tower Hamlets Pension Fund	16,806	41,823
<b>TOTAL CASH</b>	<b>22,098</b>	<b>47,236</b>

## 7. TAXATION

### UK Income Tax

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

### Value Added Tax

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

### Overseas Tax

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

## 8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2014.



## 9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2015

	2014	2015
<b>London Borough of Tower Hamlets</b>		
Active Members	6,158	6,249
Pensioners	4,043	4,131
Deferred Pensioners	6,332	6,434
Dependants	959	993
	<b>17,492</b>	<b>17,807</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	634	611
Pensioners	203	221
Deferred Pensioners	332	352
Dependants	16	18
	<b>1,185</b>	<b>1,202</b>

The following bodies have been admitted into the Fund:

### Admitted Bodies

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

### Scheduled Bodies

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

## 10. INVESTMENTS

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

### Manager

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

### Mandate

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

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

	2014		2015	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	46.9	4.7	50.7	4.6
Baillie Gifford Life Ltd - Equities	183.1	18.4	217.7	19.8
GMO UK Ltd.	261.3	26.2	274.3	25.0
Investec Asset Management	97.5	9.8	99.6	9.1
Legal & General Investment Management - Equities	211.6	21.2	225.7	20.1
Legal & General Investment Management	49.0	4.9	59.4	5.9
Ruffer LLP	45.0	4.5	50.6	4.6
Schroders Asset Management Property Fund	103.1	10.3	119.5	10.9

## 10. INVESTMENTS (continued)

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

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

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
<b>UK Investment Assets</b>					
Quoted	734,671	14,833	(9,762)	80,948	820,690
<b>Overseas Investment Assets</b>					
Quoted	257,087	196,511	(184,536)	1,575	270,637
Unquoted	(409)	0	0	409	0
	<b>991,349</b>	<b>211,344</b>	<b>(194,298)</b>	<b>82,932</b>	<b>1,091,327</b>

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2013/14 £'000	2014/15 £'000
Dividends from overseas equities	7,886	10,617
Net rents from properties	3,427	5,234
Interest on cash deposits	58	170
Foreign tax	169	231
<b>TOTAL</b>	<b>11,540</b>	<b>16,252</b>

## 12 ACTUARIAL POSITION

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

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

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

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

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

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

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

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

## 12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2013/14 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 2016 and the recommendations implemented from 1st April 2017.

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

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

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

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

### Actuarial Value of Promised Retirement Benefits

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

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.783 million (£1,503 million in 2013/14).

## 13. MANAGEMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Administration costs	906	714
Investment management expenses	2,364	2,450
Oversight & governance	181	90
	<b>3,451</b>	<b>3,254</b>

## 14. INVESTMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Management fees	2,278	2,357
Custody fees	86	93
	<b>2,364</b>	<b>2,450</b>

## 15. RISK MANAGEMENT

### Nature and extent of risks arising from financial instruments

#### Risk and Risk Management

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

#### Credit risk

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

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

#### Liquidity risk

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

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

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

#### Market risk

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

#### Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2014 and 31st March 2015 is set out below.

Interest Rate Risk	As At 31st March 2014	As At 31st March 2015
Asset Type	£'000	£'000
Cash and cash equivalents	5,292	5,414
Cash balances	16,954	42,154
Fixed interest securities	146,517	159,079
<b>Total</b>	<b>168,763</b>	<b>206,647</b>

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

#### Interest rate risk - sensitivity analysis

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

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	(1,465)	1,465
<b>Total change in net assets available</b>	<b>168,763</b>	<b>(1,242)</b>	<b>1,242</b>

## 15. RISK MANAGEMENT (continued)

### Currency risk

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

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.3%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2014 £'000	As At 31st March 2015 £'000
Overseas quoted securities	238,710	245,548
Overseas unit trusts	5,949	3,808
Cash	13	14
<b>Total overseas assets</b>	<b>244,672</b>	<b>249,370</b>

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

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2014 £'000	Change in year in net assets available to pay benefits	
		+5.8%	-5.8%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	238,710	252,555	224,865
Overseas unit trusts	5,949	6,294	5,604
Cash	13	14	12
<b>Total change in net assets available</b>	<b>244,672</b>	<b>258,863</b>	<b>230,481</b>

The percentage change in the year of 6.3% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

### Other Price risk

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

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

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

### Other price risk - sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
<b>Asset Type</b>	
UK equities	10.1%
Global equity	10.0%
Total fixed interest	3.4%
Alternatives	4.1%
Cash	0.0%
Pooled Property Investments	2.4%

## 15. RISK MANAGEMENT (continued)

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

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

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

Asset Type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	22,098	0.0%	22,098	22,098
<b>Investment portfolio assets</b>				
UK equities	211,541	12.1%	237,074	186,008
Global equity	440,153	11.9%	492,311	387,995
Total fixed interest	146,517	2.8%	150,678	142,356
Alternatives	91,919	4.4%	95,963	87,875
Pooled Property Investments	101,628	1.9%	103,518	99,738
Net derivative assets	(409)	0.0%	(409)	(409)
Investment income due	817	0.0%	817	817
Amounts receivable for sales	0		0	0
Amounts payable for purchases	0	0.0%	0	0
<b>Total assets available to pay benefits</b>	<b>1,014,264</b>		<b>1,102,050</b>	<b>926,478</b>

### Refinancing risk

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

## 16. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term		Current	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
<b>Financial Assets</b>				
Loans and receivables	0	0	17,709	42,902
Financial assets at fair value through profit or loss	991,757	1,091,327	5,592	5,593
<b>Total Financial Assets</b>	<b>991,757</b>	<b>1,091,327</b>	<b>23,301</b>	<b>48,495</b>
<b>Financial Liabilities</b>				
Payables	0	0	(1,481)	(1,674)
Financial liabilities at fair value through profit or loss	0	0	(647)	0
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(2,128)</b>	<b>(1,674)</b>

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

### Fair Value Hierarchy

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

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

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

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

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2015.

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

During the year ended 31st March 2015 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2014 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	230,998	0	0	230,998
Pooled Funds				
Unit Trusts	566,768	0	0	566,768
Property Unit Trust	102,073	0	0	102,073
Other	91,918	0	0	91,918
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(409)	0	(409)
Cash and bank Deposits	22,160	0	0	22,160
Current Assets	903	0	0	903
Current Liabilities	(1,481)	0	0	(1,481)
	<b>1,013,339</b>	<b>(409)</b>	<b>0</b>	<b>1,012,930</b>



## 16. FINANCIAL INSTRUMENTS DISCLOSURES

### Net gains and losses on financial instruments

	Long-term	
	2013/14 £'000	2014/15 £'000
<b>Financial Assets</b>		
Loans and receivables		180
Financial assets at fair value through profit or loss	69,645	106,225
<b>Total Financial Assets</b>	<b>69,645</b>	<b>106,405</b>
<b>Financial Liabilities</b>		
Payables		
Financial liabilities at fair value through profit or loss	(532)	409
<b>Total Financial Liabilities</b>	<b>(532)</b>	<b>409</b>

## 17. RELATED PARTY TRANSACTIONS

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

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

The Council incurred costs of £669k (£680k 2013/14) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £18.5m (£16.5m 2013/14) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2015, the Fund held an average investment of £24.8m (£6.0m 31st March 2014), earning interest of £180k (£62k in 2013/14).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.5m (£2.3m 2013/14) from this company.

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

	2013/14 £'000	2014/15 £'000
<b>Fund Administration Expenses</b>		
Payroll / HR Support	374	370
Corporate Finance	306	299
	<b>680</b>	<b>669</b>

### Key Management Personnel

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

Chief Accountant

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

	2013/14 £'000	2014/15 £'000
Short term benefits	18	20
Long term/post retirement benefits	4	4

### Governance

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

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

## 18. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. The liability as at 31st March 2015 was £9.654m (£1.752m 2013/14).

## 19. CONTINGENT ASSETS

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

## 20. IMPAIRMENT LOSSES

During 2014/15 impairment losses were nil (impairment losses in 2013/14 were also nil).

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

To Follow

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's responsibilities

The Council is required:

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

The Statement of Accounts for 2014/15 will be considered for approval by the Council's Audit Committee on 24th September 2015.

Chair of Committee

### The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2014/15 presents fairly the financial position of the Council at 31<sup>st</sup> March 2015 and its income and expenditure for the year.



Chris Holme  
Acting Corporate Director of Resources  
30<sup>th</sup> June 2015

## **Annual Governance Statement**

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

## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Comprehensive Income and Expenditure Statement** - A statement showing the expenditure and income of the Council's services during the year, and demonstrating how costs have been financed from general Government grants and income from local taxpayers.

**Contingent Liability** - Where possible "one-off" future liabilities or losses are identified, but the level of uncertainty is such that the establishment of a provision is not appropriate.

**Corporate and Democratic Core (CDC)** - This includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities. Under the terms of SeRCOP, all support costs are allocated to services except for CDC and Non Distributed Costs.

**Consumer Price Index (CPI)** – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

**Creditors** - Amount of money owed by the Council for goods and services received. Also referred to as, Payables.

**Current Assets** - Any asset expected to last or be in use for less than one year is considered a current asset. Examples are stock, cash and debtors.

**Current Liability** - An amount which will become payable or could be called in within the next accounting period. Examples are creditors and Short Term Borrowing.

**Debtors** - Amount of money owed to the Council by individuals, and organisations. Also referred to as, Receivables.

**Dedicated Schools Grant** – Grant monies provided by the Department of Education ring-fenced to schools budgets. This is a ring-fenced grant.

**Deferred Capital Receipts** - Income that is received in instalments over agreed periods of time. They arise from mortgages on sales of Council houses and repayments from loans.

**Deferred Income – Receipt in Advance** – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

**Deferred Liabilities** – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

**Defined Benefit Scheme** - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

**Depreciation** - The measure of the wearing out, consumption or other reduction in the useful economic life of PPE, whether arising from use, passage of time or obsolescence through technological or other changes.

**Direct Revenue Funding (DRF)** – The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay (RCCO).

**Earmarked Reserves** - Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

**Fair Value** - It is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

**Fees and Charges** – Income receivable as payment for goods or services provided. These charges are reviewed annually as part of the annual budget process.

**Finance Lease** - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee.

**Financial Instrument** - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Financial Instrument Adjustment Account** - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWL) debt.

**General Fund (GF)** - The Council's main revenue account from which the cost of providing most of the Council's services is met.

**Greater London Authority (GLA)** – A strategic Local Authority with a capital-wide role.

**Gross Spending** – the total cost of providing services before any income such as government grants, fees and charges are deducted.

**Group Accounts** – Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts. If the council controls an entity, it is a subsidiary (as in the case of Tower Hamlets Homes for the Council).

**Heritage asset** – An asset with historical, artistic, scientific, technological, geo-physical and/or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.



**Historic Cost** – The actual cost of an asset in terms of past consideration as opposed to current value.

**Housing Revenue Account (HRA)** - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

**Impairment** – A reduction in the valuation of PPE caused either by a change in the market price of the asset or damage/deterioration of the asset in excess of depreciation.

**Infrastructure Assets** – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

**Intangible Assets** – Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council i.e. purchased software licences.

**Interest Rate Risk** – The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

**International Financial Reporting Standards (IFRS)** – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

**Inventories** – The values of, stocks held and work in progress that have not been completed.

**Investment Properties** – Those properties that are held solely to earn rentals and/or for capital appreciation, rather than for the delivery of services.

**Liability** – A liability is where the Council owes payment to an individual or another organisation.

**Levy** – Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

**Long-Term Assets** – Assets that yield benefit to the Council and the services it provides for a period of more than one year.

**Long-Term Liability** – An amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

**Major Repairs Reserve** – Represents the funds available to meet capital investment in council housing

**Materiality** - the level (usually expressed in financial terms but not usually expressly stated) below which accountants, auditors, or their clients or employers, consider risks or problems not to be significant.

**Medium Term Financial Plan (MTFP)** – The Council's strategic plan surrounding its finances for the next 3 years.

**Minimum Revenue Provision (MRP)** – The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

**Movement in Reserves Statement** – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves.

**National Non-Domestic Rates (NNDR) Pool** - Non-Domestic Rates are collected by the Council. From 1<sup>st</sup> April 2013 the Council keeps 30%, gives the GLA 20% and the other 50% is passed over to the DCLG.

**Net Book Value** – The amount at which PPE is included in the balance sheet after depreciation has been provided for.

**Net Realisable Value** – The open market value of the asset less the expenses to be incurred in realising the asset.

**Non Current Assets Held for Sale** – Items of PPE whose carrying amount is to be recovered principally through a sale rather than continued use by the Council.

**Operating Lease** – A lease other than a finance lease - a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

**Outturn** – The actual level of expenditure and income for the year.

**Precept** – The charge made by the Greater London Authority (the precepting authority) on the Council to finance its net expenditure.

**Private Finance Initiative (PFI)** – Instead of providing and owning the assets needed for their services, public authorities arrange for private sector bodies (usually formed from consortia) to provide and own them. These other bodies' then make the assets available under operating leases to enable public authorities to deliver the services required.

**Projected Unit Method** – Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date.

**Property, Plant, and Equipment (PPE)** – The land and building assets under the council's control or ownership.

Assets under the control or owned by the Council that have a physical existence and are expected to be used for a period exceeding one year form PPE. Important components of PPE include land and land improvements, buildings, plant and machinery, vehicles and equipment where material.

**Provisions** – Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

**Public Works Loans Board (PWLB)** – Central Government agency which funds much of local government borrowing.

**Registered Social Landlord** – A not-for-profit organisation which owns and manages social housing.

**Reserves** – Amounts set aside, which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

**Retail Price Index (RPI)** – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and council tax in the basket of goods not included in the CPI.

**Revaluation Reserve** – Represents the increase in value of the Council's land and building assets from 1st April 2007.

**Revenue Expenditure** – The day-to-day expenditure of the Council - salaries, goods and services and capital financing charges.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)** – Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets, that has been charged as expenditure to the relevant service revenue account in the year

**Revenue Support Grant** – General grant paid by the Government to local authorities.

**Right To Buy (RTB)** - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

**Ring-Fenced Grant** – A grant that can only be spent on a specific purpose, such as the Dedicated Schools Grant.

**Service Level Agreements** - agreements between operational units, which state the price and specifications of the support service by one to another.

**Service Reporting Code of Practice (SeRCOP)** – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level.

**Soft Loan** – Loans given at less than market/commercial rates to community or not-for-profit organisations.

**Supplementary Business Rates (SBR/BRS)** – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

**Support Services** – Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

**Surplus Assets** – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

**Unusable Reserves** – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

**Usable Reserves** – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves.


**Value for money (VFM)** – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

## **Abbreviations used in Accounts**

<b>AGS</b>	Annual Governance Statement
<b>ALMO</b>	Arm's Length Management Organisation (Tower Hamlets Homes)
<b>BSF</b>	Building Schools for the Future
<b>CAA</b>	Capital Adjustment Account
<b>CDC</b>	Corporate and Democratic Core
<b>CFR</b>	Capital Financing Requirement
<b>CIES</b>	Comprehensive Income and Expenditure Statement
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CPI</b>	Consumer Price Index
<b>CRR</b>	Capital Receipts Reserve
<b>DCLG</b>	Department of Communities and Local Government
<b>DEFRA</b>	– Department for Environment, Food and Rural Affairs
<b>DfE</b>	Department for Education
<b>DRF</b>	Direct Revenue Funding
<b>DSG</b>	Dedicated Schools Grant
<b>DWP</b>	Department for Work and Pensions
<b>EIR</b>	Effective Interest Rate
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GF</b>	General Fund
<b>GLA</b>	Greater London Authority
<b>HRA</b>	Housing Revenue Account
<b>IAS</b>	International Accounting Standard
<b>IFRS</b>	International Financial Reporting Standards
<b>LABGI</b>	Local Authority Business Growth Incentive
<b>LAML</b>	London Authorities Mutual Limited
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee
<b>LATS</b>	Landfill Allowance Trading Scheme
<b>LBTH</b>	London Borough of Tower Hamlets
<b>LGPS</b>	Local Government Pension Scheme
<b>LOBO</b>	Lender's Option – Borrower's option
<b>LPFA</b>	London Pensions Fund Authority
<b>MRA</b>	Major Repairs Allowance
<b>MRP</b>	Minimum Revenue Provision
<b>MTFP</b>	Medium Term Financial Plan
<b>NBV</b>	Net Book Value
<b>NCS</b>	Net Cost of Services
<b>NDC</b>	Non Distributed Costs
<b>(N)NDR</b>	(National) Non-Domestic Rates
<b>NPV</b>	Net Present Value
<b>NRV</b>	Net Realisable Value

**PBC** Prepared By Client  
**PCT** Primary Care Trust  
**PFI** Private Finance Initiative  
**PPA** Prior Period Adjustment  
**PPE** Property, Plant and Equipment  
**PWLB** Public Works Loans Board  
**RCCO** Revenue Contributions to Capital Outlay  
**REFCUS** Revenue Expenditure Funded by Capital Under Statute  
**RICS** Royal Institute of Chartered Surveyors  
**RPI** Retail Price Index  
**RR** Revaluation reserve  
**RSG** Revenue Support Grant  
**RTB** Right To Buy  
**SBR** Supplementary Business Rates  
**SDPS** Surplus or Deficit on the Provision of Services  
**SeRCOP** Service Reporting Code of Practice  
**SLAs** Service Level Agreements  
**SORP** Statement of Recommended Practice (now Code of Practice on Local Authority Accounting)  
**TH** Tower Hamlets  
**THH** Tower Hamlets Homes  
**VFM** Value For Money  
**WDA** Waste Disposal Authority  
**WGA** Whole of Government Accounts

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Non-Executive Report of the:  <b>Audit Committee</b>  <b>21 July 2015</b>	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Chris Holme, Acting Corporate Director of Resources	<b>Classification:</b>  Unrestricted
<b>Treasury Management Quarter 3 Report – Year to 31 December 2014</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment & Treasury Manager
<b>Wards affected</b>	All wards

### Summary

This report advises the Committee of the Council’s borrowing and investment activities during 2014/15 to 31 December 2014. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2014/15 were approved by the Council on 26 February 2014 as required by the Local Government Act 2003.

The report also provides information on the economic conditions prevailing in the third quarter of 2014/15. The report also provides a summary of the prudential indicators, treasury management indicators and a summary of the credit criteria adopted by the Acting Corporate Director of Resources for the reporting year and the projected investment returns.

The Council earned an average return of 0.73% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.35%.

No long-term or short-term borrowing has been raised since the commencement of this financial year 2014/15 to reporting period.

Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits and the prudential indicators set out in the Council’s Treasury Management Strategy statement. The outturn report of the Treasury Management Strategy will be presented to the Council at its meeting of the 16 September 2015.

### Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 31 December 2014
- note the Council’s outstanding investments as set out in Appendix 1. The balance outstanding as at 31 December 2014 was £297.6m which includes £35.8m, pension fund cash awaiting investment.

## **1. REASONS FOR THE DECISIONS**

- 1.1 This report updates on both the borrowing and investment decisions made by the Director of Resources under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance measured against the benchmark 7 day LIBID rate.
- 1.2 Treasury management is defined as “the management of the council’s investments and cash flows; its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.3 Legislation requires that regular reports be submitted to Council/Committee detailing the council’s treasury management activities.
- 1.4 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.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.
- 2.2 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.
- 2.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

## **3. DETAILS OF REPORT**

- 3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 3.2 These reports are in addition to mid-year and annual treasury management outturn reports that should be presented to the Council midway through the



financial year and at year end respectively.

### **3.3 TREASURY MANAGEMENT STRATEGY 2014/15**

- 3.3.1 The Council's Treasury Management Strategy was approved on 26 February 2014 by Full Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2014/15 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt.
- 3.3.2 The Council complied with the strategy from the onset to reporting period, 31 December 2014. And all investments were made to counterparties within the Council's approved lending list.
- 3.3.3 The Pension Fund cash awaiting investment has been invested in accordance with Council's Treasury Management Strategy agreed by Full council on the 26 February 2014, under the delegated authority of the Corporate Director of Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

### **3.4 ECONOMIC COMMENTARY**

- 3.4.1 After strong UK GDP growth in 2013 at an annual rate 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected.
- 3.4.2 The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

3.4.3 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

3.4.4 The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently predicted that the first increase in the Fed. rate will occur by the middle of 2015.

3.4.5 The Eurozone is facing an increasing threat from deflation. In November the inflation rate fell to 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June and September to loosen monetary policy in order to promote growth and is currently expected to embark on quantitative easing early in 2015 to counter this threat of deflation and to stimulate growth.

### 3.5 INTEREST RATE FORECAST

3.5.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
5yr PWLB rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%

3.5.2 Capita Asset Services undertook a review of its interest rate forecasts on 5 January 2015 after a proliferation of fears in financial markets around the plunge in the price of oil had caused a flight from equities into bonds and from exposure to the debt and equities of emerging market oil producing countries to safe havens in western countries. These flows were compounded by further fears that Greece could be heading towards an exit from the Euro after the general election on January 25 and financial flows generated by the

increasing likelihood that the ECB would soon be starting on full blown quantitative easing (QE) purchase of Eurozone government debt. In addition, there has been a sharp increase in confidence that the US will start increasing the Fed. rate by the middle of 2015 due to the stunning surge in GDP growth in quarters 2 and 3 of 2014. This indicated that the US is now headed towards making a full recovery from the financial crisis of 2008.

- 3.5.3 The result of the combination of the above factors is that we have seen bond yields plunging to phenomenally low levels, especially in long term yields. These falls are unsustainable in the longer term but just how quickly these falls will unwind is hard to predict. In addition, positive or negative developments on the world political scene could have a major impact in either keeping yields low or prompting them to recover back up again. We also have a UK general election coming up in May 2015; it is very hard to predict what its likely result will be and the consequent impact on the UK economy, and how financial markets will react to those developments.
- 3.5.4 This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 2 of 2015 to quarter 4 of 2015 as a result of the sharp fall in inflation due to the fall in the price of oil and the cooling of the rate of GDP growth in the UK, albeit, that growth will remain strong by UK standards, but not as strong as was previously forecast. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only currently increasing marginally as a result of wage inflation now running slightly above the depressed rate of CPI inflation, though some consumers will not have seen that benefit come through for them. In addition, whatever party or coalition wins power in the next general election, will be faced with having to implement further major cuts in expenditure and / or increases in taxation in order to eradicate the annual public sector net borrowing deficit.

### **3.6 INVESTMENT STRATEGY**

- 3.6.1 The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, it outlines the Council's investment priorities as being:
- Security of capital;
  - Liquidity; and
  - Yield.
- 3.6.2 The Council aims to achieve the optimum return (yield) on investments equivalent with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions.
- 3.6.3 The approved limits within the Annual Investment Strategy were not breached

during the period ended 31st December 2014.

### Investment performance for financial year to date @ 31st December 2014

Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
<b>Full Year 2013/2014</b>	0.35%	0.82%	0.47%
<b>Quarter 1</b>	0.34%	0.69%	0.35%
<b>Quarter 2</b>	0.35%	0.73%	0.38%
<b>Quarter 3</b>	0.35%	0.77%	0.42%
<b>Year to Period</b>	0.35%	0.73%	0.38%

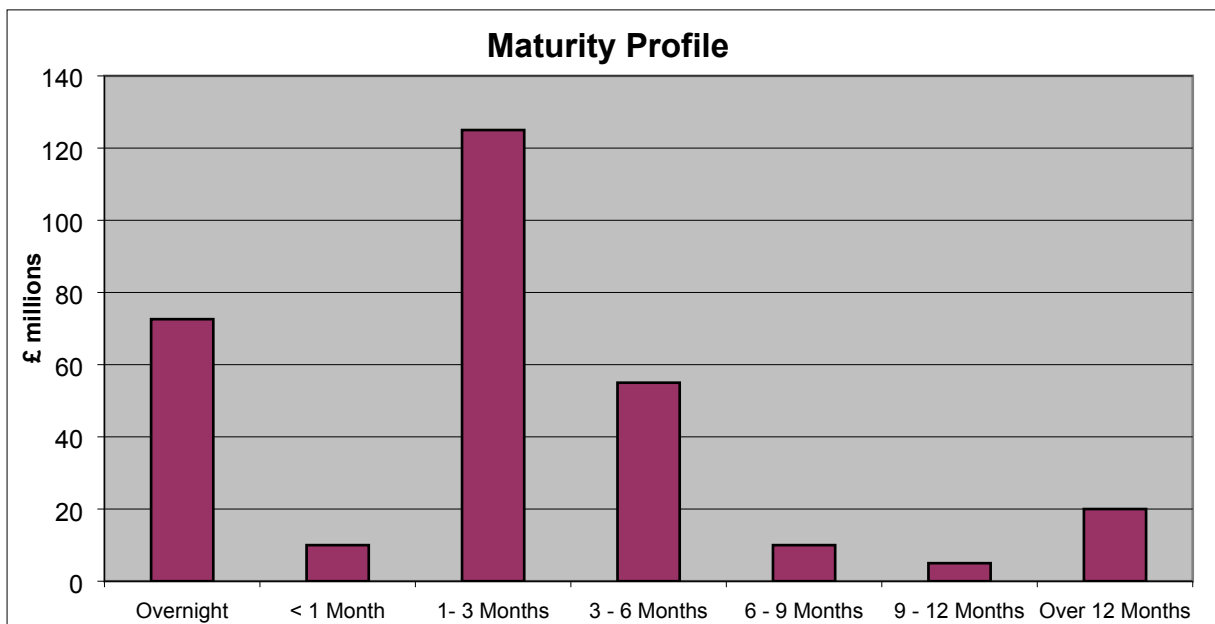
3.6.4 As illustrated above, the Council outperformed the benchmark by **38bps** for financial year to date. The Council's budgeted investment return for 2014/15 is **£1.6m**, and performance for the year to date is **£0.4m** above budget.

3.6.5 Investment rates available in the market have been broadly stable during the period and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. The average level of funds available for investment purposes during the reporting period was **£324.2m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

### 3.7 Investments Outstanding & Maturity Structure

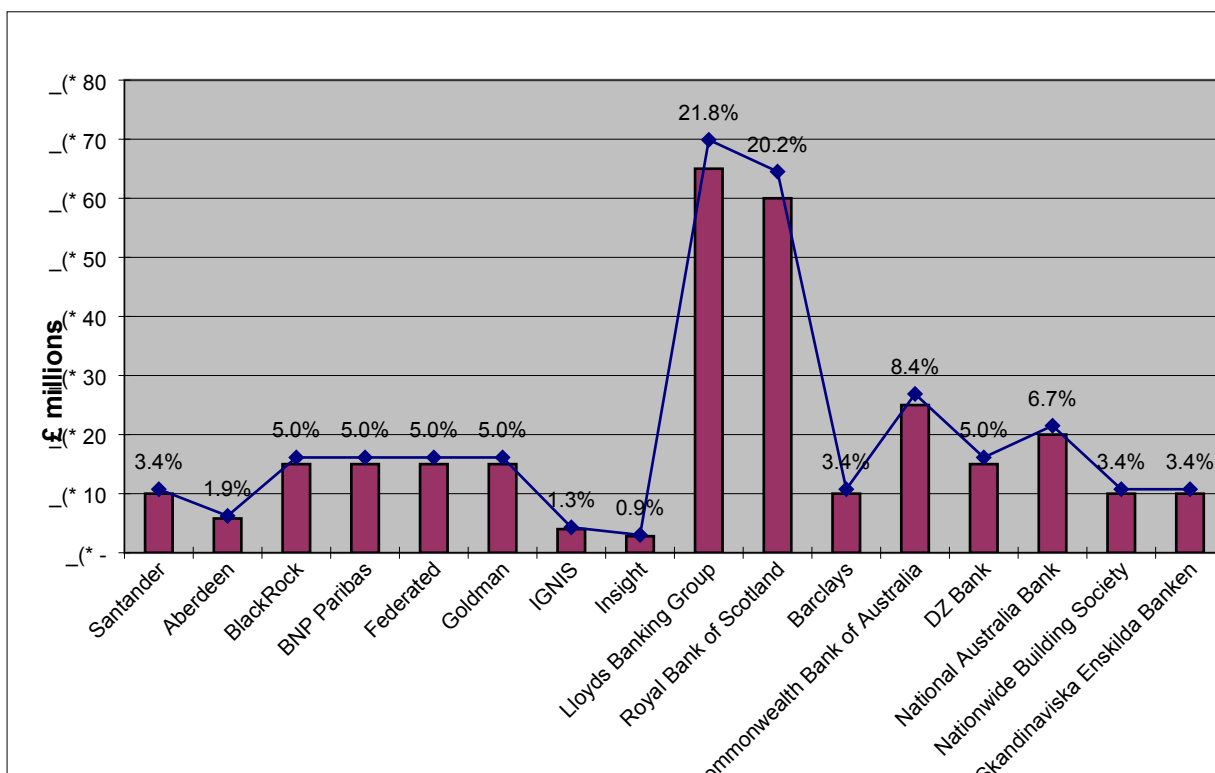
- At the end of December, we have 29% of outstanding investments of £297.6m as overnight money and 46% maturing within 3months, 8% maturing within 3-6 months, 4% maturing within 6-9 months, just 2% maturing within 9-12 months and about 8% to mature after 12months.
- The chart below illustrates the maturity structure of deposits as at 31 December 2014, we had £72.6m as overnight deposits, and this is predominantly Money Market Funds.

### Maturity of Investment Portfolio as at 31 December 2014



- The Weighted Average Maturity for outstanding investment portfolio is 119 days. This is the average number of outstanding days to maturity of each deal from 31st December 2014.

### Counterparty Exposure as at 31 December 2014



- The chart above shows the deposits outstanding with authorised counterparties as at 31 December 2014, of which 42% were with part-nationalised banks (Lloyds and RBS Groups).

### 3.8 DEBT PORTFOLIO

3.8.1 The Council's Treasury Management Strategy Report approved in February 2014 outlined the Council's long term borrowing strategy for the year.

3.8.2 The table below sets out the Council's debt as at the beginning of the financial year and as at 31 December 2014. The overall debt fell by £0.035m from £89.564 at the start of the year. Total debt outstanding, stands at £89.529m, against estimated CFR of £245.513m for 2014/15, resulting in an under-borrowing of £155.984m

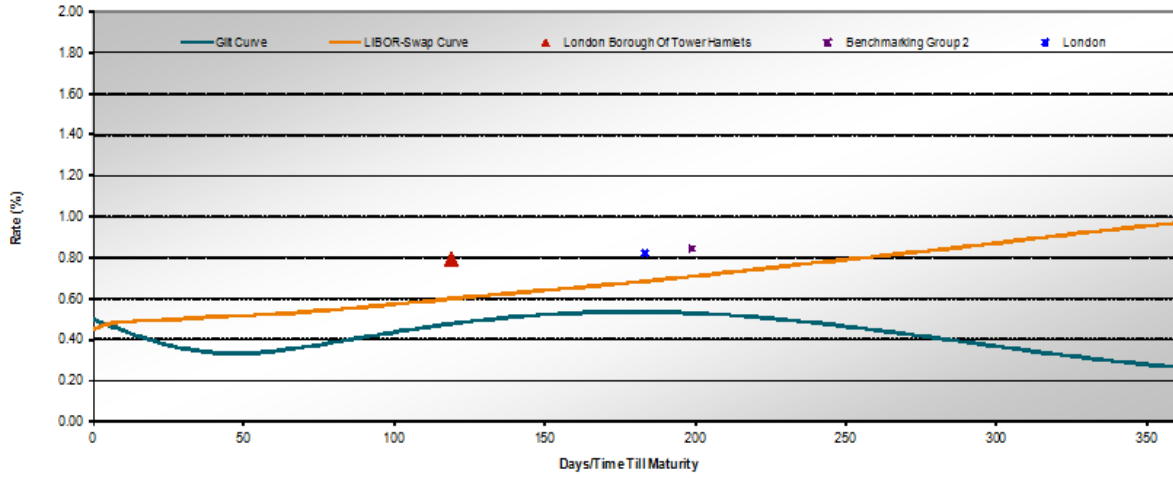
	31 March 2014 Principal	Loans raised	Loans repaid	31 December 2014 Principal
	£'000	£'000	£'000	£'000
<b>Fixed Rate Funding:</b>				
-PWLB	12,064	-	0.035	12,029
-Market	13,000	-	-	13,000
<b>Total Fixed Rate Funding</b>	<b>25,064</b>		<b>0.035</b>	<b>25,029</b>
<b>Variable Rate Funding:</b>				
-PWLB	-	-		-
-Market	64,500	-	-	64,500
<b>Total Variable Rate Funding</b>	<b>64,500</b>			<b>64,500</b>
<b>Total Debt</b>	<b>89,564</b>		<b>0.035</b>	<b>89,529</b>
<b>CFR</b>	<b>220,720</b>			<b>245,513</b>
<b>Over/ (under) borrowing</b>	<b>(131,156)</b>			<b>(155,984)</b>

3.8.3 No borrowing has been undertaken in this financial year to date. Also no debt rescheduling opportunities have arisen during this financial year to reporting period as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates.

### **3.9 INVESTMENT BENCHMARKING CLUB**

3.9.1 LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 December 2014. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 20 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

Returns Comparable Against the Risk-Free Rate and LIBOR Curve

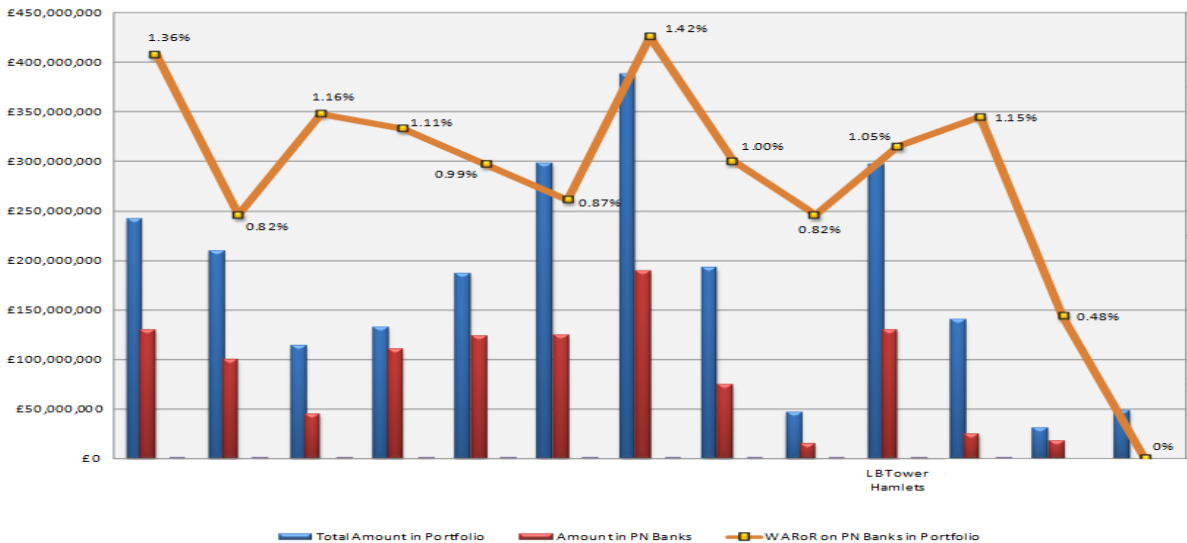


	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference		Model Bands	Perf
							Gilt	LIBOR-Swap		
London Borough Of Tower Hamlets	0.80%	119	272	3.0	0.48%	0.60%	0.32%	0.19%	0.70% - 0.83%	
Benchmarking Group 2	0.85%	199	356	3.0	0.53%	0.71%	0.32%	0.14%	0.73% - 0.86%	
London	0.83%	183	343	2.8	0.54%	0.69%	0.29%	0.14%	0.73% - 0.86%	

3.9.2 The weighted average rate of return (WARoR) for Tower Hamlets is 0.80% compared to 0.85% for the group. The return on LBTH investment is commensurate with the Council’s risk appetite as set out in the Investment Strategy.

3.9.3 The below chart compares exposure to Part-Nationalised Banks (PNB) between club members as the Council currently has a significant amount of investment with PNBs. The chart shows that the Council’s allocation to and returns from investment with PNBs is in line with other London boroughs as at 31 December 2014.

LB Tower Hamlets Exposure to Part-Nationalised Banks- end of Dec 2014



### **3.10 INVESTMENT STRATEGY UPDATE**

- 3.10.1 Full Council approved the Investment Strategy on 26 February 2014. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets.
- 3.10.2 Wholly or partly owned government banks offer significantly higher rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. The Council already relies on this guarantee and invests with these banks, and the current strategy is to have £70m money limit for each group with an aggregate of 40% of the overall investment portfolio. This should ensure that the Council continues to receive good returns on its cash balances and that the investment strategy is optimised to support the Council's efficiency programme.
- 3.10.3 There has been reports that the Government will start divesting from these banks, but the Council treasury adviser assured the officers that this report has no bearing on their current views of the banks and they will continue to keep clients informed of developments on this front and any related updates to their views on both Lloyds Banking Group and Royal Bank of Scotland Group.

### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 The comments of the Acting Corporate Director Resources are incorporated in the report.

### **5. LEGAL COMMENTS**

- 5.1 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.
- 5.2 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.
- 5.3 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.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

6.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

## **7. BEST VALUE (BV) IMPLICATIONS**

7.1 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

7.2 For example, investment returns exceeded the LIBID benchmark up to December 2014 and the treasury function operated within budget in Q3 of 2014/15.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

8.1 There are no Sustainable Actions for A Greener Environment implications.

## **9. RISK MANAGEMENT IMPLICATIONS**

9.1 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.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

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

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 - Investments Outstanding as at 31st December 14.

#### **Local Government Act, 1972 Section 100D (As amended)**

**List of “Background Papers” used in the preparation of this report**

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

- Capita December 2014 Investment Portfolio Analysis Report

**Officer contact details for documents:**


- Bola Tobun Ext. 4733
- Mulberry Place, 3rd Floor.

**Appendix 1**  
**Investments Outstanding as at 31st December 14**

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate	
<b>Overnight</b>	IGNIS		<b>MMF</b>	4.00	0.47%	
	Aberdeen		<b>MMF</b>	5.80	0.41%	
	Blackrock		<b>MMF</b>	15.00	0.39%	
	BNP Paribas		<b>MMF</b>	15.00	0.46%	
	Federated		<b>MMF</b>	15.00	0.46%	
	Goldman		<b>MMF</b>	15.00	0.41%	
	Insight		<b>MMF</b>	2.80	0.44%	
		<b>SUB TOTAL</b>			<b>72.60</b>	
<b>&lt; 1 Month</b>	Royal Bank of Scotland	09/07/2013	09/01/2015	5.00	0.95%	
	Royal Bank of Scotland	27/01/2012	27/01/2015	5.00	3.35%	
<b>1 - 3 Months</b>	Santander		Call - 95N	10.00	0.45%	
	Lloyds Banking Group	04/02/2014	04/02/2015	5.00	0.95%	
	Lloyds Banking Group	13/02/2014	13/02/2015	5.00	0.95%	
	Commonwealth Bank of Australia	15/08/2014	13/02/2015	5.00	0.48%	
	DZ Bank	26/08/2014	26/02/2015	5.00	0.71%	
	Skandinaviska Enskilda Banken	29/08/2014	27/02/2015	5.00	0.64%	
	Lloyds Banking Group	04/09/2014	04/03/2015	5.00	0.70%	
	Lloyds Banking Group	05/03/2014	05/03/2015	10.00	0.95%	
	Barclays	05/09/2014	05/03/2015	10.00	0.61%	
	Commonwealth Bank of Australia	15/09/2014	16/03/2015	5.00	0.53%	
	Lloyds Banking Group	07/10/2014	07/04/2015	5.00	0.70%	
	Lloyds Banking Group	11/04/2014	10/04/2015	5.00	0.95%	
	Lloyds Banking Group	11/07/2014	13/04/2015	10.00	0.80%	
	Nationwide Building Society	13/10/2014	13/04/2015	5.00	0.66%	
	Lloyds Banking Group	15/04/2014	15/04/2015	5.00	0.95%	
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%	
	Royal Bank of Scotland	16/04/2014	16/04/2015	5.00	0.67%	
	Nationwide Building Society	16/10/2014	16/04/2015	5.00	0.66%	
	Lloyds Banking Group	17/07/2014	17/04/2015	5.00	0.80%	
	Skandinaviska Enskilda Banken	29/04/2014	29/04/2015	5.00	0.71%	
	Lloyds Banking Group	29/10/2014	29/04/2015	5.00	0.70%	
	<b>3 - 6 Months</b>	National Australia Bank	06/11/2014	06/05/2015	5.00	0.55%
		National Australia Bank	14/05/2014	14/05/2015	10.00	0.63%
DZ Bank		26/08/2014	26/05/2015	5.00	0.86%	
National Australia Bank		07/07/2014	07/07/2015	5.00	0.64%	
Royal Bank of Scotland		15/07/2014	15/07/2015	20.00	0.97%	
Commonwealth Bank of Australia		15/07/2014	15/07/2015	5.00	0.83%	
Commonwealth Bank of Australia		17/07/2014	17/07/2015	5.00	0.82%	
<b>6 - 9 Months</b>		Commonwealth Bank of Australia	12/08/2014	12/08/2015	5.00	0.81%
	DZ Bank	26/08/2014	26/08/2015	5.00	0.98%	
<b>9 - 12 Months</b>	Lloyds Banking Group	04/12/2014	04/12/2015	5.00	1.00%	
<b>&gt; 12 Months</b>	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%	
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%	
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *	
	<b>SUB TOTAL</b>			<b>225.00</b>		
	<b>TOTAL</b>			<b>297.60</b>		

\* This is a structured deal, the terms of which could change during its tenor.

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Non-Executive Report of the:  <b>Audit Committee</b>  21 <sup>st</sup> July 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Chris Holme, Acting Corporate Director of Resources	<b>Classification:</b> [Unrestricted or Exempt]
<b>Treasury Management Outturn Report for 2014/15 (including Quarter 4 Updates)</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment & Treasury Manager
<b>Wards affected</b>	[All wards]

## Summary

This report advises the council's treasury management activities for the financial year ended 31 March 2015 as required under the Local Government Act 2003.

The report details the treasury management outturn position based on the credit criteria adopted by the Corporate Director of Resources, the investment strategy for the financial year as approved by the Council and the investment returns.

The Council has complied with its legislative and regulatory requirements as set out in the legal comments at paragraph 15 of this report. The key actual prudential and treasury management indicators detailing the impact of capital expenditure activities during the year, with comparators are also addressed in this report.

The Acting Corporate Director of Resources confirms:

- That all treasury management activities were executed by authorised officers within the parameters agreed by the Council.
- All investments were made to counterparties on the Council's approved lending list and within limit.
- No short-term or long-term borrowing was undertaken during the year to 31 March 2015.

Long term debt reduced from £89.564m to £88.893m as a result of loans maturing during the financial year.

The Council earned 0.73% on short term lending, outperforming the actual rolling average 7 Day LIBID rate of 0.35%.

The report is being submitted to the Audit Committee to enable the Members to fulfil their scrutiny role of management function as per CIPFA's Treasury Management Code of Practice.

**Recommendations:**

The Audit Committee is recommended to:

Members are recommended to:

- Note the Treasury Management activities and performance against targets for the twelve months to 31 March 2015.
- Note the Pension Fund investments balance (set out in section 7.9).
- Note the Council's investments as at 31 March 2015 (set out in Appendix 1).
- Note the Council's investments with part nationalised banks as at 31 March 2015.
- Note the Prudential indicators outturn for 2014/15 (set out in Appendix 2).

## **1. REASONS FOR THE DECISIONS**

- 1.1 This Council is required by Regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 The minimum reporting requirements stipulated by the Code are that Full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Council; 26 February 2014)
  - a mid-year treasury update report (Council; 26 November 2014)
  - an annual report following the year describing the activity compared to the strategy (this report)
- 1.3 In addition, the Audit Committee received treasury management activity update reports on 30 June 2014, 16 September 2014 and 21 July 2015.
- 1.4 The Code requires Members to review and scrutinise treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 1.5 The annual report on treasury management should assist Members in scrutinising officer decisions and checking that the investment strategy was implemented as approved by the Full Council.]

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council should receive an annual report on treasury management activities.
- 2.2 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.

### **3. DETAILS OF REPORT**

- 3.1 [The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council should receive an annual report on treasury management activities.
- 3.2 The Council approved the Treasury Management Strategy Statement on 26 February 2014, which included the Investment Strategy, Minimum Revenue Provision and prudential indicators for 2014/15. These reports set out the parameters within which Treasury Management officers should operate when executing their roles. In line with the requirement of the Code, this report should assist Members in discharging their responsibilities relating to the review and scrutiny of Treasury Management policies and activities in 2014/15.
- 3.3 The Council complied with its legislative and regulatory requirements in 2014/15 and was not in breach of any of the prudential and treasury management indicators. The table below summarises the key indicators relating to capital expenditure activities in the year. A more detailed report of the indicators is attached as Appendix 1.
- 3.4 The Acting Corporate Director of Resources also confirms that the Council did not undertake any external borrowing during the year, thus operating within the Authorised borrowing limit in the financial year.
- 3.5 This report summarises:
- The economy and interest rates
  - Capital activity during the year;
  - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
  - Reporting of the required prudential and treasury indicators;
  - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
  - Debt activity;
  - Summary of interest rate movements in the year; and
  - Investment activity.

### **3.6 THE ECONOMY AND INTEREST RATES**

- 3.6.1 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%.
- 3.6.2 In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first



increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.

- 3.6.3 During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone.
- 3.6.4 In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.
- 3.6.5 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved.
- 3.6.6 Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

### **3.7. THE STRATEGY**

- 3.7.1 The Annual Treasury Management Strategy and the Prudential Borrowing Indicators were approved by the Council on the 26 February 2014. This report provided commentary on the borrowing requirements and debt management arrangements for 2014/15, along with Annual Investment Strategy.
- 3.7.2 The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 3.7.3 The treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

- 3.7.4 The actual movement in gilt yields meant that PWLB rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.
- 3.7.5 The Council has continued with its conservative approach of prioritising security and liquidity over yield, Investments would therefore continue to be dominated by low counterparty risk considerations though, this results in a high cost of carry as investment returns are relatively low compared to borrowing rates

### **3.8 TREASURY POSITION as at 31 March 2015**

- 3.8.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting as detailed in section 3 of this report, and through officer activity as detailed in the Council's Treasury Management Practices Schedule. The treasury position at the start and end of 2014/15 was as follows:

<b>Debt £m</b>	<b>31 March 2014 Principal</b>	<b>Rate/ Return</b>	<b>31 March 2015 Principal</b>	<b>Rate/ Return</b>
Fixed Rate Funding:				
-PWLB	12.064	7.37%	11.393	7.37%
-Market	13.000	4.37%	13.000	4.37%
<b>Total Fixed Rate Funding</b>	<b>25.064</b>	<b>5.81%</b>	<b>24.393</b>	<b>5.81%</b>
Variable Rate Funding:				
-PWLB	0	0.00%	0	0.00%
-Market	64.500	4.32%	64.500	4.32%
<b>Total Variable Rate Funding</b>	<b>64.500</b>	<b>4.32%</b>	<b>64.500</b>	<b>4.32%</b>
<b>Total debt</b>	<b>89.564</b>	<b>4.73%</b>	<b>88.893</b>	<b>4.75%</b>
<b>CFR</b>	<b>220.720</b>		<b>245.513</b>	
<b>Over/ (under) borrowing</b>	<b>(131.156)</b>		<b>(156.620)</b>	

<b>Investments: £m</b>				
In house	292.450	0.82%	385.900	0.73%
External managers	0	0.00%	0	0.00%
<b>Total investments</b>	<b>292.450</b>	<b>0.82%</b>	<b>385.900</b>	<b>0.73%</b>

- 3.8.2 The under-borrowed amount represents the element of the programme that is currently being funded from internally held resources. Although this reduces the need to borrow from external sources, it does not allow for additional borrowing over and above the CFR. The Council also repaid £0.67m of maturing PWLB

loans, thereby reducing the overall debt outstanding from £89.6m to £88.9m as at 31 March 2015.

3.8.3 The maturity structure of the debt portfolio was as follows:

	31 March 2014 Actual £m	2014/15 Original Limits %	31 March 2015 Actual £m	31 March 2015 Actual %
Under 12 months	0.671	10%	0.365	0.4%
12 months and within 24 months	1.068	30%	1.889	2.1%
24 months and within 5 years	4.532	40%	4.770	5.4%
5 years and within 10 years	4.584	80%	3.205	3.6%
10 years and above	78.709	100%	76.663	88.5%

3.8.4 **Investment of Pension Fund Cash** - The majority of the pension fund assets are placed with and invested by appointed Pension Fund managers, the council usually retains some Pension Fund cash in house. The small cash balance is usually retained internally to manage cash flows. However larger amounts of £35.8m held to facilitate an asset reallocation strategy. Over the course of the year officers have been disinvesting from existing equity portfolios to fund a fixed income or fixed income asset like mandate and this has resulted in increased cash flow fluctuations.

3.8.5 The Pension Fund cash awaiting investment has been invested in accordance with the council's Treasury Management Strategy agreed by Full council on the 26 February 2014, under the delegated authority of the Corporate Director of Resources to manage within agreed parameters.

3.8.6 The maturity structure for the investment portfolio was as follows:

	31 March 2014 Actual £m	2014/15 Original Limits	31 March 2015 Actual £m
Under 1 year	277.45	100%	375.9
More than 1 year	15.00	25%	10.00
<b>Total</b>	<b>292.45</b>		<b>385.9</b>

### 3.9 **CAPITAL EXPENDITURE AND FINANCING 2014-15**

3.9.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply available resources, the capital expenditure will give rise to a borrowing need.

.3.9.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2013/14 Actual	2014/15 Estimate	2014/15 Actual
Non-HRA capital expenditure	82.653	75.378	59.833
HRA capital expenditure	50.255	115.866	76.854
<b>Total Capital Expenditure</b>	<b>132.908</b>	<b>191.244</b>	<b>136.687</b>
<b>Resources</b>			
Capital Grants	87.391	110.200	86.846
Direct Revenue Financing	10.258	19.135	16.575
Major Repairs Allowance	11.799	26.462	9.940
Developers Contributions	7.740	6.263	7.839
Capital Receipts	14.701	15.789	8.548
<b>Capital Expenditure (Financed from borrowing)</b>	<b>(1.000)</b>	<b>(13.395)</b>	<b>(6.939)</b>

3.9.3 Actual capital expenditure was less than the estimated figure of £191.244m by £54.56m. This is not an underspent against the total programme; any resources not used in this reporting year will be used in future years of the programme.

### **3.10. OVERALL BORROWING NEED**

3.10.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. This represents the 2014/15 unfinanced capital expenditure as set out in the above table, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.10.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies such as the Public Works Loan

Board (PWLB) or the money markets, or utilising temporary cash resources within the Council.

### 3.10.3 The Council's non-Housing Revenue Accounts (HRA) underlying borrowing

need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).

3.10.4 The Council's 2014/15 MRP Policy was approved as part of the Treasury Management Strategy Report for 2014/15 on 26 February 2014.

3.10.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need although no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

<b>General Fund CFR (£m )</b>	<b>2013/14 Actual</b>	<b>2014/15 Estimate</b>	<b>2014/15 Actual</b>
Opening balance	156.174	151.045	<b>151.045</b>
Add unfinanced capital expenditure	1.019	102.088	<b>11.858</b>
Add PFI adjustment	39.410	39.410	<b>39.410</b>
Less MRP	(6.145)	(6.145)	<b>(6.142)</b>
Less PFI Adjustment	(39.410)	(38.473)	<b>(38.473)</b>
<b>Closing balance</b>	<b>151.045</b>	<b>247.925</b>	<b>157.698</b>
<b>HRA CFR (£m )</b>	<b>2013/14 Actual</b>	<b>2014/15 Estimate</b>	<b>2014/15 Actual</b>
Opening balance	69.675	69.675	<b>69.675</b>
Add unfinanced capital expenditure	0.000	0.000	<b>0.144</b>
<b>Closing balance</b>	<b>69.675</b>	<b>69.675</b>	<b>69.819</b>

3.11 **Net Borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing net of

investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, not exceed the sum of CFR for 2014/15 plus the expected changes to the CFR in 2015/16 and 2016/17. This indicator

allows the Council some flexibility to borrow in advance of its immediate capital needs in 2014/15.

A summary of opening and closing CFR balances are also set out in table below.

£m	2013/14 Actual	2014/15 Estimate	2014/15 Actual
Non HRA CFR	151.045	247.925	157.698
HRA CFR	69.675	69.675	69.819
<b>CFR (Total)</b>	<b>220.720</b>	<b>317.600</b>	<b>227.517</b>

- 3.12 **The Authorised Limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.
- 3.13 **Maximum Gross Borrowing** – this is the maximum outstanding debt owed by the Council at any time during the financial year.
- 3.14 **The Operational Boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 3.15 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

£m	2014/15
Authorised limit	328.925
Gross borrowing position	88.893
Operational boundary	308.985
Financing costs as a proportion of net revenue stream (Non-HRA)	2.33%
Financing costs as a proportion of net revenue stream (HRA)	3.89%

### 3.16. **BORROWING OUTTURN**

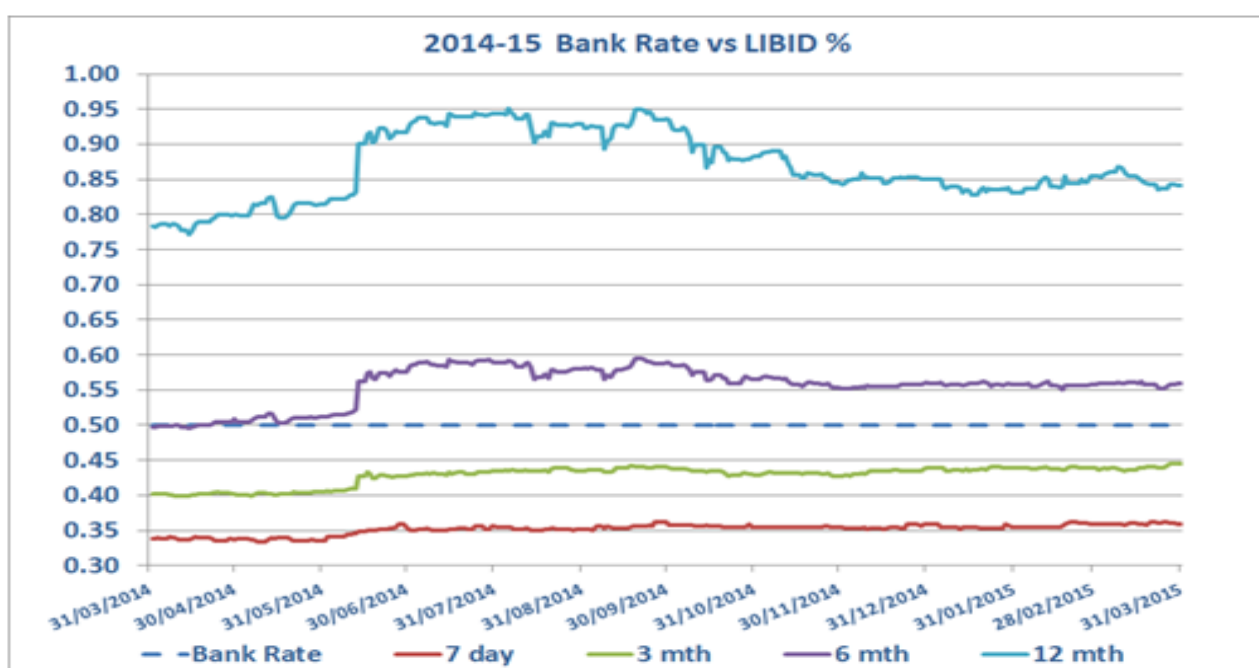
- 3.16.1 The Council did not undertake any external borrowing in 2014/15 due to investment concerns, both counterparty risk and low investment returns.

Therefore capital financing needs were met by existing debt and internal borrowing.

3.16.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

### 3.17. INVESTMENT RATES

3.17.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



3.17.2 The graph below illustrates that investment rates remained at historically low levels over the course of the financial year 2014/15.

Money market investment rates 2014/15					
	7 day	1 month	3 month	6 month	1 year
1/4/14	0.338	0.362	0.402	0.497	0.783
31/3/15	0.358	0.378	0.445	0.559	0.841
High %	0.362	0.384	0.445	0.596	0.951
Low %	0.334	0.360	0.400	0.496	0.772
Average %	0.352	0.374	0.429	0.556	0.868
Spread %	0.028	0.024	0.045	0.100	0.180
High date	26/3/15	26/9/14	27/3/15	19/9/14	5/8/14
Low date	8/5/14	4/4/14	9/4/14	14/4/14	14/4/14

### **3.18. INVESTMENT OUTTURN**

3.18.1 The Council's investment policy is governed by CLG guidance, which was implemented in line with the annual investment strategy approved by Full Council on 26 February 2014 and the revised investment strategy approved by Full Council on 26 November 2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented with additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

3.18.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

3.18.3 The Council held an outstanding balance of £385.9m as at 31 March 2015, and maintained an average balance of £376.3m of internally managed funds which earned an average rate of return of 0.73%. This compared favourably against the 7-day LIBID benchmark of 0.35%.

#### **Investment performance for 2014/15**

<b>Benchmark</b>	<b>Benchmark Return</b>	<b>LBTH Performance</b>	<b>Over/(Under) Performance</b>
<b>Full Year 2013/2014</b>	0.35%	0.82%	0.47%
<b>Quarter 1</b>	0.34%	0.69%	0.35%
<b>Quarter 2</b>	0.35%	0.73%	0.38%
<b>Quarter 3</b>	0.35%	0.77%	0.42%
<b>Quarter 4</b>	0.36%	0.72%	0.36%
<b>Year to Period</b>	0.35%	0.73%	0.38%

3.18.4 As illustrated above, the Council outperformed the benchmark by **38bps** for this financial year. The Council's budgeted investment return for 2014/15 is **£1.6m**, and performance for the year is **£1.1m** above budget, mainly due to massive increase of average cash balance for investment which was £226.3m above budgeted balance.

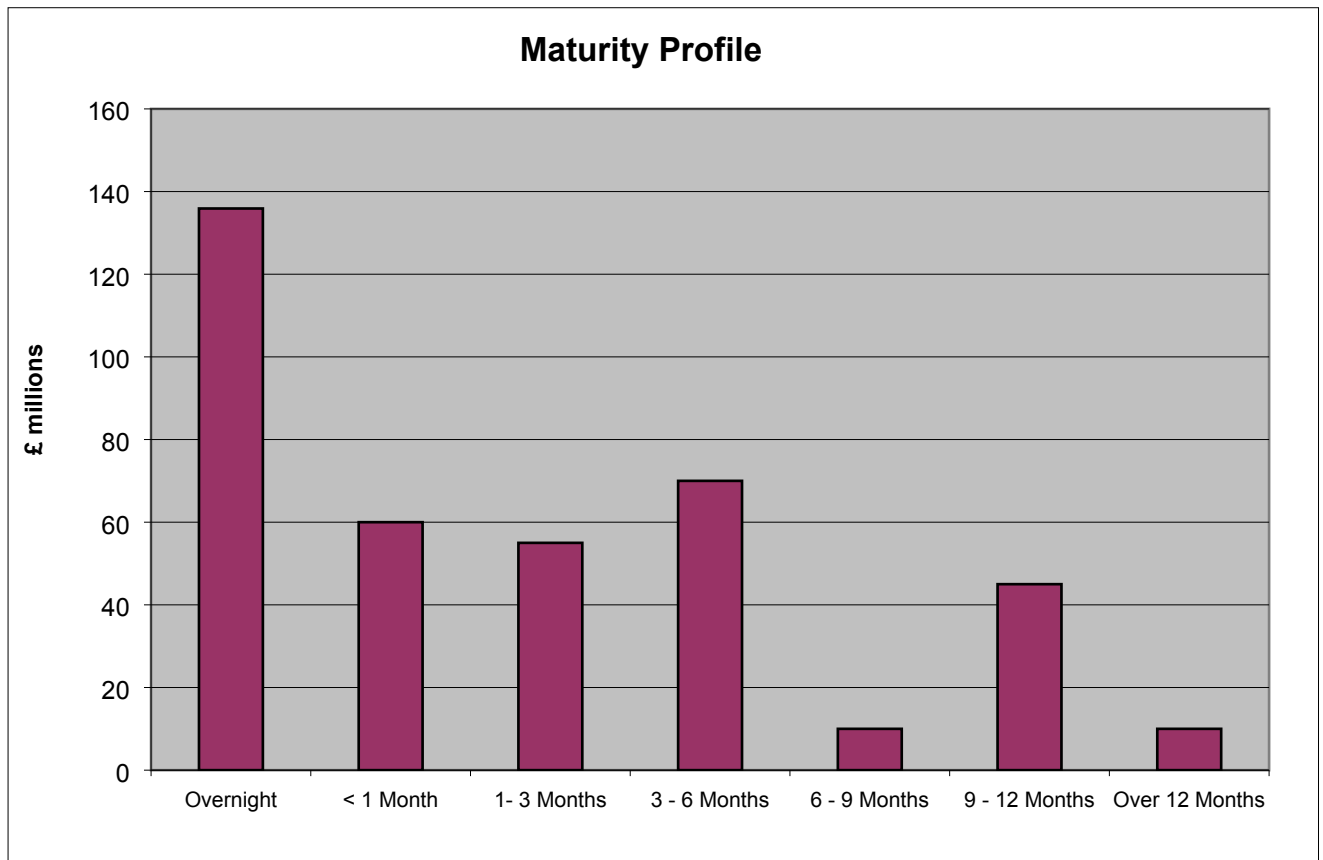
### **3.19 Investments Outstanding & Maturity Structure**

- At the end of March, we have 35.2% of outstanding investments of £385.9m as overnight money and 29.8% maturing within 3months, 18% maturing within 3-6 months, 2.6% maturing within 6-9 months, 11.7% maturing within 9-12 months and about 2.6% to mature after 12months.



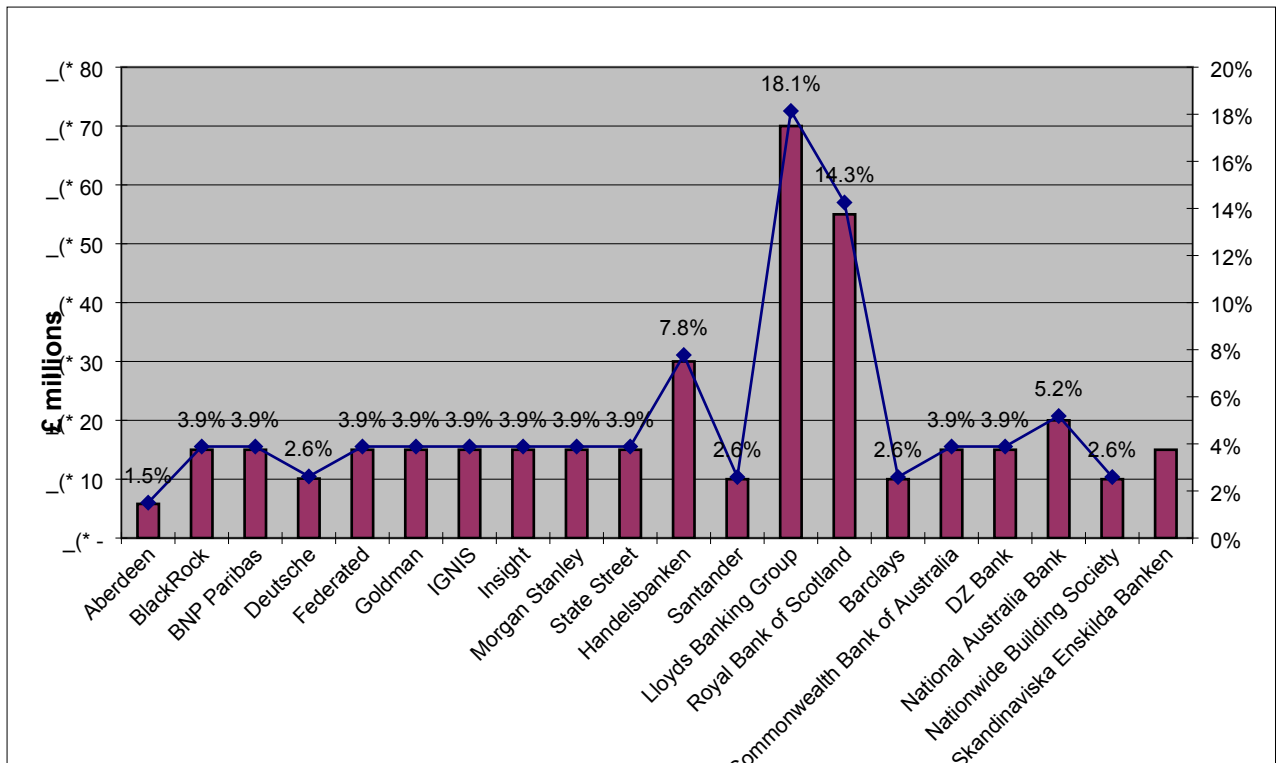
- The Weighted Average Maturity (WAM) for outstanding investment portfolio is 98.1 days. This is the average number of outstanding days to maturity of each deal from 31st March 2015. The MMF balance has pulled the WAM down for the month of March.
- The chart below illustrates the maturity structure of deposits as at 31 March 2015; we have £135.9m as overnight deposits, and this basically Money Market Funds.

**Chart 1: Maturity of Investment Portfolio as at 31 March 2015**



- The chart below shows the deposits outstanding with authorised counterparties as at 31 March 2015, of which 32.4% were with part-nationalised banks (Lloyds and RBS Groups).

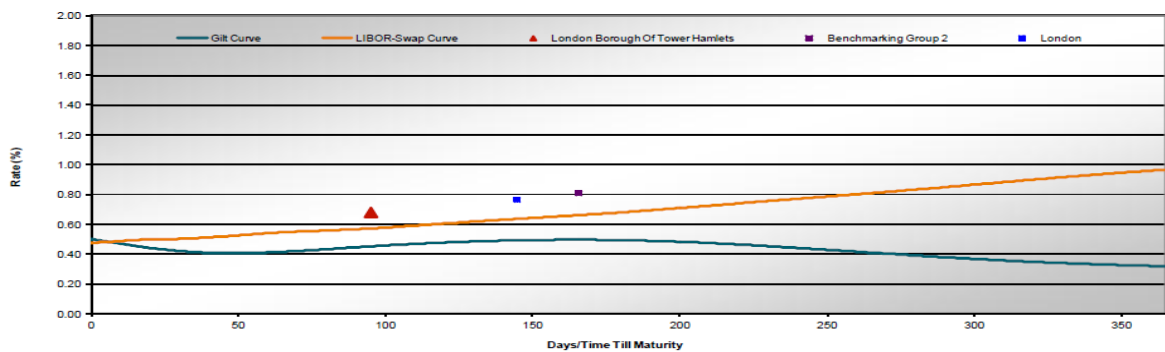
**Chart 2: Counterparty Exposure as at 31 March 2015**



### 3.21 INVESTMENT BENCHMARKING CLUB

a. LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 March 2015. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 20 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

Returns Comparable Against the Risk-Free Rate and LIBOR Curve

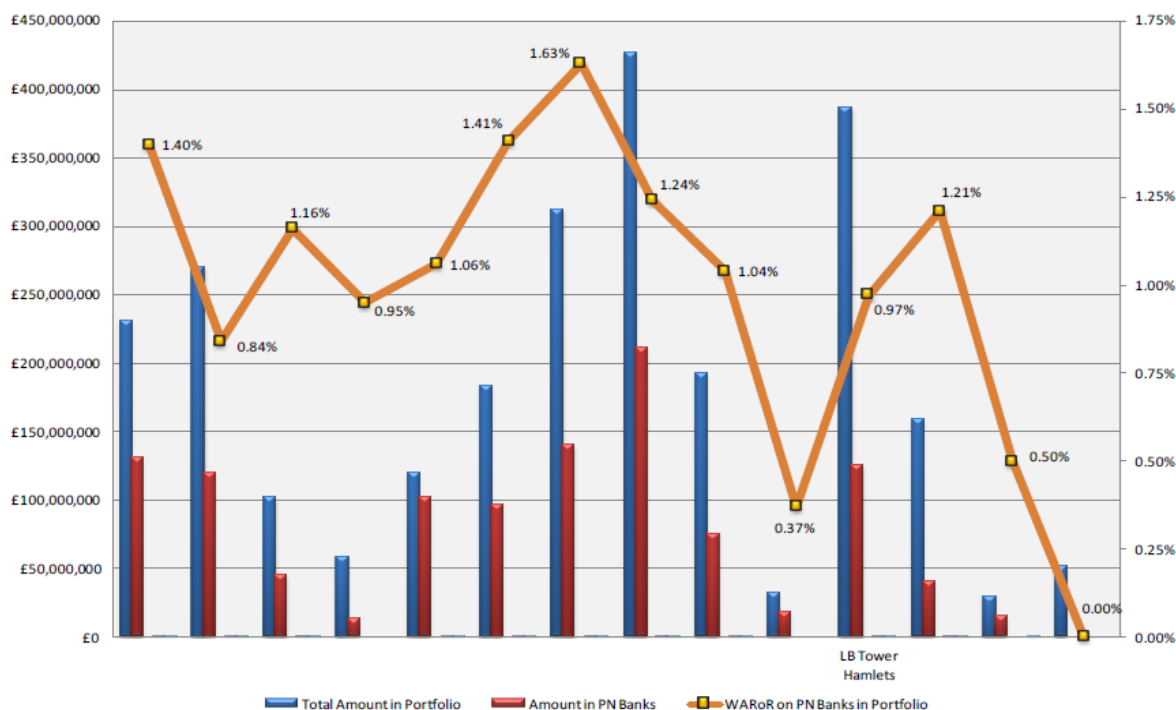


	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference		Model Bands	Performance
							Gilt	LIBOR-Swap		
London Borough Of Tower Hamlets	0.68%	95	210	2.7	0.45%	0.57%	0.23%	0.11%	0.67% - 0.78%	Inline
Benchmarking Group 2	0.81%	165	320	3.1	0.50%	0.66%	0.31%	0.15%	0.74% - 0.85%	Inline
London	0.77%	144	295	2.9	0.49%	0.64%	0.27%	0.13%	0.72% - 0.83%	Inline

b. The weighted average rate of return (WARoR) for LBTH is 0.68% compared to 0.81% for the group. The return on LBTH investment is

commensurate with the Council's risk appetite as set out in the Investment Strategy.

LB Tower Hamlets Exposure to Part-Nationalised Banks- end of March 2015



- c. The above chart compares exposure to Part-Nationalised Banks (PNB) between club members as the Council currently has a significant amount of investment with PNBs. The chart shows that the Council's allocation to and returns from investment with PNBs is in line with other London boroughs as at 31 March 2015.
- d. The chart also shows the deposits outstanding with authorised counterparties as at 31 March 2015, of which 32.4% were with part-nationalised banks (Lloyds and RBS Groups).

### 3.22 INVESTMENT STRATEGY UPDATE

3.22.1 Full Council approved the Investment Strategy on 26 February 2014, amendments to this strategy was included in the Mid-Year Treasury Management Strategy Report that was approved by the full Council 26 November 2014. This was mainly due to the advice received from the Council's treasury adviser that rating assumptions were to be updated by the three main rating agencies in order to remove the implied sovereign support embedded in the creditworthiness of an institution. The agencies are primarily reacting to the European regulatory changes which aim at ensuring the resolvability of banks without government support (e.g., resolution regimes and recovery and resolution plans).

3.22.2 The rating agencies had started implementing these changes in accordance to countries regulatory changes. As a matter of fact Fitch rating agency

reassessed their overall methodology and stopped using Financial Strength Rating (FSR) and Support Ratings in computing credit worthiness of institutions. Therefore the Council's basis of formulating counter party template is now void of Viability or Financial Strength Rating (FSR) and Support, as these factors are now basically irrelevant.

- 3.22.3 Partly owned government banks offer significantly higher rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. Officers are working in conjunction with the Council's treasury adviser in monitoring this groups risk parameters in order to take appropriate action by deleting from counter party list or altering time and money limits of the organisation to reflect credit worthiness.
- 3.22.4 There have been reports that the Government will start divesting from these banks, The Council's treasury adviser is confident that the recent Government divestment from these groups had no bearing on their current views of the banks and they will continue to keep clients informed of developments on this front and any related updates to their views on both Lloyds Banking Group and Royal Bank of Scotland Group.
- 3.22.5 Barclays bank was downgraded in June 2015 and the Council had lent funds to the bank prior to the change, maturities are 17th September 2015 and 5th April 2016. The investments are shorter than one year, so the short term ratings do meet the stated criteria, but the long term rating, from S&P only, was lowered to A- with a stable outlook, which suggests that there is no risk of any downgrade in the near term. This change is not a reflection of a worsening position of the bank but the re-assessment of the manner in which the agency treats sovereign support. This has been applied to all UK institutions and is not unique to Barclays.
- 3.22.6 The current institutions the Council can currently lend to is as set in Appendix 3.]

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 The comments of the Acting Corporate Director Resources are incorporated in the report.

#### **5. LEGAL COMMENTS**

- 5.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 5.2 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.

- 5.3 It is a key principle of the Treasury Management Code that an authority should put in place “comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities”. 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. It is consistent with the key principles expressed in the Treasury Management Code for the Council to review performance against the strategies and policies it has adopted.
- 5.4 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 and for the proper stewardship of public funds.
- 5.5 When discharging its treasury management functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t. Information is contained in section 15 of the report relevant to these considerations.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 [Interest on the Council’s cash flow has historically contributed significantly towards the budget. This Council’s ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.]

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 Assessment of value for money is achieved through:
- Monitoring against benchmarks
  - Operating within budget
- 7.2 For example, investment returns exceeded the LIBID benchmark up to the end of March 2015 and the treasury function operated within budget for financial year 2014/15.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no Sustainable Actions for A Greener Environment implications.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 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.

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

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

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

[None]

**Appendices**

Appendix 1-Investments Outstanding as at 31st March 2015

Appendix 2: Prudential and Treasury Indicators

Appendix 3: Counterparty List for London Borough of Tower Hamlets

Appendix 4: GLOSSARY

**Local Government Act, 1972 Section 100D (As amended)**

**List of “Background Papers” used in the preparation of this report**

Investment Reports, Benchmark club report;

Capita Treasury Advisory Services

**Officer contact details for documents:**

[Bola Tobun Ext. 4733 Mulberry Place, 3<sup>rd</sup> Floor]

**Appendix 1**  
**Investments Outstanding as at 31st March 2015**

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
<b>Overnight</b>	Aberdeen		MMF	5.80	0.40%
	Blackrock		MMF	15.00	0.43%
	BNP Paribas		MMF	15.00	0.46%
	Deutsche		MMF	10.10	0.46%
	Federated		MMF	15.00	0.45%
	Goldman		MMF	15.00	0.43%
	IGNIS		MMF	15.00	0.47%
	Insight		MMF	15.00	0.45%
	Morgan Stanley		MMF	15.00	0.43%
	State Street		MMF	15.00	0.43%
		<b>SUB TOTAL</b>			<b>135.90</b>
<b>&lt; 1 Month</b>	Lloyds Banking Group	07/10/2014	07/04/2015	5.00	0.70%
	Lloyds Banking Group	11/04/2014	10/04/2015	5.00	0.95%
	Lloyds Banking Group	11/07/2014	13/04/2015	10.00	0.80%
	Nationwide Building Society	13/10/2014	13/04/2015	5.00	0.66%
	Lloyds Banking Group	15/04/2014	15/04/2015	5.00	0.95%
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	16/04/2014	16/04/2015	5.00	0.67%
	Nationwide Building Society	16/10/2014	16/04/2015	5.00	0.66%
	Lloyds Banking Group	17/07/2014	17/04/2015	5.00	0.80%
	Skandinaviska Enskilda Banken	29/04/2014	29/04/2015	5.00	0.71%
	Lloyds Banking Group	29/10/2014	29/04/2015	5.00	0.70%
<b>1 - 3 Months</b>	Santander		Call - 95N	10.00	1.10%
	Handelsbanken		Call - 35N	30.00	0.45%
	National Australia Bank	06/11/2014	06/05/2015	5.00	0.55%
	DZ Bank	26/08/2014	26/05/2015	5.00	0.86%
	Skandinaviska Enskilda Banken	17/11/2014	29/05/2015	5.00	0.58%
<b>3 - 6 Months</b>	National Australia Bank	07/07/2014	07/07/2015	5.00	0.64%
	Royal Bank of Scotland	15/07/2014	15/07/2015	20.00	0.97%
	Commonwealth Bank of Australia	15/07/2014	15/07/2015	5.00	0.83%
	Commonwealth Bank of Australia	17/07/2014	17/07/2015	5.00	0.82%
	Commonwealth Bank of Australia	12/08/2014	12/08/2015	5.00	0.81%
	Lloyds Banking Group	13/02/2015	13/08/2015	5.00	0.70%
	DZ Bank	26/08/2014	26/08/2015	5.00	0.98%
	DZ Bank	26/02/2015	26/08/2015	5.00	0.59%
	Barclays	17/03/2015	17/09/2015	10.00	0.63%
	Skandinaviska Enskilda Banken	26/03/2015	25/09/2015	5.00	0.60%
<b>6 - 9 Months</b>	Lloyds Banking Group	13/11/2014	13/11/2015	5.00	1.00%
<b>9 - 12 Months</b>	Lloyds Banking Group	04/12/2014	04/12/2015	5.00	1.00%
	Lloyds Banking Group	04/02/2015	04/02/2016	5.00	1.00%
	National Australia Bank	16/02/2015	16/02/2016	10.00	0.61% *
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Lloyds Banking Group	04/03/2015	04/03/2016	5.00	1.00%
	Lloyds Banking Group	05/03/2015	07/03/2016	10.00	1.00%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
<b>&gt; 12 Months</b>	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20% *
		<b>SUB TOTAL</b>			<b>250.00</b>
	<b>TOTAL</b>			<b>385.90</b>	

\* This is a structured deal, the terms of which could change during its tenor.

## Appendix 2: Prudential and Treasury Indicators

Prudential Indicators	2013/14	2014/15	2014/15	2014/15	2015/16	2016/17
Extract from Estimate and rent setting reports	Actual	Original Estimate	Revised Estimate	Actual	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
<b>Capital Expenditure</b>						
Non – HRA	82.653	67.153	75.378	59.833	44.417	22.449
HRA	50.255	99.760	115.866	76.854	127.555	94.794
<b>TOTAL</b>	<b>132.908</b>	<b>166.913</b>	<b>191.244</b>	<b>136.687</b>	<b>171.972</b>	<b>117.243</b>
<b>Ratio of Financing Costs To Net Revenue Stream</b>						
Non – HRA	2.29%	3.51%	2.63%	2.33%	2.74%	2.92%
HRA	3.70%	3.69%	4.01%	3.89%	5.40%	8.24%
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Gross Debt and Capital Financing Requirement</b>						
Gross Debt (including PFI)	128.974	141.060	136.788	127.366	171.395	226.238
Capital Financing Requirement	220.720	317.600	267.727	227.517	305.356	362.910
Over/(Under) Borrowing	(91.746)	(176.540)	(130.939)	(100.151)	(133.961)	(136.672)
<b>In Year Capital Financing Requirement</b>						
Non – HRA	0.000	57.470	7.597	6.653	4.790	1.033
HRA	0.000	0.000	0.000	0.144	32.838	56.521
<b>TOTAL</b>	<b>0.000</b>	<b>57.470</b>	<b>7.597</b>	<b>6.797</b>	<b>37.628</b>	<b>57.554</b>
<b>Capital Financing Requirement as at 31 March</b>						
Non - HRA	151.045	247.925	198.052	157.698	202.842	203.875
HRA	69.675	69.675	69.675	69.819	102.514	159.035
<b>TOTAL</b>	<b>220.720</b>	<b>317.600</b>	<b>267.727</b>	<b>227.517</b>	<b>305.356</b>	<b>362.910</b>
<b>Incremental Impact of Financing Costs (£)</b>						
Increase in Council Tax (band D) per annum	0.000	0.908	1.325	0.000	2.520	2.446
Increase in average housing rent per week	0.000	0.000	0.000	0.000	7.804	4.404



<b>Treasury Management Indicators</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2014/15</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>Actual</b>	<b>Original Estimate</b>	<b>Revised Estimate</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	£m	£m	£m	£m	£m	£m
<b>Authorised Limit For External Debt -</b>						
Borrowing & Other long term liabilities	245.720	308.985	294.287	294.287	293.323	292.118
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
<b>TOTAL</b>	<b>265.720</b>	<b>328.985</b>	<b>314.287</b>	<b>314.287</b>	<b>313.323</b>	<b>312.118</b>
<b>Operational Boundary For External Debt -</b>						
Borrowing	206.310	270.513	255.815	255.815	255.815	255.815
Other long term liabilities	39.410	38.472	38.472	38.472	37.508	36.303
<b>TOTAL</b>	<b>245.720</b>	<b>308.985</b>	<b>294.287</b>	<b>294.287</b>	<b>293.323</b>	<b>292.118</b>
<b>Gross Borrowing(including PFI)</b>	<b>129.990</b>	<b>141.060</b>	<b>135.900</b>	<b>127.366</b>	<b>171.395</b>	<b>226.238</b>
<b>HRA Debt Limit*</b>	<b>184.381</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>
<b>Upper Limit For Fixed Interest Rate Exposure</b>						
Net principal re fixed rate borrowing / investments	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Upper Limit For Variable Rate Exposure</b>						
Net interest payable on variable rate borrowing / investments	<b>90/25%</b>	<b>90/25%</b>	<b>90/25%</b>	<b>90/25%</b>	<b>90/25%</b>	<b>90/25%</b>
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	<b>£20m</b>	<b>£20m</b>	<b>£20m</b>	<b>£50m</b>	<b>£50m</b>	<b>£50m</b>

<b>Maturity structure of debt portfolio</b>	<b>Original Limits (2014/15)</b>	<b>Actual (2014/15)</b>
under 12 months	10%	0.4%
12 months and within 24 mths	30%	2.1%
24 months and within 5 years	40%	5.4%
5 years and within 10 years	80%	3.6%
10 years and above	100%	88.5%

### Appendix 3 Counterparty List for London Borough of Tower Hamlets

Name	FITCH RATINGS		MOODYS RATINGS		S&P RATINGS	
	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
United Kingdom (Sovereign Rating)	F1+	AA+		Aa1	A-1+	AAA
Royal Bank of Scotland	F2	BBB+	P-2	A3	A-2	BBB+
Co-operative Bank plc	B	B	NP	Caa2		
Lloyds Bank Plc	F1	A+	P-1	A1	A-1	A
HSBC Bank plc	F1+	AA-	P-1	Aa2	A-1+	AA-
Nationwide Building Society	F1	A	P-1	A1	A-1	A
National Westminster Bank	F2	BBB+	P-2	A3	A-2	BBB+
Bank of Scotland Plc	F1	A+	P-1	A1	A-1	A
Santander UK Plc	F1	A	P-1	A1	A-1	A
Citibank International Plc	F1	A	P-1	A1	A-1	A
UBS Ltd	F1	A	P-1	A2	A-1	A
Standard Chartered Bank	F1+	AA-	P-1	Aa2	A-1	A+
Merrill Lynch International	F1	A			A-1	A
Ulster Bank Ltd	F2	BBB+	P-2	A3	A-2	BBB
Goldman Sachs International Bank	F1	A	P-1	A1	A-1	A
Morgan Stanley & Co. International PLC			P-1	A1	A-1	A
Close Brothers Limited	F1	A	P-1	Aa3		
Coventry Building Society	F1	A	P-1	A2		
Cumberland Building Society						
Nottingham Building Society			P-2	Baa1		
Principality Building Society	F2	BBB+	P-3	Baa3		
Progressive Building Society						
Skipton Building Society	F2	BBB+	P-2	Baa2		
West Bromwich Building Society	(Withdrawn)		NP	B1		
Yorkshire Building Society	F1	A-	P-2	A3	(Withdrawn)	
Leeds Building Society	F1	A-	P-1	A2		
Newcastle Building Society	B	BB+				
Australia (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
Australia and New Zealand Banking Group	F1+	AA-	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	F1+	AA-	P-1	Aa2	A-1+	AA-
National Australia Bank Limited	F1+	AA-	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	F1+	AA-	P-1	Aa2	A-1+	AA-
Macquarie Bank Limited	F1	A	P-1	A2	A-1	A
Canada (Sovereign Rating)	F1+	AAA	(P)P-1	Aaa	A-1+	AAA
Bank of Montreal	F1+	AA-	P-1	Aa3	A-1	A+
Bank of Nova Scotia	F1+	AA-	P-1	Aa2	A-1	A+
National Bank of Canada	F1	A+	P-1	Aa3	A-1	A

Royal Bank of Canada	F1+	AA	P-1	Aa3	A-1+	AA-
Canadian Imperial Bank of Commerce	F1+	AA-	P-1	Aa3	A-1	A+ AA-
Toronto-Dominion Bank	F1+	AA-	P-1	Aa1	A-1+	
Denmark (Sovereign Rating)	F1+	AAA	P-1	Aaa	A-1+	AAA
Danske Bank	F1	A	P-1	A2	A-1	A
Germany (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
Landesbank Berlin AG	(Withdrawn)	(Withdrawn)	P-1	A1		
Landesbank Hessen-Thuringen Girozentrale	F1+	A+	P-1	A1	A-1	A
Landwirtschaftliche Rentenbank	F1+	AAA	P-1	Aaa	A-1+	AAA
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	F1+	AA-	P-1	Aa2	A-1+	AA-
Ireland (Sovereign Rating)	F1	A-	P-2	Baa1	A-1	A+
Luxembourg (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
BGL BNP Paribas SA	F1	A+	P-1	A1	A-1	A+
Banque et Caisse d'Epargne de l'Etat			P-1	Aa2	A-1+	AA+
Clearstream Banking	F1+	AA			A-1+	AA
Norway (Sovereign)	F1+	AAA		Aaa	A-1+	AAA
Nordea Bank AB	F1+	AA-	P-1	Aa3	A-1+	AA-
DnB Bank	(Withdrawn)	(Withdrawn)	P-1	Aa2	A-1	A+
Singapore (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
United Overseas Bank Limited	F1+	AA-	P-1	Aa1	A-1+	AA-
DBS Bank Ltd.	F1+	AA-	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	F1+	AA-	P-1	Aa1	A-1+	AA-
Sweden (Sovereign Rating)	F1+	AAA	P-1	Aaa	A-1+	AAA
Svenska Handelsbanken	F1+	AA-	P-1	Aa2	A-1+	AA-
Skandinaviska Enskilda Banken	F1	A+	P-1	Aa3	A-1	A+
Swedbank AB	F1	A+	P-1	Aa3	A-1	A+
Switzerland (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
Credit Suisse AG	F1	A	P-1	Aa3	A-1	A
UBS AG	F1	A	P-1	A1	A-1	A

#### Other

DMO

Local Authorities

Money Market Funds

**GLOSSARY**

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires borrowing to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.

Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.

LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A ‘pool’ of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council’s Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the Council’s high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.

# Agenda Item 6.4

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
<b>Audit Committee</b>	<b>21<sup>st</sup> July 2015</b>	<b>Unrestricted</b>		
REPORT OF: <b>Corporate Director, Resources</b>	<b>Head of Audit Annual Report for 2014/15</b>			
ORIGINATING OFFICER(S): <b>Head of Risk Management and Audit</b>	Ward(s) Affected: <b>N/A</b>			

## 1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the Public Sector Internal Audit Standards. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2011.
- 1.2 The report concludes that the Council has a reasonably effective system of internal control which was in operation throughout 2014/15. The Head of Audit opinion is attached to this report at Appendices 7 and 8.

## 2. Recommendation

- 2.1 The Committee is asked to note the content of the annual audit report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion.

## 3. Introduction

- 3.1 The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards. The Code advises that this report includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and presents a summary of the audit work undertaken to formulate the opinion.
- 3.2 This report is set out as follows:

- **Opinion and basis of opinion**
- **Summary of audit work undertaken in 2014/15**
- **Appendix 1 - Audit Charter and Internal Audit Strategy**, setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.
- **Appendix 2 - Audit Resources**
- **Appendix.3 -Summaries of reports not previously reported.** Summaries of all audit reports are submitted to the CMT.
- **Appendix 3.1 - Follow Up Audits**
- **Appendix 4 – Summaries of reports on specific commissioned work from Corporate Directors.**
- **Appendix 5 – List of planned audits undertaken in 2014/15.**
- **Appendix 6 – Summary Head of Audit Opinion.**
- **Appendix 7 – Detailed Head of Audit Opinion.**
- **Appendix 8 – Benchmarking club/headline.**

#### **4. Statement of Responsibility**

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

#### **5. Opinion**

- 5.1 It is my opinion that I can provide reasonable assurance that the authority has an adequate system of internal control and that this was operating effectively during 2014/15. The basis for this opinion is set out below.

#### **6. Basis of Opinion**



- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2014/15. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.
- 6.2 Internal audit work has been carried out in accordance with the Public Sector Internal Audit mandatory standards for Internal Audit in Local Government.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the External Auditors and other inspectors pertaining to or reported during 2014/15. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at Appendices 6 and 7.

## **7 Audit Resources**

- 7.1 The resources available to Internal Audit are set out in appendix 2 below. Internal Audit is provided in partnership with Mazars as part of Croydon Framework contract. An in-house team of four auditors works with resources provided under the Croydon framework arrangement.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties although for the 2015-16 financial year, the resources have been increased in view of the Directions set out by the Secretary of State to support the work of the Council. The partnership with Mazars has given the authority access to greater capacity, particularly in computer audit. The Head of Audit is also considering increased management support of the audit and anti-fraud work from Mazars in light of the increased audit plan and anti fraud work.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 3.6 days per person on average, compared with 2 days per person the previous year.
- 7.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2014/15, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal

control to manage risks. The level of computer audit was lower than last year but this will be compensated by an increasing the resources available in the 2015-16 internal audit plan. In addition, a number of specific pieces of audit work were commissioned by Corporate Directors. Details of the work done are attached at Appendix 4.

## 8 Summary of Audit Work

- 8.1 A list of the audits undertaken in 2014/15 is attached to main body of the report at Appendix 5 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in Appendix 2.
- 8.2 Summaries of the finalised audit reports are reported quarterly to CMT and the Audit Committee. Appendix 3 provides the summaries of those reports finalised in the period March to May 2015.
- 8.3 A summary of the audit assurance resulting from audit reports in 2014/15 is provided in the table below.

Audits 14/15		Full	Substantial	Limited	Nil	N/A
		Significance	Extensive	1	47	11
Moderate	1	15	11	2	3	
Low	-	-	-	-	-	
<b>Total</b>	2	62	22	2	6	

- 8.4 The table shows that of 94 systems audits where we have issued final audit reports, 68% of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place, although this does not mean the systems were operating perfectly. 26% of systems audited were rated as limited or nil assurance, and the remainder 6% have their assurance as not applicable. In addition there were 7 audits currently at draft report stage and their assurances have not been factored into the above table as these assurances are waiting to be agreed. In total Internal Audit completed 101 pieces of audits during the financial year 2014/15.
- 8.5. Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.
- 8.6. From the Internal Audit work during 2014/15 financial year, we identified risks in the Council's systems in a number of areas including Monitoring and Management of Mainstream Grants, Management of Telecare service, Management of Panel Decisions, Direct Payments, Electronic Home Care system, Management of Mobile Phones Management, On- Street Parking Income, Integrated Youth Service, Information Governance, Contract Management and Monitoring and Governance and Financial Management in Schools. Further information is provided at Appendix 7. Management have given commitment to implement our recommendations and this should in turn improve control environment in these areas.
- 8.7. From our Internal Audit work during 2014/15, we can provide an overall assurance that Tower Hamlets has a reasonably effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to audit recommendations.

## 9. Audit Performance

- 9.1. Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2014/15 is set out in the table below.

Performance Measure	2014/15	
	Target	Actual
Percentage of operational plan completed (to at least draft report stage) in the year	100%	97%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date	100%	88% 38 out of 43
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	63% 35 out of 56

- 9.2. As at the 31<sup>st</sup> March 2015, 97% of the operational plan was completed in terms of days used. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.
- 9.3. Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. For 2014/15 as a whole, 88% of priority 1 recommendations had been implemented against a target of 100%, and 63% of priority 2 recommendations had been implemented against a target of 95%. Appendix 3.1. lists the results of those follow up audits finalised since the last Audit Committee meeting. Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review. The S151 has noted the performance and has asked the Head of Audit and Risk Management to advise on further steps to improve on the implementation of recommendations.
- 9.4. The budget outturn is set out in Appendix 2. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2014/15 will be submitted and key points will be reported to a future CMT and Audit Committee. The results of benchmarking exercise for 2013/14 are attached at Appendix 8. A benchmarking exercise for 2014/15 is currently in progress

## **10. Comments of the Chief Financial Officer**

- 10.1. This is the annual report from the Head of Internal Audit on audit activities carried out during 2014-15. Audit Committee are asked to note the contents of this report. There are no financial implications as a consequence of this report.

## **11. Legal Comments**

- 11.1 This report supports the Annual Governance Statement. The Head of Internal Audit is required by the Public Sector Internal Audit Standards 2013 to provide an annual audit report setting out their opinion on the effectiveness of the Council's system of internal control. The report assists the Council in meeting its duties under regulation 4 of the Accounts and Audit Regulations 2011 to ensure that its financial management is adequate and that it has a sound system of internal control which includes arrangements for the management of risk.

## **12. One Tower Hamlets**

- 12.1 There are no specific one Tower Hamlets considerations.
- 12.2. There are no specific Anti-Poverty issues arising from this report.

## **13. Risk Management Implications**

- 13.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

## **14. Sustainable Action for a Greener Environment (SAGE)**

- 14.1. There are no specific SAGE implications.

## Internal Audit Charter

**This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.**

**The Charter will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.**

### **Purpose**

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "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."

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Chief Financial Officer to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Further information around the purpose of Audit is set out in the Council's Financial Regulations (D3) and Financial Procedures (CR4).

### **Authority**

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

## **Responsibility**

The Council's Head of Internal Audit (The Head of Audit and Risk Management) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Tower Hamlets Homes. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## **Reporting**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) and the Audit Committee (AC). Both documents must then be presented to these bodies annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT. It is then presented to CMT and AC annually for noting and endorsement.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CMT and AC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both CMT and the AC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CMT and the AC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

### **Independence**

The Head of Internal Audit (the Head of Audit and Risk Management) has free and unfettered access to the following:

- Chief Financial Officer (Corporate Director, Resources)
- Head of Paid Service
- Chair of the Audit Committee (AC)
- Monitoring Officer
- Any other member of the Corporate Management Team

The independence of the Head of Internal Audit is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Head of Paid Service and the Chair of the Audit Committee contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.



Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Head of Audit and Risk Management and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

## Internal Audit Strategy

**This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter. The Strategy will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.**

### Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Corporate Director, Resources to support him in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service.

### Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Head of Audit and Risk Management), Internal Audit will:

- Provide management and members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and

- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not responsible for the agreed design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

### **Service Delivery**

The Service will be delivered by the Council's internal audit team and the Council's strategic internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit and Risk Management and supported by the Audit Manager.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Tower Hamlets will participate in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

### **Internal Audit Planning**

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Management Team (CMT) and Management;
- The Council's Risk Register;
- Outputs from other assurance providers;
- Requirements as agreed in the joint working protocol with External Audit  
The Head of Internal Audit and Risk Management or his deputy will attend all Departmental Management Team meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.

The Internal Audit Plan 2014-15 is composed of the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk

processes and will increasingly include work in areas where the Council services are delivered with other organisations.

Internal Audit planning is already significantly based on the Council's risk register. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.
- **Knowledge and Insight:** The Head of Audit and Risk Management, in conjunction with the Internal Audit and the Corporate Fraud teams, will use the knowledge and insight gained of the organisation and carry out reviews in specific areas.

### Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit Committee on a quarterly basis. Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

### Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental

and corporate management on a quarterly basis. Summary reports are also provided to the Audit Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

**Internal Audit – Resources 2014/15**

	<b>Revised Plan</b>	<b>%</b>	<b>Outturn</b>	<b>%</b>
In-house staff days	1170	70%	1252	73%
Deloitte / external	501	30%	456	27%
	<b>1671</b>		<b>1708</b>	
<b>Gross days</b>				
<i>less</i> Leave	145	63%	159	58%
<i>less</i> Sickness absence	15	7%	18	8%
<i>less</i> Non Operational Time	70	30%	98	34%
<b>Unproductive time</b>	<b>230</b>		<b>275</b>	
<b>Net productive days</b>	<b>1441</b>		<b>1433</b>	

**Internal Audit Budget 2014/15**

	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Salaries</b>	<b>424</b>	<b>424</b>	<b>0</b>
<b>Contract costs</b>	<b>24</b>	<b>10</b>	<b>-14</b>
<b>Running costs</b>	<b>207</b>	<b>250</b>	<b>+43</b>
<b>Central Recharges</b>	<b>150</b>	<b>150</b>	<b>0</b>
<b>Gross cost recharged</b>	<b>805</b>	<b>834</b>	<b>+29</b>

\*- includes the cost of three officers in the corporate fraud team.

## Internal Audit Reports 2014/15 – Summary of Audit Reports

### Assurance ratings

#### Level

- 1 Full Assurance**      ***Evaluation opinion*** - There is a sound system of control designed to achieve the system objectives, and  
***Testing opinion*** - The controls are being consistently applied.
  
- 2 Substantial Assurance** ***Evaluation opinion*** - While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/ or  
***Testing opinion*** - There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
  
- 3 Limited Assurance**      ***Evaluation opinion*** - Weakness in the system of controls are such as to put the system objectives at risk, and/or  
***Testing opinion*** - The level of non-compliance puts the system objectives at risk.
  
- 4 No Assurance**      ***Evaluation opinion*** - Control is generally weak leaving the system open to significant error or abuse, and/or  
***Testing opinion*** - Significant non-compliance with basic controls leaves the system open to error or abuse.

#### Significance ratings

- |                  |   |
|------------------|---|
| <b>Extensive</b> | High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m. |
| <b>Moderate</b>  | Medium impact, key systems and / or Scale of Service £1m- £5m.  |
| <b>Low</b>       | Low impact service area, Scale of Service below £1m.  |

**Summaries of 2014/15 audit reports not previously reported**

Assurance level	Significance	Directorate	Audit title
<b>LIMITED</b>			
	Extensive	Education, Social Care and Wellbeing	Cleaning Services – Contract Services
	Extensive	Education, Social Care and Wellbeing	Direct Payments
Page 226	Extensive	Education, Social Care and Wellbeing	Failed Visit Procedures
	Extensive	Tower Hamlets Homes	Aids and Adaptations - Follow Up audit
	Moderate	Communities, Localities and Culture	Rechargeable Works
	Moderate	Education, Social Care and Wellbeing	St Mary and St Michael Primary School
	Moderate	Education, Social Care and Wellbeing	Ian Mikardo High School – Special School
	Moderate	Education, Social Care and Wellbeing	Marion Richardson Primary School
	Moderate	Education, Social Care and Wellbeing	St Luke's Church of England Primary School
<b>SUBSTANTIAL</b>	Extensive	Communities, Localities and Culture	Leisure Services Contract Monitoring
	Extensive	Communities, Localities and Culture	Market Services Follow Up Audit
	Extensive	Communities, Localities and Culture	Highways Inspections
	Extensive	Communities, Localities and	Risk Management



Assurance level	Significance	Directorate	Audit title
		Culture	

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
	Extensive	Communities, Localities and Culture	Management and Control of Blue Badges
	Extensive	Corporate	Equalities Impact Assessments – Follow Up
	Extensive	Corporate	Early Retirement and Voluntary Redundancy Programme – Employment Options
	Extensive	Development and Renewal	Risk Management
	Extensive	Development and Renewal	Pre-contract Audit – Watts Grove
	Extensive	Development and Renewal	Landlord Incentive Scheme
Page 228	Extensive	Education, Social Care and Wellbeing	Risk Management
	Extensive	Education, Social Care and Wellbeing	Emergency Duty Team (Children)
	Extensive	Law, Probity and Governance	Freedom of Information – Follow Up audit.
	Extensive	Tower Hamlets Homes	Out of Hours Repairs
	Extensive	Tower Hamlets Homes	Financial Systems
	Extensive	Resources	Budgetary Control
	Extensive	Resources	Business Rate Retention Scheme
	Extensive	Resources	Capital Programme Monitoring
	Extensive	Resources	Creditors Follow Up Audit
	Extensive	Resources	Treasury Management
	Extensive	Resources	Debtors
	Extensive	Resources	Council Tax
	Extensive	Resources	Payroll
	Extensive	Resources	NNDR
	Extensive	Resources	Recruitment Follow UP
		Moderate	Education, Social Care and

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
		Wellbeing	
	Moderate	Education, Social Care and Wellbeing	Bishop Challoner Secondary School
	Moderate	Education, Social Care and Wellbeing	Stepney Greencoat Primary School
	Moderate	Education, Social Care and Wellbeing	Shapla Primary School
	Moderate	Education, Social Care and Wellbeing	Sir John Cass Foundation School

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cleaning Services – Contract Services	Apr 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around Cleaning Services are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Signed SLAs were not in place with all clients, and no documented review of the costs of the services provided to clients has been performed. No records of requests received from the schools for additional services (window and carpet cleaning) are maintained, and variations to the SLAs are not formally agreed and recorded.</li> <li>• In 13 cases of 25 tested, the payments made via Commensura to agencies for the staff time purchased could not be confirmed to be accurate against the agency staff bookings records maintained. Additionally, all of the booking records for August and December 2013 were not retained due to an IT malfunction.</li> <li>• Cases were found where the client organisations were not invoiced and followed up for payment in a timely manner, and in some cases had not been recharged for services purchased on their behalf by the Cleaning Service.</li> <li>• Training and DBS records on Cypad were not up to date, and the DBS checks had expired for 19 of the 102 cleaning staff employed. Signed timesheets were not available for some staff, and were not signed as having been confirmed by a separate officer.</li> <li>• At the time of the audit, no stock records were in place and regular inventories were not conducted.</li> <li>• No customer surveys have been sent out to clients regarding cleaning services in the past twelve months.</li> </ul> <p>All findings and recommendations were agreed with the Head of Contract Services, and the Head of ESW Resources, and reported to the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Limited

## **Management Comments**

### ***Signed SLAs***

A full review of all SLAs is currently being reviewed with new documentation being designed, where appropriate. All sites have been advised of their costs for 2015/16 and any sites who have not returned their SLA duly signed will be pursued to do so.

A Variation Order type form is to be used (rather than the existing email trails) to record requests for additional services with the Administration Team being notified by the Area Cleaning Manager on the end of month income return to ensure all invoicing occurs in a timely manner.

### ***Payments to Comensura***

Meeting with Comensura agencies to ensure there is a process of notifying Contract Services if the actual person carrying out the duties differs from that originally notified. Monthly tick sheet to ensure each booking has been verified is now in place.

### ***Client Invoicing***

Discussions have taken place to see what opportunity there is for the service to be added to the Council's SLA Online System. Not all the service's transactions can be handled through internal recharges as many are school establishments which require an invoice and many also are unwilling to pay on any frequency of more than a month. Whilst there is no legal route to retrieve outstanding payments the Council's Recovery Team will do all that they can to assist.

Spot checking process for income to ensure data has been transposed accurately with the level of checking to increase if issues are highlighted.

### ***Training, DBS and Staff Signing In Sheet Checking***

DBS checks are managed centrally and when/if advised of the DBS reference number then this is updated to CYPAD by the Administration Team. Under the new DBS system managers do not see the employee's certificate. All DBS numbers are recorded on Resource Link separately so are retrievable if required.

Training records are being reviewed and updated where necessary on CYPAD by the Administration Team. A piece of work is being completed with eHR to produce a monthly report of DBS checks.

We have been working with Corporate IT Project Team to install biometric signing in systems for all staff at all sites so all records are cloud based and accurate records can be maintain and verified. A trial is currently being organised before the full implementation in a small number of sites.

### ***Stock Records***

Monthly stock checks against consumption and stock delivered are now being completed.

### ***Customer Surveys***

It is intended to carry out customer surveys during the next few weeks to provide the opportunity to analyse returns during the summer break.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Direct Payments	Mar 2015	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Direct Payments System are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• From a sample of 20 new users for 2013/14, in 11 cases there was no signed user agreement retained on the system.</li> <li>• The system records were not updated with the latest financial information received as per the quarterly user returns in nine cases of 25 tested, and the returns had not been returned in a further six cases.</li> <li>• In the same testing sample, there were 11 cases where clawback of funds was required based on the information on the system, but no action had been undertaken to date in nine of these. There were also cases where we noted unspent amounts of £25,000, £16,000 and £13,000 in the individual's account.</li> <li>• Delays and errors were noted in the set up and payment of the cash budgets.</li> <li>• The six week follow-up and annual reviews were not completed in some cases.</li> </ul> <p>All findings and the recommendations made were agreed with the Programme Director: Special Projects, and the Brokerage Team Manager (East), and reported to the Interim Service Head – Commissioning and Health, Interim Service Head - Adult Services, and the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Limited

**Management Comments**

A number of immediate steps were taken in response to the audit findings to further strengthen operational procedures relating to ensuring that signed user acceptance forms are included on individuals' records, that finance information is updated in a more timely fashion and that claw-backs are actively managed. Most claw-back activity relating to a particular financial year happens during quarter 1 of the subsequent year, and the responsible Service Manager is therefore planning a follow up check on a sample of case files in July 2015. This will test the extent to which compliance with the three areas referenced above has improved and will identify any further improvements that are necessary.

Work to extensively update the Direct Payments Policy and Procedures in response to the Care Act coming into force is largely complete and due to be presented to the Directorate Management Team for approval before the end of June 2015.

The Directorate has also put additional resources into ensuring that individual's support plans are reviewed at six weeks and then annually on schedule.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Failed Visits Procedures	May 2015	<p>This audit examined the controls for managing and monitoring compliance with the Directorates procedures for failed visits. The audit was undertaken at the request of the Corporate Director ESCW. A failed visit occurs when care and other staff attending a vulnerable adult's home are unable to gain access. This may be a scheduled visit or as part of concerns about a vulnerable person.</p> <p>There were documented procedures in place. The procedures were supported by a failed visit record, standard letter, flow chart and referral form. There was a case note type within the social care case management system (Framework-i) for recording failed visits. Failed Visits Procedure forms part of the current Service Specification for Domiciliary Care provision and service providers are required to ensure that these procedures are included in staff induction training programme. We, however reported the following issues:-</p> <ul style="list-style-type: none"> <li>• The Procedures were out of date. There was no evidence of the procedures being reviewed and updated, they were not version controlled and dated. Although we were advised by East London Mental Health NHS Foundation Trust teams that they follow the Local Authority's procedures, this requirement had not been made explicit within the procedures.</li> <li>• Not all teams were complying with the Failed Visits Procedure guidance as Long term Homecare had their own internally produced office procedures. There was risk that procedures were being applied inconsistently.</li> <li>• We noted variability in the way failed visits were recorded in Framework-i. In 17 out of a sample of 65, we noted that failed visit case notes were being used to record non failed visit events, increasing the risk that the number of failed visits could be under/over reported resulting in poor management information for monitoring purposes.</li> <li>• We highlighted a number of issues with regards to insufficient information being recorded on Framework-i on either the background leading to the failed visit, the actions taken by staff and/or the outcomes achieved. In 6 out of 65 cases reviewed, there was insufficient information recorded on the system to confirm that the required follow-up action had been taken and five cases, where the case notes of the failed visit were in retrospect.</li> </ul>	Extensive	Limited



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
		<ul style="list-style-type: none"> <li>• There was no formal protocol in place which covered the transfer of responsibility for care co-ordination of the Services User's social care provision, from the Council to the East London Foundation Trust or any other Health Providers.</li> <li>• At the time of audit, external domiciliary care service provider's compliance with Failed Visits Procedure was not subject of routine contract monitoring.</li> </ul> <p>All findings and recommendations were agreed with the Interim Service Head, Adults Social Care and final report was issued to the Corporate Director, Education, Social Care and Wellbeing.</p>		

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**Management Comments**

With regards to externally commissioned providers, the Quarterly Monitoring Return required by our Contract Management Team has been updated to require the commissioned providers to provide information on failed visits, which can be cross-referenced with information on Frameworki. The updated failed visits policy will be disseminated to commissioned providers once it is completed, and the importance of compliance stressed both at the point of dissemination and in subsequent routine contract monitoring visits.

Operationally, when a failed visit occurs, the appropriate checks are being carried out by staff and the resulting actions are formally recorded and reported to management and the appropriate agencies in accordance with prescribed procedures. Internal audit have noted that all recommendations have been accepted and are in the process of being implemented. Service managers are also being required to ensure application of the process within each area, including ELFT.

Teams have also been reminded of the requirements linked to failed visits and the following up of commissioned support to establish that the support has in fact commenced.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Aids and Adaptations Follow Up Audit	May 2015	<p>A full systems audit was undertaken in 2013 for which the final report was issued in January 2014. This audit was assigned limited assurance. The objective of this audit was to assess whether the agreed recommendations at the conclusion of the initial audit had been implemented.</p> <p>Since the previous audit, the Aids and Adaptations section of the Tower Hamlets Homes (THH) has been short-staffed due to the long-term sickness of the main post holder in the process. Despite this, some targets have now been set, inspections are being undertaken on all works valued over £1k, and plans are in place for improvements to the management information reported, including performance management information.</p> <p>Our follow up review showed that of the seven recommendations made in our original report (three high priority and four medium priority) none have been fully addressed.</p> <p>The main issues arising from our review are as follows</p> <ul style="list-style-type: none"> <li>• Management have set a target for 10% of major works adaptations to be inspected, although there is no formal target which has been set for other works to be inspected. Where possible, major works have been inspected, although from April 2015 management have undertaken to inspect 100% of major works. Some clarification around the actual target is required and this needs to be agreed by both the Council and THH.</li> <li>• Performance reporting is not currently in place.</li> <li>• KPIs for all contractors should be developed and agreed to assist in monitoring contractor performance. In addition, the results generated by KWEST could be more effectively utilised.</li> <li>• There are no signed contractual agreements in place with either Openview Limited or Precision Limited.</li> </ul> <p>All findings and recommendations were agreed with the Head of Repairs, and the M &amp; E and Specialist Repairs Manager and reported to the Director of Investment, the Director of Finance and Customer Services, and the Chief Executive.</p>	Extensive	Limited

## Management Comments

A robust performance management regime is in place for Aids and Adaptation. Management have clarified with staff the performance targets for post inspection that have been set. Post inspections are undertaken prior to payment to the contractor.

The targets for post inspections are:

10% of all jobs with a value of under £1000

100% of all jobs over £1,000

For jobs over £1,000, 29 were completed in April 2015 that require 100% post inspection, of which 18 post inspections have been carried out and 11 have inspections raised to be done. Only one completed job under £1,000 require post inspection. From June 2015, a report to generate a random 10% sample of works under £1000 has been created to assist management and staff. Post inspection rates are also reviewed in officers' 121 meetings.

In addition, the following key performance indicators are monitored through the contract meetings and the next meeting is scheduled for 23<sup>rd</sup> June 2015:-

- No. Requests rec'd for month
- No. A & A works completed for month
- No. Cases for month and to date
- No. and percentage completed in target
- Expenditure to date
- Expenditure against budget (variance +/-)

The Head of Repairs has liaised with LBTH Legal Services on 9<sup>th</sup> June 2015 with a view to confirming signed contractual agreements that are in place for both Openview Limited and Precision Limited. A follow up meeting is planned for 19<sup>th</sup> June 2015.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Rechargeable Works	March 2015	<p>This audit examined systems for correctly identifying and charging for works carried out under Section 278 Agreements which are undertaken by the Council under its Measured Term contract and rechargeable to client/customers such as Developers. There is also an Administration Fee charged on the cost of works.</p> <p>Our testing found that there was guidance in place for Developers to follow and that s278 Agreements were only entered into after planning permissions had been granted. The systems for estimating the works, collecting the estimated sums from Developers, raising of orders and paying contractors against these orders were adequate.</p> <p>However, we reported that once the works are completed, there is no system for preparing and issuing the Final Accounts to the Developers. Out of eight schemes tested by Audit, we found that in five cases the final costs of the schemes were less than the estimate, and in three cases the final costs had exceeded the estimate. There was no supporting documentation to evidence that these final costs had been reviewed so that overcharges could be refunded to Developers and additional costs invoiced and recovered. This practice was found to be contrary to procedures and the s278 legal agreement.</p> <p>Our testing also showed that in some cases the Administration fees were not calculated and coded to the revenue account correctly, which resulted in the revenue account not fully being credited for the administration on-cost.</p> <p>All findings and recommendations were agreed with the Service Head, Public realm and final report was issued to the Head of Paid Services and Corporate Director, Communities, Localities and Culture.</p>	Moderate	Limited

## Management Comments

This Audit identified 6 areas of good practice in the management of S278 works, but found 4 areas of high priority risks. These areas of concern required joint actions between Engineering, CLC Finance and Legal to tighten up existing practices.

An action plan incorporating 9 key actions was agreed between these 3 parties and all have been incorporated into revised procedures implemented as of April 1<sup>st</sup> 2015, with the exception of two requiring more detailed consideration.

The actions implemented to improve the S278 procedure were :-

- the revision of the S278 process map,
- provision of revised estimates to the developer prior to commencement of works,
- verification of the Budget Monitoring Sheet by Finance;
- final accounts forwarded to the developer upon completion ;
- over / undercharges identified and rectified;
- file note provided where additional works are carried out to explain reasons, record action taken to alert the developer of explain why they are not liable for these costs;
- specification in the S278 agreement that payment must be by BACS.

Full analysis of the final accounts for completed S278's over the past 3 financial years ( 2012/13 – 2014/15 ) is required to be completed by the end of September 2015 to establish the amount of over or under recovery of costs.

Legal are also required to give a definitive view on their initial opinion that recovery of costs is not possible where no revised estimate was provided to the developer and the definition of the appropriate fee to be applied. This request has been passed to Legal in order that it can inform appropriate actions arising from the analysis of final accounts ( above).

With the implementation of these recommendations, the Head of Engineering is confident of achieving an improved level of assurance at the six month audit review.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Mary and St Michael Primary School	Mar 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Premises and Finance Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• From examination of a sample of four higher value purchases above £10,000, we noted that for four higher value payments tested, in all cases the basis of supplier selection had not been documented. For two purchases over £20,000 a tendering process could not be evidenced, although the School's Financial Procedures Manual states that a tendering process should occur for orders above £20,000. In three of the four instances, it could not be evidenced that full Governing Body approval had been obtained, whereas the School's Financial Procedures Manual states that full Governing Body approval is required for all payments over £10,000.</li> <li>• It could not be evidenced that monthly budget monitoring reports were produced or signed by the Head Teacher for three out of six months sampled. Furthermore, it could not be evidenced that budget monitoring reports were being produced for specific budget holders.</li> <li>• Bank reconciliations are being performed directly onto the School's accounting system and no reconciliation report to evidence monthly reconciliations was being produced, or could be produced retrospectively. Therefore, no record of the monthly bank reconciliations could be obtained or evidenced that these are independently checked.</li> <li>• Documentation to evidence VAT reclaims for petty cash transactions could not be obtained at the time of audit. From a sample of 10 petty cash purchases, one voucher had not been signed as authorised. In addition, one voucher did not state who had received the cash..</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Ian Mikardo Special High School	Mar 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Premises Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Our examination of a sample of 10 general purchases identified that a purchase order had not been raised for three out of 10 purchases made. For one out of six applicable purchases, the purchase order had not been signed in line with the Scheme of Delegation, and there was no evidence that a goods receipt check had been carried out for all 10 purchases.</li> <li>• From our testing of a sample of two higher value purchases and one contract above £15,000, we noted that for one of the higher value purchases, there was no evidence of sufficient quotes being obtained. A 'Chair's Action' was raised for authorisation to proceed with the purchase. This detailed the rationale for selecting the supplier, but it did not provide any alternative options, costs or suppliers for value for money purposes. There was no evidence in subsequent Finance Committee minutes that the Chair's decision to approve the purchase was formally ratified. For another higher value payment, whilst it was noted that the Governing Body had approved the supplier selection for the new MIS software, there was no evidence that the invoice concerned had been authorised, or subsequently reported to the Governing Body for information.</li> <li>• The private funds had last been audited in June 2013 for the year ended 31 March 2013. There was no evidence of the audited accounts being presented to the full Governing Body.</li> <li>• Examination of recent cheque entries and identified that cheque entries had not been entered onto the system promptly. The last cheque issued by the school at the time of audit was cheque number 005879. However, the system was up to date only up to cheque number 005854.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Marion Richardson Primary School	Feb 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and General Purposes Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• We noted for two higher value payments tested (i.e. in excess of £5,000) evidence of the appropriate Governing Body or Finance and General Purposes Committee approval could not be demonstrated. For one higher value payment tested, the Finance and General Purposes Committee had approved the expenditure, but the reasons for the approval were not explicitly stated. For two higher value payments tested, we were unable to confirm that three quotes had been obtained.</li> <li>• From our examination of a sample of 10 general purchases, we noted a purchase order had not been raised for seven out of 10 purchases made. There was no evidence that a goods receipt check had been carried out for eight out of 10 purchases (or evidence of receipt).</li> <li>• Examination of the personnel files for a sample of new starters identified a number of exceptions, whereby documentation was not on file, such as evidence of identity checks, DBS information, references, medical checks, etc.</li> <li>• We also noted a number of issues with regard to the quality of meeting minutes and other clerking issues. From discussions with the Headteacher, we note that governors were aware that clerking of meetings (Full Governing Body, Finance and Curriculum) had become an issue and that key decisions made were not being minuted appropriately or accurately. Because of this a decision was made to dispense with the services of the external clerk and a new clerk was appointed through Tower Hamlets governing body support team from 1<sup>st</sup> April 2014.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Limited



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Luke's Church of England Primary School	May 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Resources Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The School did not formally tender for the renewal of a photocopier contract in December 2014, which was in excess of £10k, as per the School's 'St. Luke's Code of Practice for Financial Management' document and the LBTH requirements for procurement. We also noted a number of other examples where the Code of Practice had not been complied with in respect of procurement.</li> <li>• For seven out of nine applicable purchase orders sampled, there was no evidence that an official order form had been completed. From the remaining two purchase orders sampled with an order form attached, one of the order forms was not signed. (Please note that this issue was also identified in the School's previous internal audit report, dated April 2014). For three out of nine applicable purchase orders sampled, there was no evidence that a goods or services received check had been performed. Since the above orders also did not have an approved purchase order form attached, sufficient segregation of duties could not be evidenced.</li> <li>• A number of issues were noted following a review of a sample of five new starters files, e.g. in four instances, documentation to evidence that an identity check had been performed and a right to work check had been completed was not held on file.</li> <li>• From examination of the equipment loan forms held at the School, eight out of ten equipment loan forms could not be located to evidence that the responsibility and liability for the equipment loan was accepted by the borrowers</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Limited

## Management Comments

The Education, Social Care & Well-being Finance Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by ESCW schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.

In addition, necessary intervention is put in place by ESCW Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities. .

The schools have acted immediately and agreed to complete all actions with a defined timeframe.

The schools and the governing bodies are fully committed to the recommendations made in the Audit report by:

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

Schools Finance Manager will contact the school and their bursar to review and support the school in its recommendations with additional support by signposting them to the guidance procedures to follow.

It is proposed that a member from schools finance, Audit, HR and learning and achievement will meet with the Head and Chair of Governors to support and ensure the recommendations are completed to a high standard.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Leisure Services Contract Monitoring  Page 245	Mar 2015	<p>The main objectives of the audit were to provide assurance that there are sound systems and controls in place for managing and monitoring the contract to ensure that the contractor delivers the services contracted for economically, efficiently and effectively., and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• There is no contract variations log in place.</li> <li>• The contract documentation for the Mile End Sports Centre lease has not been signed off.</li> <li>• Formal policies and procedures are not currently in place to set out the processes for monitoring the performance of the contractor.</li> <li>• In testing, cases were found where the contractor invoices were not paid by the due date as per the invoice received from the supplier.</li> </ul> <p>All findings and the recommendations made were agreed with the Service Head Culture, Learning and Leisure, and reported to the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Market Services Follow Up Audit	Mar 2015	<p>A full systems audit on Markets was undertaken in 2013 for which the final report was issued in November 2013. This audit was assigned limited assurance. The objective of this audit was to assess whether the agreed recommendations at the conclusion of the initial audit had been implemented.</p> <p>Our follow up review showed that the sole high priority recommendation made in our original report has been addressed. However, of the six medium priority recommendations made, we identified that four of these had not been fully implemented.</p> <p>The main issues still outstanding are as follows;</p> <ul style="list-style-type: none"> <li>• There has been a delay in documenting the procedures for THEOs;</li> <li>• Daily allocation sheets still remain incomplete. Of the 24 daily allocation sheets tested, 11 of them had missing attendance marks;</li> <li>• Documentation confirming the existence of public liability insurance cover of traders was not available in a number of cases;</li> <li>• The Markets Strategy Progress Report is not clear in terms of what the level of increase in charges would be required in order to run the service effectively and to implement some of the suggested initiatives for improvements and more detail is required in this regard to enable the reader to make informed decisions based on robust financial data;</li> <li>• In addition, we have also made one new recommendation to the effect that management should request that the Markets team are granted full user permissions within Agresso in respect of managing its debtors, in order to make the process of arrears recovery more effective.</li> </ul> <p>All findings and recommendations were agreed with the Head of Service, Community Safety Enforcement and Markets and reported to the Service Head – Safer Communities, and the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Highways Inspection	Mar 2015	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Highways Inspection Programme are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Evidence of works checks made, and the approval of applications, are kept by individual Council officers, and are not stored centrally. There is, therefore, a disconnect between this part of the control process and the authorisation process, in that the authoriser cannot see clearly that the works being paid for have been undertaken to a satisfactory standard. Furthermore, there is no documented guidance in this area that sets out which works should be prioritised for checking (e.g. those over a certain financial value).</li> <li>• Management reconciles a sample of payments with the task orders held on file; however, this task can be frustrated at times by a lack of detailed information on the invoices received from the contractor, which leads to difficulties in reconciling the two items.</li> <li>• We could not evidence that action was taken to investigate cost variances between estimated and charged cost for works undertaken by the contractors.</li> <li>• We found that of the 25 public reports in respect of highways defects that we tested, seven had not been investigated and action taken in a timely manner.</li> </ul> <p>All findings and the recommendations made were agreed with the Head of Clean and Green, and reported to the Service Head, Public Realm, and the Corporate Director – Communities, Localities and Culture and Interim Head of Paid Service.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management –  CLC   Page 248	March 2015	<p>This audit sought to provide assurance that the systems in place for identifying, assessing, mitigating and reporting of risks were sound and secure. Our review found that Risk Management policies, procedures and guidance were readily available and staff received Risk Management training. Roles and responsibilities for the Risk Champion were clearly defined. A Risk Register was maintained and the Risk Management Process document was approved by the DMT.</p> <p>According to the procedures, identification of risks is embedded in the service planning process. However, we noted that the standard corporate risk template was not used for recording the risks identified by respective teams and that one service had no service plan, therefore no risks had been identified for this team. We noted that risks assessed at service levels, had not been challenged independently. We also recommended that sample checks should be carried out on the quality of the control measures to provide assurance that each risk has an adequate control measure which is working and mitigating the risk.</p> <p>All findings and recommendations were agreed with the Directorate Risk Champion and final report was issued to the Head of Paid Services and Corporate Director, Communities, Localities and Culture.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Blue Badges	April 2015	<p>This audit reviewed the systems in place for the control, assessment and monitoring the use of Blue Badges. The Blue Badge scheme provides a national arrangement of parking concessions for people with severe mobility problems to access goods and services by allowing them to park close to their destination. The Scheme is open to eligible disabled people irrespective of whether they are travelling as a driver or as a passenger.</p> <p>Our review showed that in general the service is operating in accordance with procedures. A Contract was in place for the Provision of External Mobility Assessments and these assessments were undertaken in pre-arranged clinics. Where a decision to refuse the award of a Blue Badge was made, applicants were informed in writing and information was provided on the appeals process. Meetings with the external assessment contractor were being held in accordance with procedures and these meetings were structured around service delivery</p> <p>Our testing identified some control weaknesses. For example, testing of 30 applications showed that 22 applicants provided documentary proof to support automatic entitlement. However, in 8 cases we were unable to evidence the applicant's proof of identity. Further enquires showed that these applicants had applied on an older type application form which did not request provision of proof of identity. We reported that there needed to be proactive &amp; reactive enforcement of fraudulent Blue Badge users by the deployment of Parking Fraud Officers &amp; CEO's on a planned and directed basis. We recommended that Legal Services should seek authority from the Registrar General Office to release monthly death lists to the Mobility Team which could be matched with data held by the Team to cancel Blue Badges of the deceased.</p> <p>All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Head of Paid Service and Corporate Director, Communities, Localities and Culture.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Equalities Impact Assessment Follow Up Audit  Page 250	March 2015	<p>This follow up audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original report finalised in December 2013.</p> <p>The previous audit had made a recommendation that there should be a centralised monitoring across the Council to evidence due regard of equality issues within key decisions, plans, strategies or policies which are not required to be reported at committee level. However, our testing showed that although monitoring control had started, there was a need to improve consistency in the quality of Equality Analysis for all reports considered at DMTs and that this needed to be carried out to the required standard. In addition, we could not see evidence that DMT reports and supporting equality analysis documentation was being reviewed by One Tower Hamlets Service each quarter.</p> <p>All findings and recommendations were agreed with the Service Head, Corporate Strategy and Performance and final report was issued to the Head of Paid Services.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Early Retirement and Voluntary Redundancy Programme	May 2015	<p>This audit involved an examination of the systems in place for the Employment Options Savings Programme (ER/VR). A Project Initiation Document (PID) was developed in July 2014 setting out the remit of the programme and the mechanism in place to achieve the overall aim for making permanent reductions to the general fund salary budget through workforce savings. The Programme was widely advertised on the intranet and a number of drop – in sessions were held for those expressing an interest in the ER/VR programme.</p> <p>Our review showed that the guidance for managers and employees was available on the LBTH intranet. The options and processes including deadlines had been clearly communicated to staff, managers and trade unions. The ER/VR project was overseen by the People Board. Various working documents, e.g. a control spreadsheet had been developed to capture key data at various stages of the process. Access to sensitive data had been restricted to relevant members of staff working on the project team. Standard letter templates had been developed for various stages of the ER/VR process. An Equality Impact Assessment was carried out for the Employment Options Savings Programme. Calculations of redundancy and discretionary payments were verified as correct.</p> <p>However, we noted that the recommendations agreed by directorates were not evident in the case of the CLC directorate where certain decisions were made outside of DMT and this was not recorded. For the ESCW directorate, what was discussed and agreed could not be evidenced except for meetings invites showing meetings were held to discuss the ER/VR requests.</p> <p>In line with the PID for the Employment Options Savings Programme, decisions ratified by the People Board could not be evidenced except for ER/VR being an agenda item in the meetings held in October.</p> <p>All findings and recommendations were agreed with the Service Head, Human Resources and Workforce Development and final report was issued to all Corporate Directors.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management – Development and Renewal	April 2015	<p>The objective of this audit was to provide assurance that the systems in place for identifying, assessing, mitigating and reporting of risks were sound and secure. Our review found that Risk Management policies, procedures and guidance were readily available and staff received Risk Management training. Roles and responsibilities for the Risk Champion were clearly defined. A Risk Register was maintained. for the Directorate.</p> <p>However, we found that some risks within the Directorate Risk Register needed to be defined clearly and that the risk scoring and assessment process needed to be improved. Our testing of a sample of control measures documented in the Directorate Risk Register showed that in some cases the control measures needed to be appropriately considered and that pprogress updates within the risk register needed to be carried out on a timely basis.</p> <p>All findings and recommendations were agreed with the Acting Service Head, Resources 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
Pre-Contract Audit  Watts Grove Affordable Housing Scheme	April 2015	<p>This audit reviewed the procurement process including invitation to tender, sifting brief, tender receipt, tender evaluation and contract award process for the Watts Grove capital project. A capital estimate of £26.33m (including fees and on-costs) was approved under Mayor's Executive Decision on 28/02/2014 and the contract was awarded on the 10/12/2014 in the sum of £23.2m on a fixed rate basis.</p> <p>We found that the contract was procured using the London Development Panel (LDP) Framework. The successful contractor was selected following a competitive tendering process off the Framework. Public authorities with land suitable for residential development in London are encouraged to use the LDP Framework to achieve savings in time and costs of procurement over a full OJEU compliant process. Testing showed that the tender sum was within the capital estimate approved by the Cabinet. Consultants and Project Management staff carried out tender evaluation. Tenders were evaluated and scored in line with the specified evaluation criteria published on the Invitation to Tender. The Project Manager maintained a financial tracker to monitor the costs of the project to date, the details of which were reported to the Major Projects Board.</p> <p>However, we found some minor issues like the Project Initiation Form, although signed-off by the Project Sponsor and Project Manager, was not signed off by the Procurement Category Manager. The Record of Tenders Register was not evidenced as signed by officers who attended and witnessed the tender opening process. The tender evaluation was undertaken by an Evaluation Panel of five Panel Members. However, the Evaluation Report provided by Corporate Procurement had not been signed or dated by any of the Panel Members. Furthermore, only not all Panel Members had completed a Declaration of Interest form for the project. We also noted that in Cabinet report of 05/11/2014, concerning the selection of the preferred bidder, there were errors regarding tender sums, which required amendments which were tabled. We, therefore, recommended that cabinet reports be subject to robust quality checking process.</p> <p>All findings and recommendations were agreed the Service Head, Corporate Property and Capital Delivery 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
Landlord Incentive Scheme	May 2015	<p>The audit was designed to provide assurance to management as to whether the systems of control around the payment of incentives to landlords in respect of housing homeless families are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures.</p> <p>The main issues arising from our review are as follows</p> <ul style="list-style-type: none"> <li>• The Scheme of Delegation under which the decision was taken to change the scheme from the Family Rent Deposit Scheme to the Landlord Incentive Scheme has not been formally approved and does not form part of the current version of the Constitution.</li> <li>• Testing of a sample of 20 incentive payments pertaining to the 2014 calendar year identified three cases where the Private Sector Access Scheme Agreement was not on file.</li> <li>• Testing of a sample of 20 incentive payments pertaining to the 2014 calendar year, found two cases where landlord accreditations were not on file. In addition, for the same two cases, there was no evidence of electrical inspections being undertaken, no evidence of approval of eligibility to the scheme, proof of property ownership, ID checks, etc.</li> </ul> <p>All findings and recommendations were agreed with the Service Manager Housing Management &amp; Procurement, and the Service Head, Housing Options Service and reported to the Director of Development and Renewal, and the Interim Monitoring Officer.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Risk Management – Education, Social Care and Wellbeing  Page 255	Dec 2014	<p>This audit provided assurance that the systems in place for identifying, assessing, mitigating and reporting of risks were sound and secure. Our review found that Risk Management policies, procedures and guidance were readily available and staff received Risk Management training. Roles and responsibilities for the Risk Champion were clearly defined. A Risk Register was maintained. for the Directorate.</p> <p>However, from our discussions with the Risk Champion and from our testing, we found that controls around risk identification needed to be strengthened. From discussions with senior officers, we found that the risk scoring and assessment process was not consistent across the Directorate and needed to be challenged by the DMT, Service Managers and the Risk Champion.</p> <p>Our testing of a sample of control measures documented in the Directorate Risk Register showed that in some cases the control measures needed to be properly considered and progress updates within the risk register needed to be detailed. .</p> <p>All findings and recommendations were agreed with the Risk Champion and Service Head, Resources and final report was issued to the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Emergency Duty Service (Children)	May 2015	<p>The main objectives of the audit were to assure management as to whether the systems of control around the Emergency Duty Service (Children) are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• Hard copy notes are retained by social workers. These notes are used to submit the reports for each case. Through discussion with management, it was understood that case workers retain the hard copy notes in locked cabinets at their homes, as the social workers may need to refer back to these notes until the case is resolved. Management should remind staff of the requirement to record all relevant information for inclusion within the formal record of the case (on Framework I) and to securely dispose of any other paper records. A proposed timescale (four weeks) for the retention of handwritten records should be agreed and communicated to staff, after which time staff should be instructed to bring any handwritten records to the office for destruction in the normal way.</li> </ul> <p>All findings and the recommendations made were agreed with the Manager, Emergency Services (Children), and the Interim Service Head, Children's Social Care, and reported to the Corporate Director, Education, Social Care and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Freedom of Information  Follow Up audit	April 2015	<p>This follow up audit assessed recommendations made at the conclusion of the original audit finalised in February 2014.</p> <p>Our testing showed that of the five medium priority recommendations made all had been progressed. We noted that sample testing of FOI requests which had been processed during a period, were being undertaken. However, to improve the control further we have recommended that the sample checking should be carried out on a timely basis and that the quality and consistency of sample checking be reviewed, checked and evidenced.</p> <p>In cases where corrective action was identified by management during the sample checking process, we recommended that appropriate corrective action needed to be taken which would make the sample checking meaningful until the new system is implemented.</p> <p>All findings and recommendations were agreed with the Service Head, Legal Services and final report was issued to the Monitoring Officer.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Out of Hours Repairs	Mar 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the Out of Hours Repairs system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures.</p> <p>The main weaknesses identified were as follows:-</p> <ul style="list-style-type: none"> <li>• From testing conducted on a random sample of 20 calls received by GDIT, it was found that adequate information is not being recorded on Northgate SX3 as to the completion of work orders, such as works performed, solutions used, time of arrival, time of completion, or any issues encountered. The Northgate records are also not being updated in a timely manner.</li> <li>• There is currently no monitoring system in place to provide data on whether the repairs contractors arrive at the site in a timely manner, or when the work is completed. Therefore instances where out of hours work orders have been deliberately delayed to the following day-time shift cannot be determined, and it is not possible to determine the contractors' overall performance except via the numbers of service user complaints received.</li> <li>• An update report on the property data as per the records held on the Northgate SX3 system should be sent to GDIT by LBTH every six months, to help to ensure that their records are up to date. However, at the time of the audit this had not been done in the previous 12 months.</li> <li>• It was found that in eight cases of 20 tested from the past year, the GDIT system had not retained a recording of the call received from the service user on the Local Government Shared Services Portal.</li> <li>• The Out Of Hours Emergency Manuals in place was most recently reviewed in January 2014, and the procedure for Out Of Hours follow-ons was last reviewed in May 2013. It is stated within the procedures that they should be reviewed every six months.</li> </ul> <p>All findings were agreed with the Head of Customer Access and Facilities and reported to the Interim Director of Neighbourhood Services, the Director of Finance and Customer Services, and the Chief Executive.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Financial Systems	May 2015	<p>The audit was designed to provide assurance to management as to whether the systems of control around the financial system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Procurement Code is not always followed, leading to a lack of clarity as to whether value for money is being achieved. Greenacre is being used as a source for temporary staff, although a contract is held with Comensura in this respect. Waivers are being obtained on an individual basis for all Greenacre staff used.</li> <li>• Sample checks are undertaken on a quarterly basis, but not on a monthly basis as has previously been recommended. The number of checks being undertaken differs each time that the exercise is carried out.</li> <li>• The Procurement Code is unclear on authorisation levels for waivers and the various levels of authorisation need to be clarified.</li> </ul> <p>All findings and recommendations were agreed with the Head of Finance and reported to the Director of Finance and Customer Services, and the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Budgetary Control	Apr 2015	<p>The audit was designed to provide assurance to management, as to whether the systems at corporate level for controlling and monitoring revenue budgets across the Council to meet the agreed objectives are sound, secure and effective, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The list of 193 budget holders provided was not up to date for any of the five directorates. For example, at least one budget holder on the ESW Directorate was on adoption leave and his post was being covered by another member of staff and another budget holder from the ESW Directorate had left. There was another budget holder from the Resources directorate who is currently on secondment.</li> <li>• We received nine responses to the questionnaire that we sent to a random sample of 20 budget holders, which included a number of questions regarding the current budget setting/budgetary control processes. From the responses received, it is clear that here is a need for increased consultation between finance and budget holders about their needs in terms of budgetary control information.</li> </ul> <p>All findings and recommendations were agreed with the Head of Financial Planning &amp; Corporate Finance Partner and reported to the Interim Service Head, Corporate Finance and Procurement, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

**Summary of Audits Undertaken  
Substantial**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Business Rate Retention Scheme</p>	<p>Apr 2015</p>	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the Business Rate Retention Scheme are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Awards of Charitable Relief are currently reviewed every three years. However, currently SBR, Part-Occupied Relief, Retail Relief and Void Relief are not reviewed to confirm the continued eligibility of the discounts awarded.</li> <li>• Information had not been scanned onto the system in all cases tested, making access to information take longer than necessary, and increasing the risk that documentation may be lost.</li> <li>• There were instances where information could not be found. It was determined that this was typically due to a business having more than one account and all the information being retained under only one of these accounts.</li> <li>• There is a need for the Council to take a more planned approach to identifying opportunities to increase the tax base, through the use of a dedicated resource to carry out this function using proactive and intelligent IT analysis and exercises.</li> </ul> <p>All findings and recommendations were agreed with the Head of Revenues Services and reported to the Interim Service Head, Corporate Finance and Procurement, and the Interim Corporate Director of Resources.</p>	<p>Extensive</p>	<p>Substantial</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Programme and Accounting	Mar 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around Capital Programme and Accounting are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The first reconciliation between the CAPS system and Agresso for the financial year 2014/15 was not undertaken until December 2014.</li> <li>• The account rule within the Agresso accounting system is still to be altered so that revenue account codes cannot be used as capital account codes.</li> </ul> <p>All findings and recommendations were agreed with the Assistant Chief Accountant and reported to the Interim Service Head, Corporate Finance, and the Interim Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors Follow Up Audit	Mar 2015	<p>A full systems audit on the Creditors system was undertaken in July 2014, and the audit report assigned Limited Assurance to the area. The objective of this audit was to assess whether the agreed recommendations at the conclusion of the initial audit had been implemented.</p> <p>Our follow up review showed that of the ten recommendations made at the conclusion of the full systems audit, eight recommendations have been implemented, including the two high priority recommendations, and two have been partly implemented.</p> <p>Our review has shown that management have undertaken a review of the systems and processes for managing the Creditors system to ensure that greater control is achieved. However, following our testing we have raised two recommendations to ensure that the recommendations that are partially implemented are addressed, as follows:-</p> <ul style="list-style-type: none"> <li>• Guidance documentation should be made available to all relevant members of staff on the procurement processes in place.</li> <li>• Records should be maintained to indicate which cases are in dispute or have been put on hold as the BVPI report does not capture this..</li> </ul> <p>All findings and recommendations were agreed with the Financial Systems Manager and reported to the Interim Service Head, Corporate Finance and Procurement, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management	Feb 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around Treasury Management are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Annual cash flow forecasts are not signed and dated by the officers responsible for preparing and reviewing them. It was established in discussion with the officers concerned that one produces the forecast and the other reviews it as it is produced in order to provide a segregation of duties, however no formal signing and dating of the document occurs.</li> <li>• Meeting minutes are not currently produced for Treasury Management meetings held.</li> </ul> <p>All findings and recommendations were agreed with the Investment and Treasury Manager and reported to the Interim Service Head, Corporate Finance and Procurement, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	Apr 2015	<p>The audit was designed to provide assurance to management as to whether the systems of control around the Debtors system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Reconciliations between the general ledger and the debtors system have not been signed off and dated after being reviewed by an independent officer.</li> <li>• The Agresso system permits multiple credit notes to be issued in relation to one invoice number. We identified a total of 56 different invoices which have had a total of 116 credit notes raised against them worth £167,115.29. We undertook testing to determine whether any refunds had been made and we established that no refunds had been made based on our sample testing. However, the process of reversing duplicate credit notes is time consuming and results in a substantial loss of officer time.</li> <li>• There are unallocated payments in the suspense account dating back to 01/04/2014 which could delay the recovery of debt as well as cause unnecessary or incorrect debt recovery procedures to be applied, resulting in financial loss and/or reputational damage to the Council.</li> <li>• The Corporate Debt Recovery Policy was obtained and it was determined that the policy was last updated in November 2013. However, the final section of the policy states that the framework will be continually reviewed to enable it to be updated where necessary and to take into account any service improvement or changes to legislation.</li> </ul> <p>All findings and recommendations were agreed with the Head of Revenue Services and reported to the Interim Service Head, Corporate Finance and Procurement, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax	May 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the Council Tax system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Spot checks are no longer undertaken on completed work items to ensure that staff are performing to the expected standard, as of the 2014/15 financial year.</li> <li>• No evidence could be found to support that sample spot checks were being undertaken with regards to the correct allocation of payments moved from the suspense account.</li> <li>• Reconciliations between the Council Tax system and the General Ledger are not dated to indicate when they are signed off for weekly or monthly reconciliations, and for the week 37 reconciliation one signatory was not recorded. In addition, reconciliations between AIMS and CIVICA are not always signed by the officer who was responsible for performing the reconciliation.</li> <li>• In the case of one out of the 10 weekly Valuations Office to CIVICA reconciliations which were tested, the reconciliation had not been performed for the week selected..</li> </ul> <p>All findings and recommendations were agreed with the Head of Revenues Services and reported to the Interim Service Head, Corporate Finance and Procurement, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll	May 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the Payroll system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The payroll policies and procedures in place appear to be appropriate. However, there is a need for them to be reviewed and evidenced as such. In addition, the payroll procedures lack any reference regarding the processes to be followed by staff when undertaking the various reconciliations of the payroll system, e.g. reconciliation to the general ledger. This may lead to difficulties in completing these exercises in the event of the absence of the Payroll Manager.</li> <li>• A spot checking regime is in place, but there is no established guidance or records in place regarding the size of the samples taken or the frequency of the checking undertaken. In addition, the spot checking undertaken is not evidenced.</li> <li>• From our testing of leavers, it was noted that in one case the employee was overpaid as the leavers form was not received by Payroll until 6<sup>th</sup> August 2014, whereas the employee actually terminated their employment on 25<sup>th</sup> July 2014. In addition, the P45 for this employee was not produced until 16<sup>th</sup> October 2014. In another case, the leaver form was not signed by the employee and was received by the Payroll section on 27<sup>th</sup> May 2014, although the form was actually completed and signed by Bow School on 14<sup>th</sup> May 2014.</li> <li>• In addition, it should also be noted that reconciliation of the general ledger to payroll has not been fully completed for any month in the current financial year. Elements of the reconciliation have been completed, but this has not always been undertaken on a timely basis throughout the financial year...</li> </ul> <p>All findings and recommendations were agreed with the Payroll Manager and reported to the Service Head – Human Resources and Workforce Development, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	May 2015	<p>The audit was designed to provide assurance to management, as to whether the systems of control around the NNDR system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There is no independent quality review of the amendments made to individual accounts.</li> <li>• The workflow reports are not reviewed by an independent member of staff.</li> <li>• There is no review of retrospective void reliefs awarded where accounts are in arrears, and this is a known area where frauds have been committed at other authorities. This has previously been raised as an issue by internal audit.</li> <li>• Reconciliation of NNDR income as per GL to bank statement is not performed on a timely basis.</li> <li>• It was established that the suspense account items are routinely investigated and cleared, but it was not possible to identify which officer had undertaken the review of the suspense account reports as they were not signed or dated. Similarly, inhibited accounts reports are reviewed on a monthly basis by individual officers inhibiting the accounts to ensure whether the expiring accounts need to be extended or deleted but are not signed or dated following review.</li> </ul> <p>All findings and recommendations were agreed with the Head of Revenues Services and reported to the Interim Service Head, Corporate Finance and Procurement, and the Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Recruitment Follow Up Audit	May 2015	<p>A full systems audit on Recruitment was undertaken in October 2013. This audit was assigned Limited Assurance. This report presents the findings and recommendations of a follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented.</p> <p>Our follow up review showed that, of the three high priority recommendations made in our original report, one has been fully implemented. The remaining two high priority recommendations have been partly implemented. In addition, of the three medium priority recommendations made, we identified that two of these had not been fully implemented. As a result, we have made recommendations that those outstanding issues be addressed, in order to enhance the control environment within this area.</p> <p>Our follow up of the audit results revealed that showed tangible improvements have been made on some recommendations and significant progress with the remainder. The issues still outstanding are as follows;</p> <ul style="list-style-type: none"> <li>• Management should ensure that evidence is retained of the 10% sample checking that is undertaken;</li> <li>• The newly drafted recruitment procedure needs to be reviewed and approved by senior management, and formally distributed to staff;</li> <li>• All staff who require recruitment training as potential recruiters should be scheduled onto the planned courses as soon as possible; and</li> <li>• The Recruitment and Selection Standards should be annotated with version control history.</li> </ul> <p>All findings and recommendations were agreed with the Service Head – Operations, and reported to the Service Head – Human Resources and Workforce Development, and Interim Corporate Director of Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
George Green's Secondary School	Mar 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Pay Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• For one contract tested (£528,480 net over three years) we identified that this purchase exceeded EU procurement thresholds and therefore a formal tender process was required. This procurement took place on January 2009 and the EU procurement threshold for public sector contracts in relation to services was £139,893 at that point in time. The contract came into effect on January 2009 for three years, and has since been renewed for an additional 12 months thereafter. There was no evidence of a formal tender process having been carried out. At the time of the audit, the EU procurement threshold value was £172,514 for public sector supplies and services contracts.</li> <li>• From examination of a sample of five higher value purchases and three contracts above £15,000, we noted that for three higher value payments tested, whilst sufficient quotes had been obtained for all purchases, the basis of supplier selection had not been documented.</li> <li>• Register of business interests had been completed by governors and staff with financial responsibility. However, we noted that the form had not been signed and dated by three staff members and forms had not been dated by three staff members. We were therefore unable to ascertain the period to which these declarations of interest related to.</li> <li>• The school has lettings for the use of its Hydrotherapy Pool; however, we were informed that no hire agreements including terms and conditions had been completed between the school and hirers.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bishop Challoner School	Mar 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• We identified a contract to the value of £51,656, which as per the Finance Policy should have followed the tendering process. However, a tendering process was not completed. In addition, we identified one transaction for £5,620 which was over the £5,000 level where three quotes were required, but only one quote was obtained. We also noted another transaction for £4,200 which was over the £2,500 limit, above which two written quotes should have been taken, but only one quote was obtained.</li> <li>• Through review of the business interest forms for the governors, it was identified that in two cases a business interest form was not available.</li> <li>• Through review of the meeting minutes of the Governing Body, it was identified that the School Improvement Plan (SIP) 2014/15 had not been approved. Furthermore, through review of the SIP 2014/15 it was established that it did not detail the financial resources required (where applicable) and the measures for achievement of the objectives.</li> <li>• From our testing a sample of 20 loans, it was identified that the loan forms do not document the required return date on them.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stepney Greencoat Primary School	Feb 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Resources Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The school has a service level agreement (SLA) with a consultancy service under which the company provides ICT services for the school which includes identifying providers for ICT equipment for the school. Under this SLA, the consultancy service should obtain three quotes for goods/ services (for ICT related purchases) over £5k on behalf of the school. At the time of the audit, it could not be determined if three quotes had been obtained for one transaction over £5k as these were not sent to the school by the consultancy service.</li> <li>• The school had loaned iPads to several members of staff. However, no equipment loan forms were signed.</li> <li>• The budget for 2013/14 was approved by the Resource Committee. Although the budget for 2013/14 was mentioned in the meeting of the full Governing Body on 24/06/2013 it could not be ascertained from the meeting minutes if the full Governing Body had approved the budget for 2013/14.</li> <li>• Through review of the budget monitoring reports, we were unable to identify any evidence that the monthly budget monitoring reports were being reviewed.</li> <li>• Through review of a recent school journey it was established that the school journey was not costed and a summary of account was not created.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Shapla Primary School	May 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Examination of the 2014/15 Standards Committee Terms of Reference provided at the time of the audit identified that the document had not been signed by the Chair of the Governing Body or the Head Teacher.</li> <li>• Examination of a sample of 10 payment transactions identified one instance where the official order had not signed by the Head Teacher (or Deputy Head Teacher).</li> <li>• Examination of a sample of 10 asset loans identified that the anticipated date of return had not been indicated in most cases. It is understood from further discussion that new loan forms would have the date included. It was also noted that asset loans were yet to be included on the inventory. In addition, whilst the forms contain a statement that staff must 'take good care' of the items, the insurance liability and responsibility had not been specified.</li> <li>• Testing of two new starters from September 2014 onwards identified one instance where one verbal reference was obtained rather than two written references.</li> <li>• Examination of the asset register on hand at the time of the audit identified that this had not been updated since October 2013. Discussion identified that this has not yet been undertaken because of the new electronic system to be used from April 2015 onwards. We were advised that once the new system is functioning completely the asset register will be updated.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Sir John Cass's Foundation and Redcoat CE Secondary School	June 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance and Premises Committee which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The School's main IT asset register did not include a large number of IT assets held at the School during the time of audit. A large number of items across the School could not be evidenced as security marked. This included IT equipment, desirable premises items such as white goods and music equipment.</li> <li>• Testing of a sample of 10 asset loans and examination of the loans register identified a number of issues where control could be improved.</li> <li>• From examination of a sample of four higher value purchases above £10,000, we noted that a sufficient number of quotes had not been obtained for one purchase. It was noted that the purchase order form related to works/materials for two separate classrooms and the overall payment amounted to £36,444.00 (across four different orders).</li> <li>• For two out of ten purchase orders sampled there was no evidence that the official order form was raised in advance of the invoice.</li> <li>• There were a number of areas within the School's "Financial Code of Practice" document which could have been more specific or clearer.</li> </ul> <p>Three of the eight recommendations made were not fully accepted by the school which felt that further testing should have been undertaken where non-compliance with procedures was identified. Due to the time constraints we do not undertake additional testing in such cases, since the identification of any cases of non-compliance are sufficient for us to determine that the controls are not operating as they should and therefore the recommendations made are valid. The remaining five findings and recommendations were agreed with the Head Teacher and all eight issues were reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.</p>	Moderate	Substantial



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

Audit Subject	Recommendation	Service Head	Officer Name
Aids and Adaptations Follow Up	Management should set a percentage target of the proportion of aids and adaptations works that should be subject to an inspection by THH upon completion. Performance against this target, as well as a summary of the inspections undertaken should be reported to the Council on a regular (i.e. quarterly) basis.	Molly Wallis, Head of Repairs	Keith Peirson, M & E and Specialist Repairs Manager
Aids and Adaptations Follow Up	Where property inspections are not undertaken, there is an increased risk of the works not meeting the required standards, not being safe and fit for the client use and payments being made for work not completed.	Molly Wallis, Head of Repairs	Keith Peirson, M & E and Specialist Repairs Manager
Aids and Adaptations Follow Up	Management should monitor and review the performance indicators relevant to the performance of the aids and adaptations service on a regular, i.e. quarterly basis.	Molly Wallis, Head of Repairs	Keith Peirson, M & E and Specialist Repairs Manager
Recruitment Follow Up	The HR service should ensure that shortlisting and selection panels consist of a minimum of two officers as stated by the Recruitment and Selection Standards Policy. Furthermore, shortlisting grids should be completed to evidence transparency in the selection of candidates for interviews. The HR service should undertake sample testing to ensure that the requirements of the Recruitment and Selection Standards Policy are being complied with.	Simon Kilbey, Head of HR and Workforce Development	Brenda Young, Senior Manager - Operations
Recruitment Follow Up	Panel members should be reminded of the importance of evidencing interview scorings and selections. HR should undertake sample checks on compliance and procedure notes should be updated to require panel members to submit key documents to HR for retention.	Simon Kilbey, Head of HR and Workforce Development	Brenda Young, Senior Manager - Operations

**Follow Up Audits – List of Priority 2 Recommendations still to be implemented**

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Service Head</b>	<b>Officer Name</b>
Equality Impact Assessment	It should be ensured that all DMTs include equality analysis requirement in checklists for all reports. A sample of five DMT reports and supporting equality analysis documentation should be reviewed by One Tower Hamlets Service each quarter and any issues reported back to the DMT and other forums as necessary to ensure that there is compliance in this area.	Louise Russell	Shanara Matin/ Robert Drive
Markets	We recommend that management should request that the Markets team are granted full user permissions within Agresso in respect of managing its debtors.	Andy Bamber	Debbie Carpenter
Markets	The long term sustainability of markets should be assessed using financial analysis methods.  Pricing for market pitches should be reviewed on an annual basis.	Andy Bamber	Debbie Carpenter
Markets	Management should remind all THEOs that all traders are required to present a valid Certificate of Public Liability Insurance from a verified company before the licence is renewed/and or granted. Sufficient documentation should be held on file.  Spot checks should be completed to ensure insufficient documentation is followed-up on, i.e. cover notes.	Andy Bamber	Debbie Carpenter
Markets	Management should regularly review a sample of daily allocation sheets on a periodic basis and identify which members of staff are regularly failing to complete the sheets fully and take appropriate action to ensure that performance improves.	Andy Bamber	Chris Golds

**Follow Up Audits – List of Priority 2 Recommendations still to be implemented**

Audit Subject	Recommendation	Service Head	Officer Name
Aids and Adaptations Follow Up	Management should liaise with the Council’s Legal Services team to ensure that there is a signed contractual agreement in place with both Openview Limited and Precision Limited.	Molly Wallis, Head of Repairs	Keith Peirson, M & E and Specialist Repairs Manager
Aids and Adaptations Follow Up	Management should remind the Occupation Therapist team of the need to ensure that aids and adaptations referrals are sent to THH in a timely manner. Timescales for referring aids and adaptations to THH should be set out in the major adaptations procedure.	Molly Wallis, Head of Repairs	Keith Peirson, M & E and Specialist Repairs Manager
Aids and Adaptations Follow Up	Management should specify and monitor the timescales it takes THH to complete aids and adaptation works from when the Occupation Therapist’s referral is received.	Molly Wallis, Head of Repairs	Keith Peirson, M & E and Specialist Repairs Manager
Aids and Adaptations Follow Up	THH should remind staff of the need to raise orders promptly following the receipt of the referral from the Occupation Therapist team. In addition, THH staff should be reminded of the need to retain copies of the original referral.	Molly Wallis, Head of Repairs	Keith Peirson, M & E and Specialist Repairs Manager
Recruitment Follow Up	<p>The HR service should ensure that all panel members are trained to recruitment standards as specified by the policy. Refresher training should be offered to panel members who may have had training prior to electronic records being kept.</p> <p>The HR service should undertake sample testing to ensure that only appropriately trained officers are acting as panel members.</p>	Simon Kilbey, Head of HR and Workforce Development	Brenda Young, Senior Manager - Operations

Audit Subject	Recommendation	Service Head	Officer Name
Recruitment Follow Up	The Recruitment and Selection Standards should be reviewed and revised on a regular basis and be subject to senior management approval.	Simon Kilbey, Head of HR and Workforce Development	Brenda Young, Senior Manager - Operations

Title	Date of Report	Comments / Findings
<p>Management and Control of Animal Warden Service</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 279</p>	<p>Oct. 2014</p>	<p>This audit was commissioned by the Service Head, Community Services. The Service had an annual Budget of some £155,600. Staffing compliment consisted of two Animal Wardens who reported to the Senior Animal Warden managed by one of the Team Leaders in Environmental Protection. The team operation consisted of reactive works (calls received via TH Contact Centre) plus Service Level Agreements with LBTH Parks and One Housing Group. The Team worked one weekend in three on Toil basis. Agreement had been given by the Service Manager that allowed vehicles to be taken home by these officers when on stand-by duties; this arrangement had been agreed with transport services.</p> <p>Our review showed that whilst the team was undertaking the duties that were placed upon them, a number of operational weaknesses were identified in the areas of administration of record keeping of animals, income recording, payment and reimbursement processes, which needed to be strengthened to improve the control environment. Our review highlighted that as there were no formalised contracts in place for areas such as veterinary services and for the boarding of dogs, there was risk that the suppliers may not be providing good value for money. We noted that there were no detailed operational procedures that underpinned the service operation from the front line to back office processes, which weakened the audit trails. All findings and recommendations were agreed with the Service Head, Community Services and final report was issued to the Head of Paid Service and Corporate Director, Communities, Localities and Culture.</p>

Title	Date of Report	Comments / Findings
<p>Construction Industry Tax Deduction Scheme</p> <p>Compliance Testing</p> <p>Page 280</p>	<p>October 2014</p>	<p>This CIS compliance testing was requested by the Interim Service Head for Operations (Finance) as a result of the HMRC inspection carried out in relation to the CIS tax paid by LBTH.</p> <p>Our testing showed that of the 154 CIS registered suppliers on Agresso, 23 suppliers were required to be paid net of income tax. Compliance testing on invoices paid to these 23 suppliers and their corresponding accounts payable transactions on Agresso showed the following:-</p> <ul style="list-style-type: none"> <li>• Three of the suppliers were registered with HMRC as higher tax rate payers at 30%. However, on LBTH system, these suppliers were recorded as 20% standard rate tax payers, which meant that any tax deduction made by LBTH would be at lower rate than what was required;</li> <li>• The CIS return for the month of May 2014 was not complete. We also noted that some NET suppliers were paid GROSS and the required CIS tax was not deducted from the invoices paid;</li> <li>• In some cases Tax was not deducted at source, as required by the regulations and in some cases where tax was deducted, it was applied to the whole invoice amount rather than just to the Labour element. In a few cases, tax was applied to the incorrect labour element.</li> </ul> <p>In order to address control weaknesses, we recommended that the capturing and recording of the correct details of construction related contractors and their tax status by Procurement should be strengthened and that relevant training should be given to all officers involved in this process. We also recommended that the status/tax treatment should be verified on the HMRC website on an annual basis or more frequently to ensure the correct CIS tax treatment is applied. All findings and recommendations were agreed.</p>

Title	Date of Report	Comments / Findings
Troubled Families Programme	Nov 2014	<p>We were requested by the Corporate Director, Education, Social Care and Wellbeing to undertake audit testing in advance of the Troubled Families team submitting Grant Return to the DCLG to confirm that the cases included within the Return were correctly identified as eligible and were supported by the appropriate documentation.</p> <p>We attended a number of meetings with the Data team, which was working to create a workable list of claims using a variety of data sources (including benefits, school survey, and crime information) to identify the eligible cases for the Payment By Results claim. We gave advice on the kind of information that would need to be in place to support the claims in the event that DCLG carried out any spot-checks on the claims, and also advised take a manual approach to finding the claims when it became clear that the data solution alone could not provide these.</p> <p>The main issues arising from our testing of 15 cases which were planned to be included in the return are as follows;</p> <ul style="list-style-type: none"> <li>• In three cases, turnaround was achieved on one criterion only, education (as Learning Disabilities (LD) does not count, no information was available on employment, and crime/ASB was neutral). We could not confirm from the DCLG notes available that this was acceptable.</li> <li>• In two cases, due to lack of information on the younger members of the family, we were not able to confirm that the education attendance turnaround result had been met for the family.</li> <li>• In four cases, we did not have access to details of the employment information provided by the Job Centre Plus worker, and so were unable to confirm / see the details of his results for the Level 2 claim.</li> <li>• In two cases, one family was found to be at two UPRNs; however, only one claim was to be made in each case.</li> </ul>

		All findings were reported to the Troubled Families Co-Ordinator and the return was amended and additional supporting documentation obtained where necessary.
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## List of Planned Audits Undertaken in 2014/15

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Law, Probity and Governance</b>		
Information Governance Confidentiality Audits	Extensive	Substantial
Risk Management	Extensive	Substantial
Equality Impact Assessments - Follow Up audit	Extensive	Substantial
Freedom of information – Follow Up audit	Extensive	Substantial
<b>Corporate</b>		
Employment Options	Extensive	Substantial
Management and Control of Waivers of Financial Regulations	Extensive	Limited
Equality Impact Assessment	Extensive	Substantial
<b>Education, Social Care and Wellbeing</b>		
Failed Visits Procedures	Extensive	Limited
Cleaning services – Contract Services	Moderate	Limited
Woolmore and Stebon Schools Building Contract Audit	Extensive	Substantial
Management and Control of Leaving Care Services	Extensive	TBC
Public Health Contracts	Extensive	Limited
Direct Payments	Extensive	Limited
Emergency Duty Team - Children	Extensive	Substantial
Risk Management	Extensive	Substantial
Customer Journey - First Response	Moderate	Substantial
ESW Petty Cash	Moderate	Limited

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Youth Offending Services	Moderate	TBC
Framework - I	Extensive	TBC
Troubled Families Programme	Moderate	N/A
Children's House School	Moderate	TBC
St John's School	Moderate	Substantial
Guardian Angels School	Moderate	Nil
St Luke's School	Moderate	Limited
St Mary and St Michael School	Moderate	Limited
Shapla School	Moderate	Substantial
Bishop Challoner	Moderate	Substantial
Stepney Greencoat	Moderate	Substantial
Bowden House School	Moderate	Substantial
CFGS	Moderate	Limited
George Green's School	Moderate	Substantial
Marian Richardson	Moderate	Limited
Ian Mikardo School	Moderate	Limited
Mulberry School	Moderate	Nil
Mulberry School	Moderate	Limited
Oaklands School	Moderate	Limited
Sir John Cass's School	Moderate	Substantial
<b>Communities, Localities and Culture</b>		
Transport Services	Moderate	Substantial
Markets Follow Up	Moderate	Substantial
Best Value Review –Policing ASB	Extensive	N/A
Management and Control of Blue Badges	Extensive	Substantial
Management of Leisure Contract	Extensive	Substantial
Parking on-street Income	Extensive	Limited

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Management and Control of Animal Warden service	Moderate	N/A
Risk Management	Extensive	Substantial
Rechargeable Works	Moderate	Limited
Poplar Mortuary	Moderate	Substantial
Highways Inspections	Extensive	Substantial
Commercial Waste – Follow Up audit	Extensive	Substantial
Management of Anti-Social Behaviour – Follow Up audit	Extensive	Substantial
Control and Monitoring of Penalty Charge Notices – Follow Up audit	Extensive	Substantial
Management of Parking Appeals – Follow Up audit	Extensive	Substantial
<b>Tower Hamlets Homes</b>		
Out of Hours Repairs	Moderate	Substantial
Housing Repairs	Extensive	Substantial
THH Housing Insurance Claims	Moderate	N/A
Housing Rents	Extensive	Full
THH Financial Systems	Extensive	Substantial
Aids and Adaptations Follow Up	Extensive	Limited
Leaseholder Service Charges	Moderate	TBC
Management of Asbestos	Moderate	Limited
THH Governance – Follow Up audit	Extensive	Substantial
Management of Voids – Follow up audit	Extensive	Substantial
Management of Estate Parking Permits – Follow Up audit	Extensive	Substantial

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Development and Renewal</b>		
Management and Delivery of Homelessness Strategy	Extensive	N/A
Management and Monitoring of Energy contracts	Extensive	Substantial
Watts Grove – Pre-contract Audit	Extensive	Substantial
Monitoring of MSG Grants	Extensive	Limited
Management and Control of Housing Improvement and Renovation Grants	Moderate	Substantial
Risk Management	Extensive	Substantial
Tower Hamlets Homes –Client side Monitoring	Extensive	Substantial
S 106 Planning Obligations – Follow Up audit	Extensive	Substantial
Management and Control of Land Charges – Follow Up audit	Extensive	Substantial
<b>Resources</b>		
CIS Compliance Testing	Extensive	N/A
Systems Development and Variation Control for Future Sourcing Contract	Extensive	TBC
Risk Management	Extensive	Substantial
Photocopier and Printing Contract Monitoring	Extensive	Limited
Cash and Deposit System	Extensive	Limited
Follow Up Audit on Agresso GL testing	Extensive	Substantial
Follow Up Audit on Agresso – Accounts Payable	Extensive	Substantial

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Follow Up audit – Competitive Tendering	Extensive	Substantial
Follow Up audit – Purchase Cards	Extensive	Limited
Follow Up audit - ITRES	Moderate	Full
Follow Up audit – Future Sourcing Contract Monitoring	Extensive	Substantial
Follow Up audit – Photocopying and Printing Contract Monitoring	Extensive	Limited
Business Rate Retention Scheme	Extensive	Substantial
Bank Reconciliation	Extensive	Substantial
Capital Programme and Accounting	Extensive	Substantial
Council Tax	Extensive	Substantial
Debtors	Extensive	Substantial
Housing Benefits	Extensive	Substantial
Payroll	Extensive	Substantial
NNDR	Extensive	Substantial
Treasury Management	Extensive	Substantial
Budgetary Control	Extensive	Substantial
Pensions	Extensive	Limited
General Ledger Follow Up	Extensive	Substantial
Creditors Follow Up	Extensive	Substantial
Recruitment Follow Up	Moderate	Substantial

Audit Description	Significance	Assurance
<b>Computer Audit</b>		
Information Governance Confidentiality Audits	Extensive	Substantial
IT Asset Management	Extensive	Substantial
Management of Council Data and Information Asset Owners	Extensive	TBC

## **Head of Audit Opinion – Summary**

### **Background**

The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards. The purpose of this report is to:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of Regulation 4 the Accounts and Audit Regulations. These state that:

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.”

### **Head of Internal Audit Opinion on the Effectiveness of Internal Control 2014/15**

This opinion statement is provided for the use of the Council in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2015.

## **Scope of Responsibility**

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

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

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore **only provide reasonable and not absolute assurance of effectiveness**. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

## **The Internal Control Environment**

The Internal Audit Code of Practice states that the internal control environment comprises three key areas, internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these three key areas.

## **Review of Effectiveness**

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



## **Head of Internal Audit Annual Opinion Statement**

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2014/15, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2014/15 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

### **Basis of Assurance**

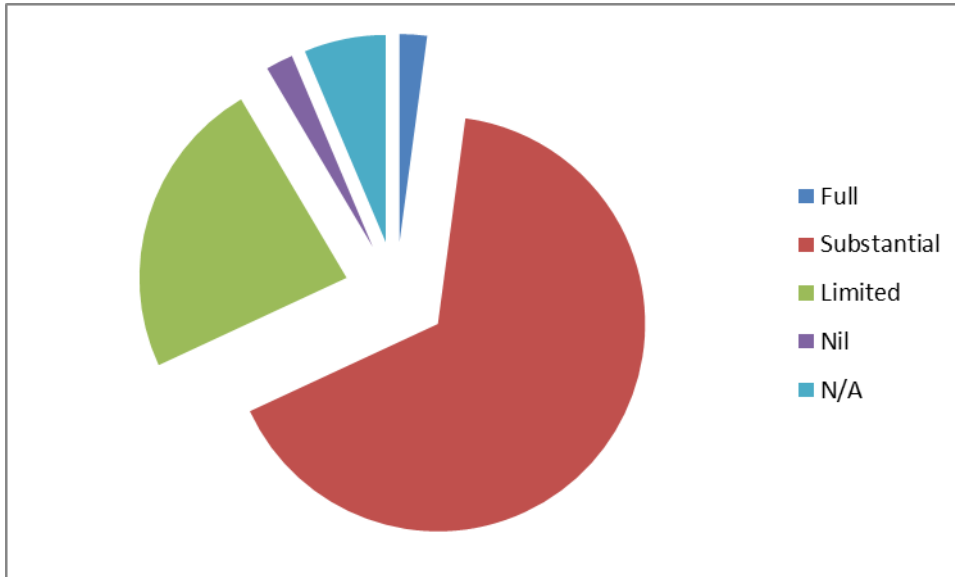
Audits have been conducted in accordance with the Public Sector Internal Audit Standards. The programme of work carried out during 2014/15 is at [Appendix 5](#).

My opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the organisation's Assurance Framework, that are covered by Internal Audit's programme. Where principal risks are identified within the organisation's framework that do not fall under Internal Audit's coverage, I am satisfied that a reasonable system is in place that provides reasonable assurance that these risks are being managed effectively.

97% of Internal Audit work for the year to 31 March 2015 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the CMT in 2014/15 are depicted in Graph 1 below. This shows that 68% of the systems audited achieved an assurance level of full or substantial assurance, whereas 26% of systems audited achieved limited or nil assurance. This is an adequate performance by the council.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. Given that 88% of priority 1 and 63% of priority 2 recommendations followed up had been implemented when the audit revisited the area, this is an area of concern and has been reported to the CMT and the Audit Committee previously. Stronger escalation procedures have been developed over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee.

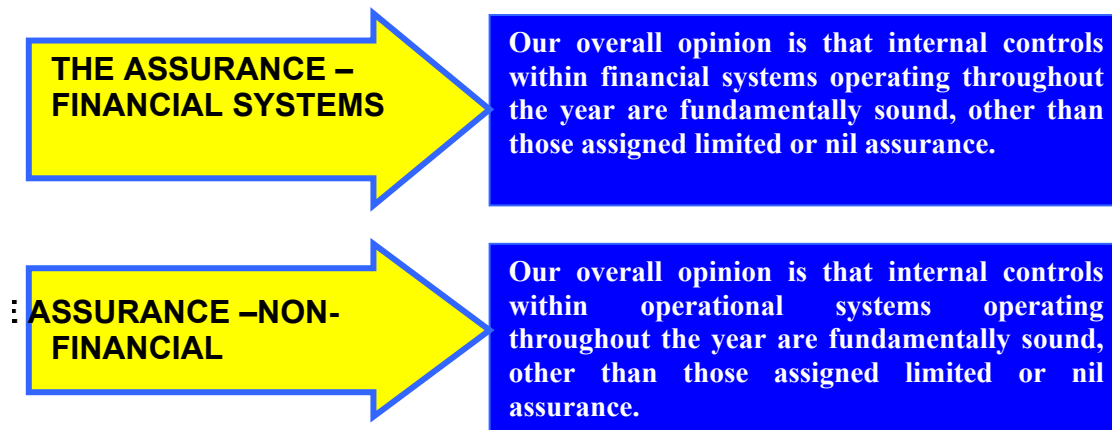
**Graph 1 – Levels of Assurance for 2014/15**



**2014/15 Year Opinion**

**Internal Control**

From the Internal Audit work undertaken in 2014/15, it is my opinion that I can provide a satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31<sup>st</sup> March 2015 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on pages 85-98. The assurance can be further broken down between financial and non-financial systems, as follows:



### **Risk Management**

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. The Audit Committee will receive an **annual Risk Management report in June 2015.**

I would like to take this opportunity to formally record my thanks for the co-operation and support received from the management and staff during the year, and I look forward to this continuing over the coming years.

**Minesh Jani – Head of Audit and Risk Management**

**June 2015**

## DETAILED REPORT

### Introduction

This section is a report detailing:

- any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- the management processes adopted to deliver risk management and governance requirements;
- comparison of the work undertaken during the 2014/15 year against the original Internal Audit plan; and
- a brief summary of the audit service performance against agreed performance measures.

### Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2014/15. Key issues included:

### Monitoring and Control of Mainstream Grants

Our review showed the following common issues across the three Directorates:-

Overall, the quality of monitoring was not sound and secure. At the time of audit in July/August 2014, there were no documented monitoring procedures in place for those organisations receiving MSG funding for the Youth & Connexions projects and Luncheon Clubs. Actual monitoring consisted of a 'desk top' evaluation of the output data submitted by the project organisations. No monitoring visits were carried out to these organisations. There was no verification of actual project expenditure to ensure that the grant was only used for the purpose for which it had been awarded. In addition, claims for expenditure incurred by the organisations in the audit sample were not supported by bona fide evidence. There was no evidence to show that Value for Money issues were taken into consideration during the lifetime of the project. There was a risk that projects which failed to deliver the specified outputs would not be identified on a

timely basis for necessary action to be taken, which could potentially result in grant funding not being used for the intended purposes. From interviews with MSG Monitoring officers and their respective Service Managers, it appeared that some Directorates were using the existing MSG procedures, some were using the new draft procedures and some were not aware of the existence of MSG procedures. Therefore, there was the risk that different standards for the management and control of grant were being applied.

Details of specific findings and management comments from each Directorate were reported to the Audit Committee at its meeting of 4<sup>th</sup> February 2015.

### ***Management Comments - Social Welfare Advice Service Programme - Development and Renewal***

Appropriate and timely action has been taken and a clear set of plans have now been developed identifying the appropriate steps necessary to rectify all of the issues and concerns that have been identified. These are outlined below.

- An updated comprehensive Grant Officers Manual - covering grant management requirements - has been developed, with input from Internal Audit, for issue to all relevant officers including service managers. An initial induction/training session has been organised and all relevant officers and service managers have been invited. A follow-up session will be organised to ensure that all required staff are fully aware of the manual and the associated requirements. The Manual will be issued with version control and updated versions and/or associated templates reissued as appropriate. In any event the manual will be reviewed on an annual cycle.
- Procedures and arrangements for the prioritisation of monitoring visits based on 'risk assessment' have been developed and included within the updated Grants Officers Manual – this will ensure that within each monitoring period, those projects deemed to be the highest risk will be identified and prioritised for monitoring purposes.
- Processes and procedures for the verification of spend have been significantly strengthened and these are clearly set out in the updated Grant Officers Manual, to ensure that grant funding is being used solely for the purpose for which it was agreed.
- Procedures have been strengthened, again clearly set out in the updated Grant Officers Manual, which enable the consideration of the extent to which funded organisations have appropriate 'organisational governance processes and procedures' in place, to ensure the overall effective management of grant funded projects.
- The GIFTS system has always been available for directorate grants officers use, however this has not been mandated. The use of the GIFTS database is now being 'rolled out' as the primary tool in the management, monitoring and recording of information related to grant funded projects. Directorate based officer will now be required to use this system. Improvements and developments have been made to ensure that GIFTS is able to capture an increasing range of information through the population of appropriate templates within the system or by attaching external documents to project files. Further improvement and developments are planned to come on stream in due course.

### ***Management Comments - Luncheon Club – Education Social Care and Wellbeing***

In response to the Audit findings the Quarterly Monitoring Review and monitoring visit report templates have been amended to reflect the requirements identified in the Audit

recommendation, and are now in use. The annual self-assessment template has been similarly amended for ongoing use.

More broadly a comprehensive review of contract management and monitoring procedures within the ESCW Directorate is underway. This covers all contract management activity, including that related to services funded via the MSG programmes. The project brief including terms of reference for this review are attached. The review will have completed its work, and new arrangements, procedures and monitoring tools will be in place by the end of January 2015.

Work undertaken by the Directorate subsequent to the Internal Audit has identified weaknesses in the way in which monitoring requirements have been communicated to MSG funded lunch clubs more broadly. We have run a session for all lunch clubs on the monitoring requirements to ensure consistency, are planning further engagement with the lunch clubs as a group, and are following this up with individual support, particularly for organisations with limited access to / ability with ICT. This reinforcing of monitoring requirements has been combined with much clearer messaging about the importance of fully complying with monitoring requirements, and that future quarterly payments will be withheld if compliance is not achieved. A process for dealing with poorly performing lunch clubs is also under development in order to address value for money concerns as and where appropriate.

Previously, responsibility for monitoring all lunch clubs sat with an individual Monitoring Officer. This has now been changed so that monitoring responsibility for lunch clubs is spread across a number of Monitoring Officers. This reduces the 'single point of failure' risk that existed previously, and has already resulted in a number of new concerns being identified relating to the operation of individual lunch clubs which are being dealt with as they arise. Any formal action arising from these interventions will be reported via the Corporate grants monitoring process.

Work has been undertaken with the Council's Environmental Health service to ensure that all premises from which lunch clubs are run are properly registered as food premises, and as a result all are now properly registered or in the process of being registered.

### ***Management Comments - Youth & Connexions – Communities, Localities and Culture***

Procedures have been developed to cover the various manager's roles and responsibilities in respect of monitoring mainstream grants, and they will be supported by a documented risk assessment, process maps and standard templates. Internal Audit to review procedures prior to sign-off by the Safer Communities Service Head.

A folder for each contract is maintained by the service. The Head of YCS ensures that all contract documents relating to mainstream grants are held by the service and that the process of monitoring is applied to each contract.

A risk assessment template has been developed to cover the process. Each monitoring meeting is logged in a centralised spread sheet, which specifies visit's date, officer, project, venue, organisation, contact, and further actions. Assessment document will be kept on project folder, along with comments made by Head of Service on direction. A list of staff and what training they require will be produced, which will then be actioned through the PDRs. Spreadsheet already in place and is RAG rated highlighting risk.

A standard checklist identifying the type and levels of monitoring checks to be undertaken would be drawn up. Payments monitoring and review are now documented and kept in the project folder. CIPFA training is organised on 19<sup>th</sup> February 2015.

Assessment template has been developed for officers and Head of YCS to undertake reviews on value for money. Each assessment will be kept in the project folder.

## **Management and Control of Tele Care Services**

This audit was reported to the Audit Committee in its February 2015 meeting. The audit was designed to provide assurance to management as to whether the systems of control around Telecare Services were sound, secure and adequate. The review showed that inefficient working practices were in place in respect of the staff shift rotas used, as well as insufficient funding having been budgeted for full-time service provision, resulting in use of overtime to cover staff leave and other absences, leading to a budgetary overspend. An asset benefit analysis had not been undertaken by the Telecare Services Team and therefore we were unable to confirm that the Council was receiving value for money from the assets being utilised. We highlighted other issues of importance such as Telecare installation assessments had not been recorded appropriately and in a timely manner in some cases; service outcomes were not being formally monitored; performance was not reported to senior management; and stocktakes were not formally documented and recorded.

### ***Management Comments***

- An Equipment Stock Take spreadsheet has been created where stock is formally documented and recorded.
- Telecare is a 24 hours service which has to be sufficiently manned at all times regardless of staff leave, sickness etc. This increases the risk of overspend.
- An asset benefit analysis is being looked into.
- Vigorous processes in working methods have been implemented to ensure that all Telecare assessments and installations are recorded appropriately and in a timely manner. Information is scanned and securely retained in appropriate folders. These processes have increased staff accountability for the documentation of their work and also include checks and trails as a means of monitoring.
- Working methods and processes have been strengthened within the team that formally monitor service outcomes e.g. after a telecare installation. Checks and trails are firmly in place. Telecare service aims and objectives are clear, and upon which outcomes are monitored and performance is reported to senior management through board meetings for example.
- Policies and procedure notes have been reviewed and recently updated. This will continually be carried out in a periodical manner which ensures that notes are reviewed and are up to date. Data Protection is now referenced and incorporated in policies and procedures.

## **Management and Control of Panel Decisions**

This audit was designed to provide assurance that the systems of control around the Management of Panel Decisions were sound and secure. The Council provides a wide range of care, support and assistance to adults in need of these services. The services provided range from giving advice and information through to long-term residential care for the elderly, people with physical or learning disabilities or mental health problems. Needs and risks are assessed as being Very High (critical), High (substantial) Medium (moderate) and Low (low) and support is provided accordingly. A number of Social Care Panels have been constituted to consider the needs of these individuals. Panels meet on a weekly basis and the Fair Access to Care Services (FACS) Policy is followed to ensure that everyone who needs care can get the right level of support. Assessments are based on levels of need and the risks faced by service users if support is not provided.

The Audit Committee at its meeting in February 2015 was informed of the issues emerging from this audit. We found that the guidelines and terms of reference for these Panels were out of date and had yet to be reviewed. Panel quorum requirements were not always being met. There were incomplete documentation retained for some cases for the Mental Health Panel and for the Joint Commissioning Panel, and it was not possible to confirm that the required documentation had been provided to the Panels as part of the decision making process. The options considered by social workers in reaching decisions to recommend a particular support plan to Panels were not documented in information presented to Panels.

There had not been regular meetings with Finance representatives to review budget reports and query any inaccuracies or variances that may exist in reporting. Budgetary information was not provided for discussion at the regular panel case approval meetings. The position of the Long Term Support (LTS) Panel was unclear, having been disbanded without the creation of a clear proposal for any replacement arrangements to be put in place.

No information governance arrangement was in place with the East London NHS Foundation Trust over how client records managed by the Mental Health Panel were controlled. The Data Disposal procedure was out of date having been established in 2011 without any date for review stated on it.

### ***Management Comments***

The Panel is now operating twice weekly with new Terms of Reference being agreed. The papers are circulated in advance so all participants have the opportunity to read them before the actual Panel meeting. As agreed team managers/ senior practitioners present the case with the relevant evidence before any care package is approved where the funding is over £300 per week. Decisions from the Panel are recorded on specially devised forms and signed by the Chair of the Panel and then transferred into Framework-i. Membership is well established with the relevant partners attending and a strong management grip is now evident on the cases



presented to the Panel. The financial recovery group meets twice monthly where the savings/ expenditure and cost avoidance is reported. This effectiveness of the Panel can be seen by the financial information presented and there is close working relationship with finance staff.

There is evidence of a positive shift in the way staff approach the delivery of the care packages, more innovating packages are seen .The quality of the presentations, the analysis and challenge is evident . A review has been held after 6 months of operating within this revised model and improvements are on-going. The IT is being revised in line with the overall changes from Framework-i to Mosaic and this work is in progress. The implementation of the Care Act is also interwoven into the development of the Panel and social work practice.

### **Management and Control of Mobile Phones**

This audit was reported to the Audit Committee in its February 2015 meeting. The audit was designed to provide assurance that the systems of control exercised by the Council to meet its agreed objectives with regards to management of mobile phones and Blackberry devices were adequate and effective. Overall, it appeared that since the Mobile Phone contract was novated to Agilisys, the Council Officers have not been able to review and control mobile phone usage effectively. There was an inadequate segregation of duties between officers checking mobile phone accounts and the phone users in a number of cases. We obtained the April 2014 detailed usage report from Agilisys and identified that there were 1,565 accounts where 'usage' charges were zero for the month. There was no evidence to confirm that officers set up as approvers of mobile phones requests were checked on a regular basis to verify that they were still the appropriate to approve such requests.

#### ***Management Comments***

The portal has been implemented for a pilot group of 30 administrative staff (known as Invoice Managers. Mobile phone usage is being monitored by these Invoice Managers. Agilisys are rolling out the self-service portal for the remainder of administrators/Invoice Managers.

A full review of Invoice Managers and users was recently undertaken by Directorate representatives to ensure separation of duties and that no one has blackberry or a phone that does not need one. Some of the zero usage users are those that do not make calls from council phones or BlackBerrys, but use these devices for receiving calls or for making emergency calls (i.e. lone workers) and/or use emails and calendars. Also staff on maternity and long term sickness was shown as zero usage users. A list of users who no longer need their phones is being progressed by Agilisys. The devices and SIMs no longer used are now being recycled by Agilisys.

The three key policy documents have been reviewed and version controlled and updated versions will be loaded on the intranet by the end of January 2015.

## **Management of Staff Declaration of Interests**

Under the Employees Code of Conduct, officers have a duty to declare interests which conflict with the impartial performance of their duties and declare in writing any financial or personal/social interests that could be considered in bringing about conflict with the Council's business or interests. Any additional work (whether paid or unpaid) must not conflict with the council's interest or in any way weaken public confidence in the authority. Accordingly, all employees of the Authority are required to obtain consent in writing (and retained on the staff HR file) from their chief officer in advance and on each occasion.

A system on HR Self Service has been set up for declaration of interests. Our testing found that at the time of audit, this system could not report on all status of DOI declarations, for example, where staff had saved and not submitted their DOI forms, these cases were not reported on, affecting the integrity of management reports. At the time of this audit, some 50% of permanent staff had completed their forms. Where staff declarations were made concerning additional employment and outside interests, the information given was either incomplete or not fully provided. This showed that the checking and monitoring control was not working as it should.

The Audit Committee was informed of the findings and recommendations of this audit in September 2014 and Members were informed that a complete review of the process for collection and completion of Declaration of Interests and additional/secondary employment had been undertaken.

### ***Management Comments***

A complete review of the process for collection and completion of Declaration of Interests and additional/secondary employment has been undertaken. The form has been re-designed to make it easier for staff to complete and also to ensure that there is a clear process for approval prior to submission. There have been problems with the HR self-service system which have prevented early implementation of the new form and process. These have been escalated via Agilisys to Northgate and have finally been resolved.

Managers are responsible for ensuring Declarations of Interest are completed by staff who report to them and that these declarations are signed off and recorded either through the self-service system or, in the case of staff who have no access to self-service by completing a form which is then scanned and sent to HR for recording. Managers have been, and will continue to be, reminded of the need to ensure that Declarations of Interest are kept up to date and registered even when there are no interests or additional/secondary employment to declare. As part of the PDR /PDP process in October, Managers will be required to check with staff that they have declared interests, relationships and additional/secondary employment (where applicable) by completing the appropriate form or submitted a nil return. The returns will be monitored with an escalation process to Service Heads in the case of non -returners/ non-compliance.

## **Monitoring of Photocopying and Printing Contract**

The Council entered into a 36 month rental agreement for the supply of the Multi-Functional Devices (MFD's) which have the capabilities of photocopying, scanning, faxing and printing. It is anticipated that the charge for lease finance of these machines will be £160,000 p.a. The Council has also through its partnership with Agilisys entered into a Managed Print Service Level Agreement to deliver cost savings. This agreement will cost £94,300 for year one (2014/15) and then £22,000 for the second and third successive years. Click Charges (printing) have been estimated to be in the region of £240,000 p.a.

The Audit Committee at its meeting in September 2014 was informed that the systems for monitoring of the MFD Service Level Agreement with Agilisys had not yet been established. We noted that rental Agreements were not in place and contractually signed for all MFD equipment. We identified discrepancies between the numbers of MFD's recorded by Facilities Management, ICT and the Supplier. The number of MFD's entered on the finance leases did not agree with those recorded on the LBTH asset register, which showed weak inventory control. In addition, the supplier's invoicing system was cumbersome and confusing increasing the risk of duplicate payments and errors occurring. At the time of audit officers had so far concentrated on the roll-out of the MFD's to Council buildings, which in turn has left some of the control and monitoring systems vulnerable. We recommended that officers should risk assess the project and business as usual functions to ensure that measures are put in place to strengthen the control environment, both for the project and for monitoring the SLA with Agilisys.

### ***Management Comments***

There is an established quarterly meeting between Xerox, Agilisys and LBTH where service performance reports are presented and discussed. The performance reports are based on the SLA and includes sections on Performance Review, Observations & Trends, Innovation Ideas and Next Steps. The following quarterly performance indicators are reported on:-

SLA Uptime against Target

Average Monthly Volume

Ticket Summary – GDC Proactive/Reactive

Break Fix – Reactive verses Proactive

Supplies – Reactive verses Proactive

Highest Utilisation/Impressions - Serial Number

Lowest Utilisation/Impressions - Serial Number

The meetings are scheduled on the 3<sup>rd</sup> week of the month following the quarter and all meetings are now minuted.

This arrangement has been in place since Client Team has taken of the management of the MFD fleet on the 1s of April 2014.

### ***Rental Agreements***

All Agreements for phase 1, 2 & 3 have been signed by both parties, paper copies have been filed. Awaiting Rental Agreement Numbers and signed copies by both parties for Phase 4. A new resource has been seconded into Client Team who will take this work forward.

### ***Discrepancies between the numbers of MFD's recorded by Facilities Management, ICT and the Supplier***

The discrepancy between FM and ICT assets arose due to timing issue and status of devices (devices on contracts, installed devices, devices subject to moves and changes etc.) as project was in progress and final homes for all 180 devices had not been identified. Highlight report is about installations not necessarily an asset report, but work in progress

### **Control and Monitoring of On-Street Parking Income**

The findings of this audit were reported to the Audit Committee in March 2015. The audit reviewed the systems for collecting, banking, monitoring and accounting for on-street parking income. The cash from on-street P&D machines is collected and banked by a contractor. When cash is collected from each P&D machine, an audit roll is produced by the machine which shows how much cash the machine has at the time of collection. The amount of cash collected and banked by the contractor should be then reconciled with the amount of cash notified as banked by the contractor to the Council. Our testing showed that there were no contract specific procedures covering collection of cash income, reconciliation of cash income banked with audit rolls and regular monitoring of cash income to identify any significant trends. In addition, there were no management checks built into the procedures for monitoring compliance. There were no effective systems in place for monitoring that income collected by the contractor was banked intact; that this income reconciled against the audit rolls for each machine and that variances above tolerance were investigated. This increased the risk of errors, omissions, theft, fraud and irregularity in the collection and banking of cash income. We also noted that there was no system for recording and controlling of counterfeit and foreign coins and accounting for this. There were concerns around the effectiveness of contract monitoring and payment system resulting in possible overpayments to the contractor.

#### ***Management Comments***

Due to the system and organisational structure changes there appeared to be a number of gaps in managing this process end to end without any evidence that there was any impact to the service. Having subsequently looked at it, it does not appear that there was any impact to the Service however there could have been potential. We have already put all systems in place and invited internal audit to review it.

The steps that have been put in place are as follows to address each of the issues:

- The procedures have been rewritten and the whole process has now been moved to sit within Parking & Mobility Services, with an additional resource tasked to carry out the daily task of recording the till rolls, audit tickets and banking sheets. With this then being reviewed by the Services & Technical Equipment Manager and spot checks being carried out by the Parking Business Unit and Finance.
- There is now 100% reconciliation with every variance recorded and reported to management.
- A system is now in place recording and controlling and disposing of both counterfeit and foreign coins

- 15 new P&D machines have now been installed with anti-blocking chutes and with real time recording to assist with tackling fraud and concerns highlighted by the audit.
- There is now a two-step process for reconciling the invoice against the collected schedule
- It has been confirmed that the collection schedules are the KPI's that the contractor has to adhere to and due to the cash needing to be collected on a rolling weekly basis. This being reviewed against the value of the collection from each machine to ascertain usage verses value.

## **Integrated Youth Service**

The Audit Committee in its meeting of March 2015, was informed about the issues around this audit. The principal concerns were regarding the effectiveness of the system for monitoring DBS (previously CRB) checks on staff providing youth services. Testing found that DBS checks for 17 of the 224 staff within Youth Services had expired. In addition, no DBS records could be evidenced for a further 23 staff.

We reviewed the training records for 20 staff in Youth Services for completion of Information Governance training and could find no evidence that 18 of these staff had undergone this training.

### ***Management Comments***

- IYCS Head of the service since then made rigorous checking among all staff with the service. Notice of letter offered to all senior managers to get their staff members DBS completed. In partnership with HR, we have undertaken a significant tasks not only focusing on those 17 identified but the entire service. The HoS subsequently sent letter template to all senior managers and staff team members to get their DBS completed. It now seems there are no outstanding issues. Even the managers were given letter template to issue to their staff members for reminder and submission of DBS to HR upon completed. These tasks have been completed. It seems 1 or 2 did not submit their DBS to HR (such as maternity leave and so on.....). Management now need to make decision to take it to next step for action. Details to be discussed with my manager in my next one to one. We are currently developing a chart for all senior managers about all their staff BDS number including expiry date so that they are likely to have tighter control on all their team members.
- All 18 now completed information governance training.

## **Electronic Home Care System**

In this audit, we examined the operation of the Electronic Home Care Monitoring system which was procured in 2009. Through review of the management reports for electronic logging generated by the system from July 2013 (when the system was initiated) to March 2014, none of the 24 service providers had logged in all their visits electronically. Management has said that the implementation and operation of the system generated a number of significant operational and contract payment difficulties that meant intended

efficiencies were not fully realised. In particular, the original business case for the solution did not properly take into account the relatively high proportion of households in the borough where no accessible landline (the default means for carers to log in and out of the system at beginning and end of visits) was available. This meant a larger than expected proportion of less suitable alternative logging methods being used, which had an impact on contract payments to be made to the providers of home care services. This, allied with a number of other factors including choices LBTH had made about the level of detail at which visits would be monitored, led to a significantly greater than expected number of individual visits that had to be arbitrated before payment could be determined. This in turn meant significantly greater manual intervention was required by the Brokerage Teams than had been envisaged. There was also a period of time, from November 2013 to July 2014, when a key component of the system was not working, which added to the manual effort required.

The Council ceased using the IT system in September 2014, and the contract came to an end on 31 December 2014. Agilysis have procured a new solution on the Council's behalf and the Council is currently working on its implementation. We understand that the specification against which the new product was evaluated was designed to address all of the areas of weakness identified in this audit.

### ***Management Comments***

The implementation and operation of the previous Electronic Home Care Monitoring solution, procured in 2009, generated a number of significant operational difficulties that meant intended efficiencies were not being fully realised. In particular, the original business case for the solution did not properly take into account the relatively high proportion of households in the borough where no accessible landline (the default means for carers to log in and out of the system at beginning and end of visits) was available. This meant a larger than expected proportion of less suitable alternative logging methods being used. This, allied with a number of other factors (including choices LBTH had made about the level of detail at which visits would be monitored), led to a significantly greater than expected number of individual visits that had to be arbitrated before payment could be determined. This in turn meant significantly greater manual intervention was required by the Brokerage Teams than had been envisaged. There was also a period of time (from November 2013 to July 2014) when a key component of the system was not working, which added to the manual effort required (and for which LBTH negotiated compensation with the system supplier).

The contract for the previous solution was due to expire in December 2014, and Agilysis were engaged to evaluate options for a new system in early 2014. A new supplier was chosen as a result of this process, and their solution is in the process of being implemented. The chosen solution offers a greater range of visit logging options, better management information, and is being implemented in a way that seeks to avoid the difficulties experienced with the previous solution. In particular, we are implementing the system in a way that will mean much lower levels of arbitrations.

Given the ongoing difficulties with the previous solution a management decision was made in September 2014 to cease using it with immediate effect and to instruct providers to submit invoices with supporting timesheets. While this left a gap between the ending of the old system

and the introduction of the new system, this was considered preferable to continuing with the previous solution which had lost all credibility with service providers and internal staff

## **THH Information Governance**

The audit was designed to provide assurance to management that the systems for securing and protecting Tower Hamlets Homes (THH's) data were sound, secure and adequate. The main weaknesses were as follows:-

- THH adopted a range of the Council's Information Governance Policies and Procedures, However it was established that a number of procedures had not been reviewed recently. These documents had not been updated to include the localised procedures applicable to THH and the responsible officers. It was also noted that responsibilities for data and security management, as well as information governance had not been formally delegated to THH officers.
- Staff were issued with portable storage devices (including encrypted memory sticks); however, there were no records of which staff members had what storage devices. In addition, staff were able to take paper based sensitive information off site which was not recorded or logged.
- There was no formal programme of training with regards to information governance at THH and information governance was not included in the staff induction training provided to new members of staff at THH. We were also unable to confirm that staff were kept up to date with current legislation with regards to information governance.

### ***Management Comments***

THH have been included in the Council-led review of Information Governance Policies.

The Records Management Policy and Data Protection Policy have been published on the intranet.

The IT Security Policy is under review as part of the Council-led review.

Localised procedures are being prepared to align with the Council's Information Governance Policy Framework.

THH have adopted the Council's management arrangements for portable storage devices (including memory sticks). THH use the Council's ICT infrastructure provided by the Council's ICT partner and is bound by the Council's ICT security policies and system configuration.

An internal communications campaign is in place to promote and embed Information Governance across THH.

### **Schools Audits**

During 2014/15 we carried out probity audits on 15 schools - 9 secondary, 5 primary and 1 nursery schools. A total of 8 of these schools received Limited assurance and one

received Nil assurance. The main issues raised were around the robustness of school governance, financial management, procurement controls, payment control, staffing control and inventory control. The common control weaknesses emerging from school audits and the actions required to improve controls have been summarised in an annual report. This will be issued to all schools so that there is awareness of good practice. Appropriate support is being provided by the Local Authority's Schools Finance team.

This matter has been raised in the Annual Governance Statement which includes an action plan to improve governance in this area.

### **Contract Management and Monitoring**

Our audits on the Council's arrangements for monitoring various contracts found that effective contract management and monitoring was required. Clear corporate guidance on contract management of revenue contracts needed to be put in place to ensure that critical areas are effectively monitored throughout the life cycle of each contract so that benefits are derived from improved monitoring. Monitoring meetings needed to be more effective and financial benefits e.g efficiencies and savings emerging from each procurement needed to be clearly identified. In addition, the arrangements for monitoring and reporting of the successful delivery of community benefits by the contractor needed to be made robust.

This matter has been raised in the Annual Governance Statement which includes an action plan to improve governance in this area.

### **Direct Payments**

Cash personal budgets are part of a new approach to managing care and support called 'personalisation', a government policy that aims to give more power to the recipients of social care services and to improve the way that local authorities provide services. Direct payments are fundamental to achieving the government's aim of increasing people's independence, choice and control by providing personalised alternatives to the social care services offered by a local authority with social services responsibilities. A direct payment involves making cash payments directly to service users (or their nominated representative) so that they can manage their personal or individual budget themselves by procuring their own support.

From our testing of a sample of 20 new users for 2013/14, in 11 cases there was no signed user agreement retained on the system. The system records were not updated with the latest financial information received as per the quarterly user returns in nine cases of 25 tested, and the returns had not been sent to the Council in a further six cases. There were 11 cases where claw back of funds was required based on the information on the system, but no action had been undertaken to date in nine of these. There were also cases where we noted unspent amounts of £25,000, £16,000 and £13,000 in the individual's account. Delays and errors were noted in the set up and



payment of the cash budgets. The six week follow-up and annual reviews were not completed in some cases.

### ***Management Comments***

A number of immediate steps were taken in response to the audit findings to further strengthen operational procedures relating to ensuring that signed user acceptance forms are included on individuals' records, that finance information is updated in a more timely fashion and that claw-backs are actively managed. Most claw-back activity relating to a particular financial year happens during quarter 1 of the subsequent year, and the responsible Service Manager is therefore planning a follow up check on a sample of case files in July 2015. This will test the extent to which compliance with the three areas referenced above has improved and will identify any further improvements that are necessary.

Work to extensively update the Direct Payments Policy and Procedures in response to the Care Act coming into force is largely complete and due to be presented to the Directorate Management Team for approval before the end of June 2015.

The Directorate has also put additional resources into ensuring that individual's support plans are reviewed at six weeks and then annually on schedule.

### **Qualifications to the Opinion**

Internal Audit has had unfettered access to all areas and systems across the authority and has received appropriate co-operation from officers and members.

### **Other Assurance Bodies**

In formulating the overall opinion on internal control, I took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) Audit Commission
- b) Care Quality Commission
- c) Ofsted

## **Risk Management Process**

The principle features of the risk management process are described below:

**Risk Management Strategy:** The Council has established a Corporate Risk Management Strategy that sets out the Council's attitude to risk and to the achievement of business objectives and has been communicated to key employees. The policy:

- Explains the Council's underlying approach to risk management;
- Documents the roles and responsibilities of the Council, Cabinet and Directorates;
- Outlines key aspects of the risk management process; and
- Identifies the main reporting procedures.

**Corporate Risk Register:** This register records significant risks that affect more than one directorate. The register also includes major corporate initiatives, procurement and projects.

**Directorate Risk Registers:** Each directorate maintains its own register recording the major risks that it faces.

**Corporate Risk Group:** The Group identifies and oversees the management of corporate risk, and reviews directorate registers to identify emerging corporate risks.

## **Comparison of Internal Audit Work**

The Operational Plan for 2014/15 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

The Internal Audit plan was agreed at the start of the year and revised in December 2014. A summary of the revised plan is provided at Appendix 2 for information. The table compares the plan to the work actually completed during the year.

## **Internal Audit Performance**

A table is provided at section 9 of the main body of report setting out the pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against the targets that were set in advance.

Internal audit is subject to benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at Appendix 8.

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit

can place greater reliance on the work of internal audit. During the course of the year we have worked closely with the External Auditors to ensure that this approach is followed.

### **Compliance with CIPFA Code of Internal Audit Practice**

Internal Audit has comprehensive quality control and assurance processes in place to confirm compliance with the CIPFA standards. Assurance is drawn from:

- The work of external audit; and
- My own internal quality reviews.

External audit carried out a review of internal audit for the financial year 2009/10 and reported their findings in March 2010. The main conclusions of their review were: -

Internal Audit is compliant against the 11 code of the CIPFA code of Practice (applicable at the time);

The Internal Audit Service has appropriate governance arrangements, internal policies and sufficient resources to enable an independent, objective and ethical audit to be completed in line with the code.

That audit files contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

Minor recommendations were raised were addressed.

Following the implementation of the Public Sector Internal Audit Standards in April 2013, Tower Hamlets will on a five year cycle, be subject to an independent peer review from the Head of Audit of another London borough. A peer review is planned for the next financial year. Findings from this review will be brought to the Audit Committee in due course.

**Benchmarking Club Results**

**1. Benchmarking Club Results**

- 1.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.
- 1.3. As part of the 2013/14 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.
- 1.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £395 compared with the comparator group average of £391 per day. In comparison with the other London Boroughs, LBTH was a medium cost service. However, in terms of cost of the Audit service per million turnover, the group average was £649 against LBTH cost of £559, showing that the LBTH Audit service is relatively low cost as a whole.



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# Agenda Item 6.5

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	21 July 2015	Unrestricted		
REPORT OF: <b>Corporate Director, Resources</b>  ORIGINATING OFFICER(S): <b>Minesh Jani</b> <i>Head of Risk Management and Audit</i>	Annual Governance Statement 2014/15  <b>Ward(s) Affected: N/A</b>			

## 1. Summary

- 1.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2011. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 1.2 The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

## 2. Recommendation

- 2.1 The Audit Committee is invited to consider the process and findings set out in paragraphs 4.1 – 7.3; and
- 2.2 Agree the Draft Annual Governance Statement for the financial year 2014/15 at Appendix 3.

## 3. Background

- 3.1 The Accounts and Audit Regulations 2011 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2010 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.

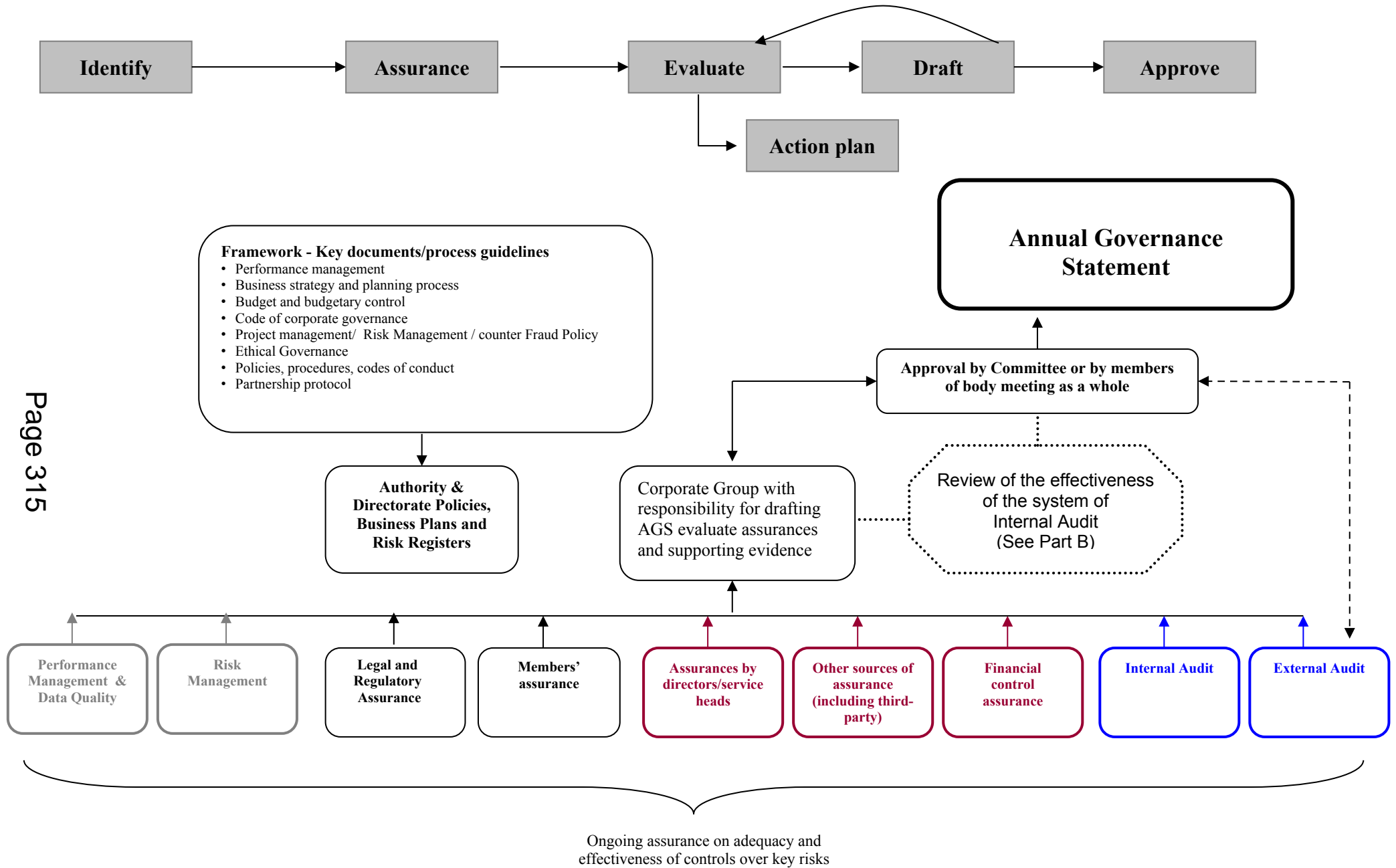
- 3.2 The statement will be signed by the Head of Paid Service and the Mayor. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Head of Paid Service and the Mayor.
- 3.3 The statement needs to be finalised and signed to meet the deadline for the approval of accounts (provisionally 30<sup>th</sup> September 2015).

#### **4. Reviewing the Internal Control Environment**

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:
  - Identify & review the internal control environment;
  - Obtain assurances on the effectiveness of those controls;
  - Evaluate those assurances and identify gaps in controls;
  - Plan actions to rectify those gaps; and
  - Draft the Annual Governance Statement.
- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2013/14 statement.
- 4.3 It should be noted that on advice from KPMG the 2013/14 Annual Governance Statement has never been formally closed off and has been updated throughout 2014/15 for developments as they occurred. This updated statement has formed the basis for the completion of the 2014/15 statement.



## Assurance Framework and the production of the Annual Governance Framework



## 5. Internal Control Environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
  - ◆ The processes for identifying the risks to the achievement of those objectives; and
  - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist and findings arising from these are considered in compiling the Annual Governance Statement for 2014/15.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which is published on the Tower Hamlets website, and is dated April 2014. The Council's governance arrangements have been subject to a review in 2014/15 and officers have assessed the Council's arrangements in line with the publication of the CIPFA/SOLACE Code on Corporate Governance (in June 2007) and its subsequent updates. A report was presented to the Standards Committee with an action plan setting out additional steps the authority would take following an assessment against the code.
- 5.4 The Council has a Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have been revised and tested. In 2014/15, the Business Continuity Planning team carried out a number of exercises. The Corporate Procurement Strategy was approved by Cabinet in November 2014 and the more recently; Cabinet has approved the Council's Procurement Imperatives setting out the Council's strategy around procurement.
- 5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

## 6. Sources of Assurance

6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. Matters arising from the review have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

## 7. Annual Governance Statement

7.1 The draft Annual Governance Statement is attached at Appendix 3.

7.2 The issues raised in 2013/14 are set out in the table below with an update showing their status.

<b>Governance Issue</b>	<b>Status</b>
Payments to third sector organisations outside Mainstream Grants.	Following our review this issue remains live and has been updated and included on the 14/15 AGS. This issue is being monitored in the Best Value Improvement Plan for Grants.
A comprehensive review of the management arrangements for the control and monitoring of grants.	Following our review this issue remains live and has been updated and included on the 14/15 AGS. This issue is being monitored in the Best Value Improvement Plan for Grants.
Financial and workforce impact of delivering the new and revised duties within the Care Act (Care and Health Reform Bill).	This issue has been closed as a separate significant governance issue due to the work to embed new process and procedure to the Council's governance framework to implement this new legislation.
Pupil Place Planning to expand school provision to meet the rising demand for places.	This issue has been closed as a significant governance issue and as an organisational risk continues to be monitored and mitigated via the risk management framework.
Budget pressures for adult social care packages have emerged during 2013/14, which have been contained within existing directorate resources. The on-going position however points to an unfunded set of adults social care package.	The Council faces significant financial risk in coming years due to the reductions in funding but these are managed and mitigated via the Medium Term Financial Strategy and other aspects of the governance framework. The Budget pressures within this year were managed.  This issue has been closed.

Governance Issue	Status
Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.	The actions relating to this issue are yet to be completed therefore it will be relevant for the 2014/15 statement and updated accordingly. This issue is being monitored in the Best Value Improvement Plan for Organisation Culture Action Plan.
Election and pre-election period.	There were significant issues in this area in 2014/15 and although these were not attributed to the Council there has been due diligence to ensure free and fair election take place. This issue is being monitored in the Best Value Improvement Plan for election.
Enhance the financial system to maximise benefits derived from the enhanced functionality of the new finance system and refresh of financial regulations and procedures.	Following our review this issue has been closed as there are not resolutions or work arounds to the system issues.
Enhance contract management and contract letting process.	This issue is part of the best value performance plan and remains current for 2014/15. This issue is being monitored in the Best Value Improvement Plan for procurement.

7.3 The penultimate section of the 2014/15 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows: -

- Payments to third sector organisations outside of the main grant process.
- A comprehensive review of the management arrangements for the control and monitoring of grants.
- Strengthen controls over the disposal of assets.
- Publicity Expenditure Controls.
- Suitable appointments to the three statutory officer roles.
- Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.
- Election and pre-election period.
- Enhance contract management and contract letting process.
- Governance Arrangements in Schools.

## **8. Comments of the Chief Financial Officer**

- 8.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements as required by regulation 4(2) of the Accounts and Audit Regulations 2011. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 8.2 The Chief Financial Officer comments are contained within the body of this report.

## **9. Legal Comments**

- 9.1. The Council is required by regulation 4 of the Accounts and Audit Regulations 2011 to ensure that its financial management is adequate and effective and that it has 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.
- 9.2. The Council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the Council's Audit Committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The Audit Committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the Council's constitution. The subject report is intended to discharge the Council's obligations in this regard.
- 9.3. In relation to what constitutes "proper practices" it is appropriate for the Council to have regard to the relevant CIPFA code of practice.
- 9.4. In approving the annual governance statement, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The committee may take the view that a sound system of internal control will support delivery of the Council's various programmes and objectives that are targeted at these matters.

## **10. One Tower Hamlets**

- 10.1 The maintenance of an effective system of internal control assists the Council to discharge its functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

## 11. Risk Management Implications

- 11.1 The review of the Council's governance arrangements has highlighted strategic risks that the authority is actively managing. The risk management framework is in place to ensure all strategic risks are reviewed and reported to the Corporate Management Team.

## 12. Sustainable Action for a Greener Environment (SAGE)

- 12.1 There are no specific SAGE implications.

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**Local Government Act, 1972 SECTION 100D (AS AMENDED)**  
**List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"	Contact :
<i>None</i>	<i>N/a</i>

## Assurance Control Checklist (summary)

Step	Description	Assurance
<b>Objective 1: Establishing principal statutory obligations and organisational objectives</b>		
<b>Step 1:</b> Identification of principal statutory obligations	Constitution	Yes
	Committee terms of reference	Yes
	Scheme of delegation	Yes
	System to identify and disseminate changes in legislation	Yes
	Evidence of dissemination	Yes
<b>Step 2:</b> Establishment of corporate objectives	Community & strategic plans	Yes
	Consultation on plans	Yes
	Service planning framework	Yes
	communication strategy	Yes
<b>Step 3:</b> Corporate Governance arrangements	Local code of corporate governance	Yes
	Audit Commission Corporate Governance review	Yes
	CIPFA/Solace checklist action plan	Yes
	Committee charged with corporate governance	Yes
	Governance training for members	Yes
	Role of Chief Finance Officer	Yes
Role of Head of Audit and Risk Management	Yes	
<b>Step 4:</b> Performance management arrangements	Performance Mgmt framework	Yes
	Performance Mgmt monitoring reports	Yes
	Inspection reports	Yes
<b>Step 1:</b>		
Risk Management strategy	Risk Management strategy	Yes
	Evidence of dissemination & review	Yes
<b>Step 2:</b>		
Risk Management systems & structures	Member forum	Yes
	Senior Mgmt Team reporting	Yes
	Member and officer lead	Yes
	Defined process for reviewing and reporting risk	Yes
	Corporate and departmental risk registers	Yes
	Insurance and self-insurance review	Yes

	RM training	Yes
<b>Step 3:</b>		
Risk Management is embedded	Committee reports include risk management assessment	Yes
	Risk is considered in business planning process	Yes
	Corporate risk management board	Yes
	Risk owners identified in registers	Yes
	Evidence of review of risk registers	Yes
	Risks considered in partnership working	Yes
<b>Objective 3 Identify key controls to manage principal risks</b>		
<b>Step 1:</b>		
Robust system of internal control, which includes systems & procedures to mitigate principal risks	Financial Regulations, incl. compliance with CIPFA Treasury Management Code and Prudential Code	Yes
	Contract Standing Orders	Yes
	Whistleblowing policy	Yes
	Counter fraud & corruption policy	Yes
	Codes of conduct, eg Members, Member : Officer etc	Yes
	Register of interest	Yes
	Scheme of delegation approved	Yes
	Corporate procurement policy	Yes
	Corporate recruitment and disciplinary codes	Yes
	Business continuity plans	Yes
	Corporate / departmental risk registers	Yes
	Independent assessment, by Internal & External Audit	Yes
	Audit Commission reliance on Internal Audit work	Yes
	Corporate health & Safety Policy	Yes
	Corporate complaints procedures	Yes



## Summary of reports received in or pertaining to 2014/15

Reports	Reporting period	Report date
Annual Audit plan – KPMG	2013/14 accounts	March 2014
Opinion on Financial Statements	2013/14	September 2014
Grant Claim Report	2014/15	February 2015
Report to those charged with governance (ISO260) 2012/13.	2013/14	September 2014
Report to those charged with governance (ISO260) Pensions 2012/13.	2013/14	September 2014
Other		
Protecting the public purse 2013	2013/14	November 2014
Protecting the Public Purse Fraud Briefing 2014	2013/14	February 2014
Audit Committee-Fraud Briefing.	2013/14	December 2014
School Reports	2014/15	Various-2014/15
Children's Homes	2013/14	Feb/March 14
Complaints outcomes	2014/15	Various-2014/15
Audit Committee Terms of Reference	2014/15	June 2014
Membership, Quorum and Dates of meetings.	2014/15	June 2014

## Annual Governance Statement 2014/15

London Borough of Tower Hamlets Council (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 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 2011 as amended.

This statement primarily covers the financial year 2014/15, however the Council's Statement of Accounts for 2013/14 remain unsigned by the External Auditors so the 2013/14 Annual Governance Statement has therefore never formally been closed off. This statement seeks to outline the activity to review, by both internal and external parties, the governance arrangements in place and the actions taken to date, and further ones planned, to generally improve and governance framework and focus attention on specific areas where issues have arisen.

On the 4<sup>th</sup> April 2014 the Department of Communities and Local Government (DCLG) appointed PricewaterhouseCoopers LLP (PwC) to carry out an inspection of compliance by the London Borough of Tower Hamlets with the requirements of Part 1 of the Local Government Act in relation to the authority's functions in respect of governance, particularly in respect of the authority's functions under Section 151 of the Local Government Act 1972 and as they relate to the following:

- The authority's payment of grants and connected decisions;
- Transfer of property to third parties;
- Spending and decisions in relation to publicity; and
- Processes and practices relating to entering of contracts.

PricewaterhouseCoopers published their final report on 4<sup>th</sup> November 2014. In their report, PwC reported that the authority was not achieving Best Value in the following areas:

- The authority's payments of grants and connected decisions;
- The transfer of property to third party; and
- Spending and the decisions of the authority in relation to publicity.

In respect of processes and practices relating to entering of contacts, the inspectors reported the Council was complying with its Best Value duty but highlighted areas where the authority could improve.

The Secretary of State considered the PricewaterhouseCoopers report and representations from the Council and issued Directions on 17 December 2014. Further directions were issued in April 2015. More information about the directions issued by the Secretary of State to the Council and the actions to comply are included within this statement.

Full details of the directions can be found at <https://www.gov.uk/government/news/secretary-of-state-sends-in-commissioners-to-tower-hamlets>.

Tower Hamlets was required to produce seven best value improvement plans as detailed below: -

- Procurement Action Plan
- Grants Action Plan
- Property and Disposal Action Plan
- Communications Action Plan
- Organisational Culture Action Plan
- Recruitment of statutory officers
- Elections

The Council is co-operating fully with the Commissioners to ensure it complies with the directions issued by the Secretary of State and the matters raised in the PwC report, and address the issues raised as soon as possible.

A Best Value Programme Review Board has been established to monitor the progress towards implementation of the actions contained within the various improvement plans. The Board provides reports to Corporate Management Team and Cabinet and will provide a report to the Secretary of State in September regarding progress; this information will be in the public domain.

Further information on the governance related findings of the PwC review, the directions and the subsequent actions are included in later parts of this statement. As would be expected this document contains areas of overlap with the contents of the Best Value Improvement Plan but the process to produce the statement seeks assurances from across the whole organisation from both internal and external sources. Where duplications occur this statement seeks to reference not duplicate other public documents. This statement also is focused on 'significant' governance issues to the organisation not issues of local significance within the Authority.

### **1. 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 Mayor in Cabinet and the Head of Paid Service and was most recently endorsed in June 2014.

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](http://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 2011 in relation to the publication of the Annual Governance Statement.

### **2. 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 on-going 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 any such risks efficiently, effectively and economically.

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

### **3. The Governance Framework**

The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

### 3.1 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 is part of the Tower Hamlets Partnership with a vision to 2020 set out in the borough's Sustainable Community Strategy, known as the Community Plan. The Community Plan has four main themes to make Tower Hamlets:

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and
- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision 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 and contains more detailed priorities and objectives for the Authority to deliver against. More information about the council's performance against the Plan and achievements in 2014/15 is available on the website and the 2015/16 Strategic Plan is located at [http://www.towerhamlets.gov.uk/lgs/800001-800100/800022\\_community\\_plan/strategic\\_plan\\_2015-16.aspx](http://www.towerhamlets.gov.uk/lgs/800001-800100/800022_community_plan/strategic_plan_2015-16.aspx).

The Strategic Plan is informed by the Mayor's key priorities including:

- Housing and Regeneration;
- Jobs and Local Economy;
- Cost of Living;
- Young People and Schools;
- Older People and Health;
- Community Safety and Community Cohesion;
- Environment and Public Realm; and
- Arts, Heritage, Leisure and Culture.

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

There was significant consultation with local people to develop the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of the Tower Hamlets Community Plan 2011. The Plan is being updated and will take the Borough through to 2019. The draft plan is due to be approved in September 2015.

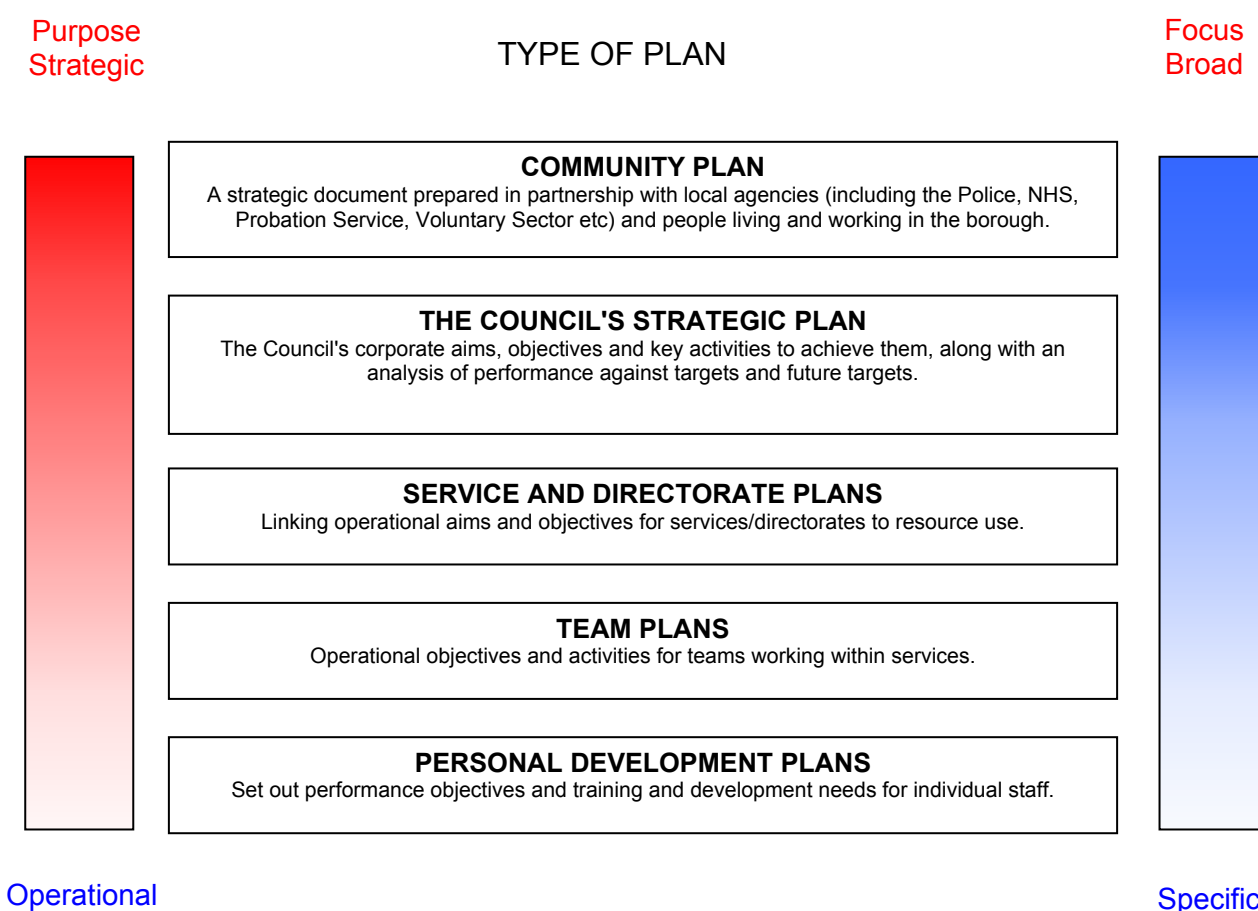
The vision, themes and priorities of the Community Plan are delivered through the Tower Hamlets Partnership structures which comprise the Partnership Executive, the Community Plan Delivery Groups (CPDGs), and localised governance structures.

The Community Plan falls 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 the Mayor in Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. The Plan is subject to approval by Full Council.

**3.2 Corporate and Service Plans**

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan and is structured around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by Overview and Scrutiny. The Community Plan is refreshed every three years.



The Council’s vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDPs). This ensures that there is a “golden thread” that runs from the Community Plan to each individual employee’s work. This helps ensure that the vision, priorities and objectives are communicated to and delivered at all levels of the organisation. Further communication of core values and key initiatives takes place through the Council’s staff newsletter “Tower Hamlets Now”.

### **3.3 Performance Management**

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 plans; and that progress against plans and targets is monitored and evaluated at all levels.

There is a mechanism by which all Council strategic performance indicators are challenged by annually risk assessed and a sample selected for testing by the performance management team supported by internal audit.

The Council's Corporate Management Team (CMT), comprising the Corporate Directors for each service (including the Council's Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan. The Cabinet and the Overview and Scrutiny Committee receive regular reports highlighting Council performance.

### **3.4 Council Constitution**

The Council has an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- the role of overview and scrutiny;
- the role and responsibilities of the Audit Committee;
- codes of conduct for councillors and employees;
- the whistleblowing arrangements; and
- members' interests and allowances.

Under the Council's constitution, the Executive is the elected Mayor, who makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his decisions the Mayor is supported by the Cabinet, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

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.

There was a review of the constitution during 2013/14 which indicated that the constitution is fit for purpose and conforms to statute and best practice. The review has indicated that there are some areas of the constitution where we have options to expand or amend wording to clarify certain issues.

A verbal update on the work of the Constitutional Working Party was given by the Monitoring Officer to the General Purposes Committee in September 2014. The Monitoring Officer continues to work with the General Purposes Committee to complete the constitutional review.

The Council will consider and approve any changes proposed to the key strategic policies set out in article 4 of the constitution, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the licencing policy; and
- the local development framework.

### **3.5 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 make a declaration at least annually. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

The responsibility to declare interests has also been extended to all tenderers and bidders as part of the procurement process.

Periodically the audit plan contains reviews relating to compliance with the codes of conduct. In 2014/15 declarations of interest

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

### **3.6 Rules, Regulations, Policies, and Procedures**

The Council's rules and procedure is part of four of the Council's Constitution. 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 are 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.

The Care Act has been one of the most significant legislative changes to affect the Authority in 2014/15. During 2013/14 the Care Act, and in particular the financial risks associated with its implementation, was identified as a significant issue. Although the Council still faces significant financial challenges going forward the services involved in the implementation of the Care Act have worked together to ensure that the issue has been managed and risks mitigated and it does not remain a significant issue for monitoring in 2015/16.

### **3.7 Overview and Scrutiny**

During 2014/15 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Mayor in 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 also consider performance monitoring information and have a key role in reviewing and challenging the Mayor in Cabinet's budget prior to consideration at Full Council.

In 2014/15 a number of decisions were called in these included for example the Cabinet decision relating to the Drug and Alcohol Action Team (DAAT) Commissioning Intentions; Call-in of Mayoral Executive Decision Contract Award – Direct Payment Support Service and the Medium term Financial Strategy update report.

An Annual Scrutiny Report detailing the work of the Overview and Scrutiny Committee and the Health and Scrutiny Panel is approved and presented to Council annually. The 2014/15 report is included in the May 2015 agenda of the Committee.

### **3.8 Monitoring of the Best Value Performance Plan**

As detailed earlier in this statement the PwC inspection identified best value failings in relation to three out of the four areas reviewed and although there was compliance in the contract area there were noted areas for improvement. As a result of this and the subsequent directives for each of the four areas the Council has produced a best value action plan. The Plan was submitted to the Secretary of State in March 2015. Officers responsible for these improvement areas have regular meetings with the commissioners to review the progress against the action plan and a Best Value Programme Board has been set up to monitor progress. As required by the Directives this progress is then reported back to the Secretary of State every 6 months.

### **3.9 Audit Committee**

For 2014/15, the Audit Committee comprised seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the Public Sector Internal Audit Standards. 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 Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council's external auditor, KPMG. The Audit Committee met four times during the financial year 2014/15.

### **3.10 Internal Audit**

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control and where relevant, recommends improvements. It also supports the management of the Council in developing its systems and providing advice on matters pertaining to risk and control. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management 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. This report is one of the sources of assurance used in the preparation of this statement. For 2013/14, the overall the control environment is adjudged to be adequate the opinion has also been provided for 2014/15.

Following the publication of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements have been updated and the Audit Charter endorsed by the Audit Committee most recently in June 2014.

The Head of Audit & Risk reports quarterly, on a formal basis, to the Corporate Management Team on findings of audit work and investigations. He also meets as required with CMT members individually as well as other officers with roles key to the Governance Framework to discuss governance related issues. The internal audit charter, setting out the purpose and authority and responsibility of internal audit was approved by CMT and the Audit Committee in June 2014.

To support the monitoring and assurances available with regards the completion of the Best Value Action Plans the 2015/16 Internal Audit Plan includes some focused work to ensure that improvements to the control environment have been embedded and are working efficiently and effectively.



### **3.11 External Audit**

The Council's external auditors, KPMG:

- Review the Council's accounts to ensure that they comply with statutory requirements and that proper practices have been observed in compiling them; and
- Conclude on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In 2012/13 KPMG issued an unqualified audit opinion on the Council's financial statements and were satisfied that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for that year.

The external auditors have not completed their enquiries in respect of the 2013/14 financial year and have not issued their audit opinion on the Council's financial statements for 2013/14. Following conclusion of the external auditor's work, their opinion will be reported to the Audit Committee in line with agreed protocols.

### **3.12 Whistle Blowing Policy and the Complaints Procedure**

The Council has a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of a number of stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards Advisory Committee.

The Mayor and elected 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.

The Council also has a whistle blowing policy which is actively promoted with the number of whistle blows received during the year reported to the Corporate Management Team and the Audit Committee. The effectiveness of this policy and the type of issues raised are reviewed and monitored by the Audit Committee on an annual basis.

### **3.13 Risk Management**

The Authority has a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

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.

During 2014, Zurich Municipal Engineering supported the risk management framework by undertaking a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation and facilitating workshops with the Corporate Management Team and Directorate Management Teams. The risk team has developed an action plan and an Annual report which was also shared with the Audit Committee in June 2014, which continues to be monitored.

### **3.14 Information Governance**

Tower Hamlets has established two groups to oversee Information Governance as a risk area and ensure robust governance arrangements are in place and adhered to across the organisation. An Information Governance Group meets six weekly to discuss issues arising and the Freedom of Information Board, which is co-ordinated by legal Services, has overall oversight. In 2014/15 the Authority participated in a voluntary inspection by the Information Commissioners Office (ICO) to generate independent assurances with regards the arrangements in place. An action plan has been developed following this inspection and signed off by the Freedom of Information Board before being submitted to the ICO. The action plan agreed with the ICO and monitored by the Information Governance Group.

During 2014/15 all high level Information Governance Policies were reviewed and updated.

### **3.15 Financial Management**

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). 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 will be detected.

The Council's medium term financial plan sets out the need to deliver financial savings to 2019/2020. Arrangements have been made to identify opportunities and for the delivery and reporting of savings to CMT and Cabinet.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2014/15 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial plan incorporating an analysis of the financial risks facing the Council over the next three years and an assessment of the adequacy of General Fund and HRA reserves;
- regular reporting of actual expenditure and income against budgets and spending forecasts and service performance against targets;
- an annual Treasury Management and Investment Strategy including a prudential borrowing framework and associated indicators; and
- standing meetings of finance managers from across the Council (Finance Strategy Group and the Financial Reporting Technical Excellence Group).

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 conforms to the good practice identified within the code.

### **3.16 The Efficient and Effective Use of Resources**

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2014/15, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation.

As noted earlier in this statement, the authority has been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's most recent assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2012/13 concluded that the Council had put proper arrangements in place.

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 together with associated Equality Impact Assessments.

During 2014/15 residents were also consulted through the Your Borough Your Voice campaign and a series of local meetings, a survey and workshops about their views on how the council can make most effective use of resources to meet local priorities.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Audit Commission to test and improve the output from the NFI exercise. The findings were reported to CMT and the Audit Committee, the exercise is completed every two years and for 2.

The Council is deploying increasing innovative approaches to tackle risks to deliver value for money services. One example would be the activity to link debtors across a number of Council Activities to ensure the more efficient and effective use of Council resources in pursuit of the debts and to improve outcomes through a targeted approach.

### ***3.17 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 are best equipped to deliver excellent public service. These include a Leadership programme, specific training relating to Recruitment and Selection, Risk Management, and computer based training.

Councillors have a member 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. 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.

### ***3.18 Communication and Engagement***

The Council publishes numerous documents on its website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the Council. A review of the value for money and compliance of East End Life was requested as part of the Best Value Action Plan. This was undertaken and its findings are being considered by the Commissioners and the Council's Mayor.

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 on the perception of the services it provides and the experience of services users. Further, the authority uses a wide range of digital media to engage with a wide range of stakeholders. 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.

On a more local basis the Council has a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Mayor's twice weekly surgeries with community groups, local businesses and others also provide direct communication and engagement with all stakeholders.

Elected Members of the council also hold regular surgeries for their wards.

### **3.19 Partnerships**

The most significant partnership for the Council is the Tower Hamlets Partnership. In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. At a ward level Local Community Ward Forums enable local people to engage with the council and identify local priorities and projects for co-delivery.

Due to the Care Act and the drive towards more integrated services the Council has in 2014/15 been working in partnership with the Clinical Commissioning Groups, BARTs and East London Mental Health Trust. A formal partnership called the Tower Hamlets Provider Partnership will be created and the Council is committed to working to achieve shared outcomes with the members of the partnership. 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.

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

## **4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review 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.
- 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 external audit 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.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- Monitoring of the 2013/14 Significant Governance Issues as well as the actions plans arising from the PwC review of best value.

- The provisional outturn on the 2014/15 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Management Team and the Mayor's Advisory Board.
- Meetings with Corporate Management Team Members who have reviewed their own directorate governance issues and actions with their Directorate Management Teams to seek input to the issues at a Corporate level.

There has also been significant work in prior years to review and improve the Authorities Governance Arrangements and this work is considered in the process to produce this statement. Two examples of this are outlined in the following paragraphs.

The Council's Standards Advisory Committee received an update in June 2013 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. Actions arising from this review continue to be monitored and implemented; a further review of the Council's governance arrangements commenced in 2014 with meetings taken place with the General Purposes Committee this work is yet to be concluded at the time of preparing this statement.

Independent Members of the Standards Advisory Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance. Following abolition of the Standards Board for England, local arrangements have been put in place including a code of conduct for elected members with a report being presented to the Full Council on 16 May 2012. The new regime operated from 1 July 2012.

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 further enhance our governance arrangements.

### Significant Governance Issues

The PwC review and our own internal review of the effectiveness of the governance arrangements in place during 2014/15 has identified some areas where action is appropriate to enhance the Council's governance framework. The significant issues and the specific actions to address that have been taken and those planned for the future are set out below and in all cases, due to the on-going monitoring of the governance framework, work is already underway to address the action points.

Each significant governance issue has an identified CMT lead who takes responsibility for progress and implementation. The actions identified within this statement form part of the performance management framework for each director and will be incorporated into their directorate performance plans.

The overall process is overseen by the Audit Committee who approves the Annual Governance Statement prior to it being signed off by the Mayor and the Head of Paid Service. In 2015/16 an additional report regarding the Annual Governance Statement Action Plan will be presented to Audit Committee to demonstrate the progress achieved.

Governance Issue and action taken to date	Next Steps and expected resolution date	CMT Lead
<p><b>1) Payments to third sector organisations outside Mainstream Grants.</b></p> <p>Internal audit received an external referral and as a result of the subsequent review found that there were irregularities in payments made by the Council to an organisation. This matter has been reviewed to the police.</p> <p>Further investigation has resulted in more organisations being referred to the police.</p> <p>The systems and processes have been improved and increased compliance work has been completed and embedded into control environment.</p>	<p>Finalisation of schedule of all grant regimes by July 2015 which will ensure from that point no approved grant is paid.</p>	<p>Corporate Director - Communities, Localities and Culture</p>
<p><b>2) Management arrangements for the control and monitoring of grants.</b></p> <p>In view of the issues raised by the inspection around the current Mainstream Grant Programme and any future refresh of the programme, consideration is being given to proposals to improve the governance arrangements for third sector grants. This will include improvements to management functions and systems, controls and processes.</p> <p>Currently the Commissioners are approving all</p>	<p>A corporate grant function will be created to enhance consistency of approach to grant giving, monitoring and reporting across the Council. It is also anticipated that the function will ensure approved grant is only paid following proper due diligence of the organisations, and outcomes expected from the grant.</p> <p>There is a Best Value Performance Plan for Grants</p>	<p>Corporate Director - Resources</p>

Governance Issue and action taken to date	Next Steps and expected resolution date	CMT Lead
<p>grants.</p> <p>There is a comprehensive review of the whole service and new approach to audit.</p>	<p>which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed March 2016.</p>	
<p><b>3) Strengthen controls over disposal of assets that demonstrate best value is secured by the Council.</b></p> <p>Following the inspection disposal of assets is part of the Best Value Action Plan – Improvements to process have been made. Currently the Commissioners have the relevant Executive Powers. An assurance has been agreed by cabinet and embedded in financial regulations. A report has been provided to CMT.</p> <p>Internal Audit work in this area also generated actions which have been implemented.</p>	<p>Arrangements are being made to improve the outcomes for the Council from its assets which require the asset management strategy to be reviewed and approved by Cabinet.</p> <p>Audit work will provide assurances with regards compliance.</p> <p>There is a Best Value Performance Plan for Property which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed March 2016.</p>	<p>Corporate Director - Development and Renewal</p>
<p><b>4) Publicity Expenditure Controls</b></p> <p>This issue was identified during the inspection and the Authority subsequently received directions relating to publicity expenditure.</p> <p>To date new Strategy and Protocol documents have been produced and a fully costed communications plan is now in place.</p>	<p>There is a Best Value Performance Plan for Communications which contains a number of actions to strengthen governance arrangements.</p> <p>Future planned actions include a new system and implementation of a testing regime to ensure compliance with relevant code and other requirements.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed December 2015.</p>	

Governance Issue and action taken to date	Next Steps and expected resolution date	CMT Lead
<p><b>5) To make suitable permanent appointments to the posts designated as statutory officers of the Council.</b></p> <p>All statutory officer posts are in various stages of the appointment process with a view to making permanent appointments as soon as possible.</p> <p>The Authority has complied with the directions, by agreeing the design. For two of the three statutory roles the new post holder will start July. For the Head of Paid Service/Chief Executive role it is expected to be by September.</p>	<p>It is expected that issue will be closed by September 2015 with all appointments having been made.</p>	<p>Council</p>
<p><b>6) Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.</b></p> <p>The Local Government Association reviewed the Council's constitution and indicated that the constitution is fit for purpose and conforms to statute and best practice. Further, recognising that there may be areas where the authority may learn from other authorities with an Executive Mayor, an independent external review was also commissioned comparing the Council's constitution with those of similar local authorities. This review confirmed there were no fundamental weaknesses or gaps in the Council's constitution. There are opportunities to word elements more clearly or tighten up some areas of process to enable the Executive and non-Executive business to run more smoothly.</p> <p>The work to review the constitution commenced in 2014 but is not yet complete.</p> <p>There were some minor issues around scheme of delegation raised through audit work in 2014/15.</p> <p>External Review of Virements was completed in 2014.</p>	<p>Review of the constitution.</p> <p>Review of the Schemes of Delegation and implementation of an annual review process which will be confirmed as part of the annual governance processes embedded within the organisations governance framework.</p> <p>It is anticipated the work in this area will be completed by March 2016. Although there will be on-going review and update of the constitution there after as part of the usual business of the Authority.</p>	<p>Monitoring Officer – Law Probity and Governance</p>



<b>Governance Issue and action taken to date</b>	<b>Next Steps and expected resolution date</b>	<b>CMT Lead</b>
<p><b>7) Elections</b></p> <p>Elections in Tower Hamlets are always vigorously contested and a recent election petition judgement found no wrong doing by the Returning Officer but did result in the Mayor being removed from the office.</p> <p>The Electoral Commission made various recommendations about improving the trust and confidence in the integrity of May 2014 elections, which have been implemented.</p> <p>The Electoral Commission has reviewed progress in the implementation of the recommendations and has strongly supported the steps that have been taken.</p> <p>In preparation for the 2015 general election, further action is planned to tighten up procedures around registration for, and management of postal votes. Other actions include; joint on-going working between the Returning Officer and police to deter and detect electoral fraud; local protocol committing all those involved in May 2014 elections to work towards free and fair elections; pre-election guidance reviewed and issued to all managers, staff and members and pre-election restrictions from 14 April including complete review of Council website and other publicity.</p>	<p>There is a Best Value Performance Plan for Elections which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones were identified leading up to May 2015 and where required the date of the elections.</p> <p>The actions identified were implemented for the Mayoral elections on 11 June 2015.</p>	<p>Returning Officer – Law Probitry and Governance</p>
<p><b>8) Enhance contract management and contract letting process.</b></p> <p>The PwC inspection report confirmed the Authority was compliant with the principals of Best Value in the processes however there were pockets of non-compliance in some areas that caused concern and a best value performance plan was produced and monitored during the year as a result.</p> <p>The Procurement Strategy and procedures have been refreshed and adopted.</p> <p>To ensure compliance around procurement, the Competition Planning Forum and the</p>	<p>There is a Best Value Performance Plan for Procurement which contains a number of actions to strengthen governance arrangements.</p> <p>Future planned actions include an Annual Procurement Report, three year strategy and Supplier Ethical Code of Conduct.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed April 2016. This area will be picked up by future audit</p>	<p>Chair of Competition Board – Interim Corporate Director, Resources</p>

Governance Issue and action taken to date	Next Steps and expected resolution date	CMT Lead
<p>Competition Board continue to monitor and recommend the best course of action for all significant purchases.</p> <p>The new procedures now provide greater visibility and input from the Corporate procurement team and over the next financial year, the team plan to seek better outcomes from the organisation's spend and enhance contract monitoring arrangements across the organisation.</p>	<p>work.</p>	
<p><b>9) Governance arrangements at schools</b></p> <p>Following internal audit findings from regularity audits of schools and external referrals alleging irregularity at some schools, the governance arrangements are being reviewed with a view to ensuring sound practices are in place.</p>	<p>Continued audit work of Schools.</p> <p>Review of the approach to audit work with schools and relevant Council service areas to achieve a holistic approach to assurance gathering and identify efficient and effective ways in which the overall control environment can be improved.</p> <p>It is anticipated that work in 2015/16 to strengthen the governance arrangements will be completed by March 2016 it is possible that the outcomes from this work will not be tangible until 2016/17 however the status will be monitored and reviewed as part of the process to produce the 2015/16 statement..</p>	<p>Corporate Director - Education, Social Care and Wellbeing</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements and address the matters raised in the Best Value inspection. We are satisfied that these steps will address the need for improvement that were identified in our review of effectiveness and will monitor progress periodically and confirm their implementation and operation as part of our next annual review.

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Head of Paid Service

Date:

.....

Mayor

Date:

Non-Executive Report of the:  <b>Audit Committee</b>  21 <sup>st</sup> July 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Chris Holme – Director of Resources	<b>Classification:</b> Unrestricted
<b>Annual Anti-Fraud Report 2014-15</b>	

<b>Originating Officer(s)</b>	Tony Qayum, Corporate Anti-Fraud Manager
<b>Wards affected</b>	All wards

### Summary

This report provides the Audit Committee with an update of sensitive and reactive Anti-Fraud work undertaken during 2014/15.

It captures the work of the Corporate Anti-Fraud team which includes Corporate Investigations, Housing Benefit Fraud Team Investigations, Social Housing Fraud Investigations and anti- fraud work around Parking Services.

### Recommendations:

1. The Audit Committee is recommended to:-
  - 1.1 Note this report.

## 1. REASONS FOR THE DECISIONS

- 1.1 To comply with the reporting requirements of the Audit Committee's Terms of Reference.

## 2. ALTERNATIVE OPTIONS

- 2.1 There are no specific alternative options.

## 3. DETAILS OF REPORT

This report provides Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2014/15. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations, the Parking Service, and the Social Housing Fraud Investigation service.

The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

Service	FTE	Role
Risk Management	1	• Corporate Anti-Fraud Manager
	1	• Corporate Anti-Fraud Team Leader
	2	• Corporate Anti-Fraud Investigator
	3	• Tenancy Fraud Officers • Temp Tenancy Fraud Officer – THH Funded
Housing Benefits Fraud Team	2	• Team Leaders
	6	• Investigation Officers
	1	• Intelligence Officer
	1	• Intelligence Assistant
Parking Services	1.5	• Parking Fraud Investigation Officers

An analysis of the notional savings achieved covering the work of the anti - fraud and reactive work carried out by the team is attached as Appendix A.

## **Key matters arising from the Service Outturn for 2014-15**

There have been five substantial inquiries which have involved close working between the relevant Directorates, the Corporate Anti- Fraud Service, the DWP, Police, UKBA, and Legal Services.

The resultant investigations covered an extensive range of systems and processes and required substantial staff resources to finalise all of the issues relating to criminality.

The Corporate Anti-Fraud service has also provided support to Directorates upon request. This included an ongoing review of the National Fraud Initiative, investigations into potential systems abuses in front line services and a range of investigations into allegations of financial impropriety from a range of referrals.

We have also undertaken a detailed review of Council Tax refunds to ensure we had not been subject to Money Laundering and supported the Annual Governance Statement by reviewing external assessments of the Council and undertaking detailed reviews of the Complaints system.

We have continued to work closely with the Council's Legal Service on a number of matters including employment law issues and governance matters including Money Laundering, Data Protection and the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of reputational concern and or fraud have been identified.

We have continued to support the Housing Tenancy Fraud Investigators to assist the Council in tackling Sub Letting of Tower Hamlets Homes and Registered Social Landlord properties.

We have organised and run several training sessions with staff and external bodies/visitors on Anti-Fraud and Corruption matters as part of our proactive initiatives and more are planned for this financial year, together with training exercises with our Risk Management Service and provided joint training sessions to members. We have also presented at a national conference on Fraud management and Social Housing investigations.

We have continued to deliver against the Service Level Agreement with Parking Services and undertaken Pro- active initiatives with the Police and Community Safety Service.

During the year we were successful in creating a contract for the provision of fraud investigation to a local Registered Provider specifically covering cases of Subletting of tenanted property.

## **The National Fraud Initiative (NFI)**

The National Fraud Initiative (NFI) data matching exercise has continued to be supported, and our efforts continue to maximise the benefits from its output. The Cabinet Office now manage this role since the closure of the Audit Commission in March 2015.

The National Fraud Initiative and the outcome of the last exercise is covered in a separate report to be found elsewhere in the agenda.

The Corporate Anti-Fraud service has undertaken detailed reviews of all subject areas to ensure the final out turn for the exercise is robust and evidenced based.

The following is a summary of the results of the LBTH outcome from the NFI work –

- £1,180,840 has been identified as overpayment/loss and is in the process of recovery. This includes the following break -down:-
- HB/CTB £632,634
- Income Support /JSA £248,662
- Parking Cautions £32,977
- Pensions £25,761
- Payroll £88,473
- Creditors £62,432
- Council Tax SPD £89,899

## **Other Activity**

The following work areas have been undertaken, during 2014/15 by the Corporate Anti-Fraud Team:-

- ◆ On-going liaison and support to corporate and departmental personnel;
- ◆ Proactive joint working with other Local Authorities, the Police, the DWP and other government Agencies; and
- ◆ Training and Development via the Public Sector Partnership with the Metropolitan Police.
- ◆ Monthly Governance reports have continued to be provided by the Corporate Anti-Fraud Manager to the Corporate Director of Resources and Monitoring Officer identifying on team activity and areas of inquiry requiring corporate input.

## **Housing Benefits Investigation Service**

The Housing Benefits Investigation Service is responsible for the reactive and proactive management and investigation of Local Government benefit fraud, including:-

- Benefits Whistle-blowing hotline;
- Internal Referrals;
- External Referrals (Agencies and public);
- Joint working with Department of Work and Pensions (DWP);and
- Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);

During 2014/15 the Service has had the following successes:-

<b>Breakdown of Prosecutions &amp; Sanctions 2014-15</b>		
Convictions (Benefits)	21	
Convictions (Other)	3	
Admin Penalties (Benefits)	26	
Admin Penalties (CTR)	2	
Cautions (Benefits)	16	
Cautions (CTR)	1	
Cautions (Parking)	61	
Cautions (C Tax SPD)	1	
C Tax Fixed Penalty	4	
<b>TOTAL</b>	<b>135</b>	<b>Value £321,184</b>

The service is going through the process of transfer to the DWP as part of the Government's Universal Credit commitment which will apply to all authorities. The service will transfer in February 2016.

### **Social Housing Recoveries**

The team achieved 42 recoveries for the year and were able to prevent 13 Right to Buy sales from going forward that represents a saving of in excess of £102,300 per unit in non-applied discounts. We entered a data matching exercise with a commercial organisation in December 2013 which has enabled us to match data on tenancies to credit histories in order to improve our intelligence of suspected subletting. This was repeated in 2014-15 and has assisted in helping to target higher risk cases for examination.

The success of the team is unquestioned with in excess of 200 recoveries since the team was created in 2010 and a significant impact on systems and processes to improve the Council's Lettings Service as well as improvements to systems and better controls within our ALMO- Tower Hamlets Homes.

The team consists of three staff which has been successfully funded via the Council are continuing to perform as part of the Corporate Anti-Fraud team resource.

The team has also secured funding from a registered provider to fund a single post to investigate their cases and this has started to show positive results.

The Councils ALMO have also recently agreed to fund an additional post via a secondment opportunity to assist in tackling this growing abuse to the scarce resource of Social Housing.

### **Parking Services**

The Parking Service investigations have resulted in 12 parking fraud cases being presented for prosecution. All of which were successfully resolved.

There were also 103 Recovered Disabled badges and 46 Recovered Resident Parking Permits together with 31 Penalty Notices issued and 14 vehicle Removals to the Car pound. In addition the team assisted with the identification and removal 24 vehicles that had been classed as Persistent Evaders representing a ticket liability of £46,155.

## **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

This report is an update of reactive and Anti - Fraud work undertaken during 2014/15. The Corporate Anti-Fraud Service identified Housing and Council Tax overpayments to the value of £321,184 and National Fraud Initiative (NFI) overpayments to the value of £1,180,840.

There are no specific financial implications emanating from this report. The Corporate Anti-Fraud team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

## **5. LEGAL COMMENTS**

- 5.1 There are no immediate legal implications arising from this report.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 There are no specific One Tower Hamlets considerations.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The effective investigation of allegations of Fraud and Corruption complies with the councils Best Value duty to manage its resources effectively and ensure that the three E's of Economy, Efficiency and Economy are preserved in order to deliver effective services to the public we serve.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no specific SAGE implications.



**9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 The need to manage resources effectively and identify fraud and abuse is a cornerstone in ensuring that risks to loss are effectively managed and the outcome for the last financial year demonstrates the Council's commitment to foster an Anti-Fraud culture.

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 By effective Anti-Fraud arrangements the Council contributes to a reduction in crime and offers good practice in resolving scope for abuse of assets and systems.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- Attached as Appendix A is a schedule of actual and notional savings emerging from the work of the team over the last financial year.

**Local Government Act, 1972 Section 100D (As amended)**

**List of "Background Papers" used in the preparation of this report**

- NONE
- 

**Officer contact details for documents:**


- N/A

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<b>APPENDIX A</b>				
	No.	Notional future savings value	Notional future savings value total	Actual Value
NFI ( Final 2 year outturn)				
<b>Identified value of overpayment/losses - recovery in the process</b>				<b>1,180,840.00</b>
Housing properties recovered.	<b>42</b>	75,000.00	<b>3,150,000</b>	8,400,000.00*
				<b>9,580,840.00</b>
<u>Value of other anti Fraud work carried out in 2014/15</u>				
Benefits Prosecutions	<b>24</b>	3,200.00	76,800.00	
Benefits Cautions	<b>16</b>	1,200.00	19,200.00	
Benefits Administrative penalties	<b>26</b>	1,200.00	31,200.00	
Resident Parking Recoveries	<b>107</b>	8,000.00	856,000.00	
Right to Buy Prevention	<b>13</b>	102,300.00	1,329,900.00	
Blue badge recoveries	<b>108</b>	8,000.00	864,000.00	
Persistent Evaders	<b>24</b>			<b>46,155.00</b>
<i>overall totals</i>			<b>6,327,100.00</b>	<b>9,626,995.00</b>

\* Figure based on a conservative open value valuation of £200,000 per unit.

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Non-Executive Report of the:  <b>Audit Committee</b>  Date 21 <sup>st</sup> July 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Chris Holme – Director of Resources	<b>Classification:</b> Unrestricted
<b>National Fraud Initiative (NFI) 2012 Outcome</b>	

<b>Originating Officer(s)</b>	Tony Qayum, Corporate Anti-Fraud Manager
<b>Wards affected</b>	All wards

## Summary

This report provides the Audit Committee with the outcome of the last NFI exercise 2012 which completed recently.

It details the key findings and areas of identified error and fraud resultant from the exercise and quantifies the extent of action taken by the Council to follow up and resolve the identified matches.

## Recommendations:

The Audit Committee is recommended to:

1. Note this report.

## **1. REASONS FOR THE DECISIONS**

- 1.1 To comply with the reporting requirements of the Audit Committee's Terms of Reference.

## **2. ALTERNATIVE OPTIONS**

- 2.1 There are no specific alternative options.

## **3. DETAILS OF REPORT**

Since 1996 the Audit Commission (and from 2015 the Cabinet Office) have run the National Fraud Initiative (NFI), an exercise that matches electronic data held by approximately 1,300 organizations within public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local authorities and a number of private sector bodies.

For nearly two decades, the NFI has enabled the participants to detect fraud, overpayment and error totalling £1.17 billion. This includes £152 million detected in Scotland, Wales and Northern Ireland.

The Serious Crime Act 2007 (SCA) gave the Audit Commission new powers to enable the benefits of NFI to be extended to central government and the private sector. The Serious Crime Act 2007 inserted a new Part 2A into the Audit Commission Act 1998 (ACA). These powers put data matching on a statutory footing for local government and NHS bodies, as well as allowing the Audit Commission to extend the NFI to central government and private sector organisations that wish to take part.

The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the Commission's data matching exercises must by law, have regard to a statutory Code of Data Matching Practice.

The provision of data for the exercises is mandatory for local authorities.

Following the completion of each exercise, the Commission has produced a report on the outcomes. These can be viewed on the NFI website: <http://www.audit-commission.gov.uk/national-fraud-initiative/public-sector/local-government/>

## **The 2012 Exercise**

The London Borough of Tower Hamlets has been participating in the National Fraud Initiative since 1994 and in practical terms it compares different sets of data held by the same or other organisations to bring to light potentially fraudulent claims and payments as well as highlighting errors of payments made.

The matching exercise is run bi-annually, and has just run again as the 2014 exercise. This report outlines the outcomes for the 2012 exercise.

In 2012 LBTH data was matched as a part of the national exercise and as a result 20,254 matches were produced for this authority to examine. Although this volume is high, the majority of these matches are normally found to be erroneous.

The data sets used in the matching for the 2012 exercise for this authority were:

- *Payroll*
- *Pensions*
- *Housing Benefit*
- *Creditors payments and creditors address book*
- *Market traders and alcohol licence holders*
- *Insurance claimants*
- *Housing Tenants*
- *Resident parking permit holders*
- *Blue Badge and concessionary parking permit holders*
- *Private supported care home residents*
- *Right to buy applicants*
- *Personal Budget holders*

Details of the matches this authority received as a result of the matching process are broken down below:

<b>Match type</b>	<b>Number of matches received</b>	<b>Number specifically recommended for investigation</b>
Blue Badges	297	256
Creditors history	5878	672
Creditors standing	616	0
Concess. travel passes	753	0
Housing Benefit	8950	2186
Housing tenants	156	65
Insurance claimants	36	8
Market traders	23	0
LBTH pensions	209	112
LBTH payroll	287	69
Right to Buy applicants	276	272
Care homes	36	8
Resident parking permit	54	31
Council Tax SPD	2683	0
<b>Total</b>	<b>20,254</b>	<b>3,679</b>

The matches are presented in the form of 108 separate reports, sited on a secure web based electronic system, which can only be accessed by nominated users.

The NFI service has a prioritising methodology built into the web based system. Some reports are marked as higher priority and also there are some reports which specify specific numbers of matches recommended for investigation based upon the NFI's perception of the highest quality matches.

However, it is up to each authority to decide how best to tackle its matches, and how resources can be deployed to deal with this additional volume of work.

Through the benefit of experience in dealing with this output over the years we now have good experience of which particular reports should be examined as a priority, and which may need less attention.

In Tower Hamlets, nominated officers from each of the corresponding service areas are given access to the NFI system to evaluate their own matches, since they have the best understanding of their work area and have line management responsibilities. However, there are some reports which are sifted by the Corporate Anti-Fraud Team as it contains investigative expertise in certain topics, such as housing tenancies, Housing Benefit and blue badge parking. The exercise itself is co-ordinated and overseen by the Risk Management Service.

The Department for Work and Pensions Benefit Investigations Team are also involved in the exercise since a high number of Housing Benefit matches are members of the public who are also receiving DWP benefits, and the



information highlighted by the match affects their DWP benefit as well as their Housing Benefit.

## **2012 Exercise Outcomes**

As the exercise is run bi - annually and the matched output is high in volume, there is activity ongoing on the exercise in the first year and if any particular cases require court action, for the second year also. At the time of producing this report there remain a number of cases awaiting court dates from the 2012 exercise.

<b>Match Type</b>	<b>Received</b>	<b>Recommended</b>	<b>Processed</b>	<b>Frauds/Error</b>	<b>Value</b>
Blue Badges	297	256	297	244	£0.00
Creditors history	5878	672	1,646	10	£62,432.17
Creditors standing	616	0	30	0	0
Travel passes	753	0	753	0	£0.00
Housing Benefit	8950	2186	1902	113	£914,273.12
Housing tenants	156	65	142	1	0*
Insurance claimants	36	8	36	0	£0.00
Market traders	23	0	23	0	£0.00
LBTH pensions	209	112	135	14	£25,761.11
LBTH payroll	287	69	160	4	£88,473.86
Right to Buy applicants	276	272	203	0	0
Care homes	36	8	36	0	0
Resident parking permit	54	31	54	39	0
Council Tax	2683	0	271	271	£89,899.81
<b>Total</b>	<b>20,254</b>	<b>3,679</b>	<b>5,688</b>	<b>688</b>	<b>£1,180,840.07</b>

**\*1 social housing property recovered**

Of the service areas where fraud or error was established further details are as follows:

- **Creditors**

10 instances of duplicated payments were discovered whereby an invoice had been paid twice by LBTH. The individual companies or organisations were contacted and recovery was sought, and obtained.

- **Housing Benefit**

This heading also covers Council Tax Benefit and because many claims also have DWP benefits in payment, an element of overpayment of those benefits also. Of the 113 cases where fraud or error was established 97 involve students who failed to declare their student status or student income. Recovery of the overpaid benefit is sought in all cases, but may take several years to be repaid if it is being paid in instalments, or if there are other benefit overpayments being recovered at the same time.

Where possible, prosecution or sanction action is sought on all cases deemed suitable for such action.

To date, thirteen cases have been convicted, and a further thirty four have been approved for prosecution and are awaiting court action. Thirty two cases have been given an Administrative Penalty (a fine) and fourteen cases have accepted a Simple Caution, where the most appropriate action was to dispose of the case in this way.

Of the remaining twenty cases, some are still awaiting a decision on further action, and some have been deemed unsuitable for prosecution or sanction action for various reasons, but all have been, or will be considered and evaluated as part of the investigative process.

The Benefit Investigations Team has recently undertaken visits to local colleges to try to encourage these establishments to provide more robust information to students at the outset of their course to educate on the rules of claiming benefit as a student.

- **LBTH Pensions**

The fourteen cases identified from the pension reports all involved pensioners who had died, but the borough had not been notified of the death, and the matching had highlighted this discrepancy.

The Pensions Section has attempted to identify the Next of Kin in these cases and attempted recovery. In some cases the responsible person could not be identified, and the remainder are in the process of ongoing recovery. So far recovery has been successful in one case.

## - **LBTH Payroll**

In each of the four cases identified the key issue involved employees who had immigration issues, in that they had the right to reside in the UK but had restrictions on their right to work here. Two were managed by our own HR department and two by an outsourced provider.

In one case, the employee who worked in Education Services had her employment terminated because her visa renewal had been refused. The second employee who also worked in Education was dismissed because she had an outstanding application to work with the UK Border Agency. The remaining two, who worked for Children's Services, and appeared to be related to each other, were dismissed when they failed to provide documents as requested to confirm their right to work in the country.

The figures shown above provide an educated estimation of the salaries paid to the four for the period their right to work was in question. This money has not been deemed as recoverable.

## - **Council Tax**

The matching in this Service Area involves cross referencing Council Tax records where there is a Single Person Discount awarded with Electoral Register records, but the ER indicates there is more than one person residing at the address.

The Council Tax Service undertakes matching projects in its own right to identify these types of losses by cross matching its data with credit referencing agency data. However, since their independent matching and the NFI exercise coincides at approximately the same time, the output is amalgamated, therefore providing additional intelligence.

The monetary values are calculated by identifying the amount of Single Person Discount incorrectly awarded in each instance. The discount is stopped and the full Council Tax liability is billed to the individuals, and recovered via the usual methods.

## - **Housing Tenants**

As a result of the matching one social housing property was recovered following an investigation by Risk Management's Social Housing Fraud Team.

### **NFI Exercise 2014**

The NFI data matching has been run again, with the Authorities data being provided in October 2014 for matching purposes. The matched output was released in late January 2015, with an output of 17,595 matches being received by this authority.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1. This report is an update of National Fraud Initiative. The Council has identified notional and actual savings of £1,180k from its participation in the National Fraud Initiative.
- 4.2. There are no specific financial implications emanating from this report. The Corporate Anti-Fraud team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

#### **5. LEGAL COMMENTS**

- 5.1 There are no immediate legal implications arising from this report.

#### **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 There are no specific one Tower Hamlets considerations.

#### **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 This report assist's the Council in complying with its Best Value duty by taking a pro- active approach to identifying potential abuse of systems and improvements in the 'Control Environment' to reduce future loss. The best value duty to ensure the Council exercises its requirements of Economy, Efficiency and Effectiveness is contributed to by the engagement of the National Fraud Initiative.

#### **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no specific SAGE implications.

#### **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 The pro-active engagement of the National Fraud Initiative improves the risk profile of the areas identified as being breached and demonstrates independence in managing the Councils systems effectively.

#### **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 By identifying error and abuse the risk of fraud is reduced thus minimising the scope for criminality to flourish.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- NONE

**Local Government Act, 1972 Section 100D (As amended)**

**List of “Background Papers” used in the preparation of this report**

- NONE

**Officer contact details for documents:**

- N/A

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