

# AUDIT COMMITTEE

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Wednesday, 28 June 2017 at 7.00 p.m.

MP702, 7<sup>th</sup> Floor  
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 Danny Hassell, Councillor Ayas Miah, Councillor Ohid Ahmed, Councillor Andrew Wood and Councillor Rabina Khan

**Deputies:**

Councillor Rajib Ahmed, Councillor Shiria Khatun, Councillor Marc Francis, Councillor Harun Miah, Councillor Craig Aston and Councillor Shafi Ahmed

[The quorum for this body is 3 Members]

**Contact for further enquiries:**

Farhana Zia, Democratic Services  
1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, E14 2BG  
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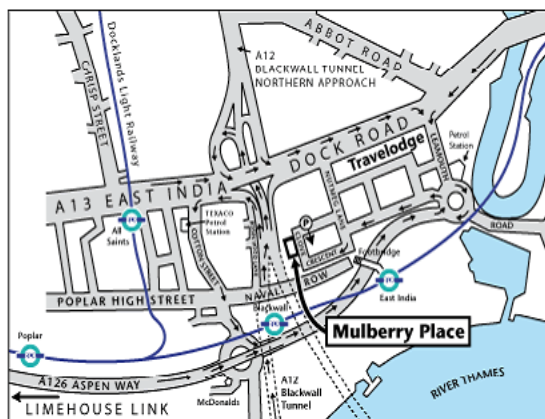
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## **APOLOGIES FOR ABSENCE**

### **1. 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.

### **2. MINUTES OF THE PREVIOUS MEETING(S) 5 - 14**

To confirm the minutes of the Audit Committee held on 21<sup>st</sup> March 2017.

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

<b>3.1</b>	<b>Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings</b>	<b>15 - 24</b>
<b>3.2</b>	<b>Draft Annual Financial Report 2016/17</b>	<b>25 - 142</b>
<b>3.3</b>	<b>Head of Audit Report 2016/17</b>	<b>143 - 250</b>
<b>3.4</b>	<b>Anti-Fraud Update</b>	<b>251 - 274</b>
<b>3.5</b>	<b>Risk Management Update</b>	<b>275 - 304</b>
<b>3.6</b>	<b>Treasury Management Outturn Report for 2016/17</b>	<b>305 - 334</b>
<b>3.7</b>	<b>Forward Plan 2017/18</b>	To Follow

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

#### **Next Meeting of the Committee:**

Wednesday, 27 September 2017 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 1

## **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:-

Melanie Clay, Corporate Director of Law Probity and Governance 2017 364 4800

## APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

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

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**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.05 P.M. ON TUESDAY, 21 MARCH 2017**

**MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,  
LONDON E14 2BG.**

**Members Present:**

Councillor Candida Ronald (Chair)

Councillor Denise Jones

(Mayoral Adviser for Service Quality  
and Performance)

Councillor Sabina Akhtar

Councillor Ohid Ahmed

Councillor Shafi Ahmed

Councillor Andrew Wood

**Apologies:**

Councillor Rabina Khan

**Officers Present:**

Minesh Jani

Stuart Young

Neville Murton

Nasima Patel

Charles Yankiah

– Divisional Director, Risk Management

– Human Resources

– Divisional Director, Finance and  
Procurement

– Divisional Director, Children's Social  
Care

– Democratic Services

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

Councillor Denise Jones declared a non-pecuniary interest in Minute No. 4.2 Annual Internal Audit Plan 2017/18 as a School Governor at Mulberry School for Girls.

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

The minutes of the previous meeting held on 31 January 2017 were approved as a correct record of proceedings.

### 3. KPMG ITEMS FOR CONSIDERATION

#### 3.1 KPMG Annual Report on Grants and Returns Work 2015-16

The Committee received the KPMG Annual Report on Grants and Returns Work for 2015/16 presented by Neville Murton (Divisional Director, Finance & Procurement) who informed the Committee of the following –

- KPMG are appointed by the Public Sector Audit Appointment (PSAA) to audit the Council's large grant claims and returns;
- KPMG have reviewed the 2015/16 Housing Benefit Subsidy claim, the pooling of housing capital receipts and the teachers pensions return;
- A couple of minor matters were identified with the claims, no adjustments were made to the amounts of Housing Benefit Subsidy due to the Council or the amount paid regarding the share of right to buy receipts payable to the Government or teacher's pension contributions;
- Testing of 100 cases identified 2 cases with errors, one error resulted in an underpayment of subsidy and one in an overpayment of £58.45; and
- KPMG's work on the Teacher's Pension return assurance engagement resulted in an unqualified conclusion such that the return had been prepared, in all material respects in accordance with the regulations underpinning the Teacher's Pension Scheme

Members enquired about the following –

- Whether or not there were further actions to be taken to correct the errors and findings;
- Were there patterns developing in the data; and
- Were the audit fees dependant on the results and effort into the audit.

Neville Murton informed the Committee that there was nothing more to be done and all the necessary actions had been taken. He stated that the audit looks for patterns that may be developing but mainly it based upon the sample size being used to conduct the audit. He also stated that the audit fees are set and are a standard scheduled fee which is routine and not dependant on outcomes.

**The Committee agreed** to note the auditor's Annual report on grants and returns for 2015/16.

### 4. TOWER HAMLETS ITEMS FOR CONSIDERATION

#### 4.1 Quarterly Internal Audit Assurance Report

The Committee received the Quarterly Internal Audit Assurance Report presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani informed the Committee that the report summarised the work of Internal Audit for the three month period covering December 2016 to February 2017 and set out the assurance rating of each audit finalised in the period and gives an overall assurance rating.

Minesh Jani reported to the Committee the following –

- Of the 15 finalised audits which focussed on high risk or high value areas –
  - 12 were assigned Substantial Assurance
  - 3 were assigned Limited Assurance
  - A further 8 audits were of moderate significance with 1 being given full assurance, 5 being assigned Substantial Assurance and 2 being assigned Limited Assurance
- Overall 78% of audits resulted in an adequate assurance and the remaining 22% of audits have an inadequate assurance rating;
- At the start of the year, 3 performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the monitoring process as follows –

Performance measure	Target	Actual
Percentage of Audit Plan completed up to February 2017	80%	78%
Percentage of Priority 1 Audit recommendations implemented up to January 2017 by Auditees at 6 monthly follow up audit stage	100%	50% 2 out of 4
Percentage of Priority 2 Audit recommendations implemented up to January 2017 by Auditees at 6 monthly follow up audit stage	95%	57% 4 out of 7

- **Establishment Control** – the audit was designed to review the systems and processes in place in order to provide assurance around the effective management of the Council's establishment levels and to evaluate the potential consequences which could result from any weaknesses in internal control procedures. Concerns were raised over the usefulness and completeness of the data including the fact that there are 102 posts that are detailed as being vacant for 4 or more years. There is a need for the data held on Comensura systems to be reviewed and from a sample of 20 employees tested 5 cases were discovered where the access approval forms were unable to be obtained through the ResourceLink system. A project officer has been commissioned to lead on the resourcing, establishment validation and data cleanse project as part of the One HR programme of service improvements.
- **Troubled Families** – the audit was conducted at the request of the Troubled Families Co-Ordinator to test the manual data collection and evidence collection that the programme is still having to use in Tower Hamlets. The audit was designed to review the system in place for the management and monitoring of the Troubled Families Programme. It is

a £448m scheme to incentivise local authorities and their partners to turn around the lives of 120,000 troubled families by May 2015. Aiming to target nearly 4,000 families in Tower Hamlets, the borough has been provided with a budget of £2,072,145. The audit process was very helpful in enabling the programme team to understand the breadth and depth of the programme demands. The learning from the audit has been incorporated in the development of the data system.

- **Management & Control of Recourse to Public Funds Audit** – the audit applies to migrants who are subject to immigration control and as a result of this have no entitlement to certain welfare benefits, local authority housing and homelessness assistance. The Senior Manager for the team has now left the Council and there is an Interim Manager in post at the moment. A small number of families are involved.
- **Norman Grove Children’s Home** – the audit reviewed the controls in place at the Children’s Home which provides accommodation for up to 6 children aged between 13 and 17 years of age. Norman Grove had a full inspection in August 2016 and was rated “Good”. The children’s home has a budget of £831,751 for the financial year 2016/17. All the recommendations have been adhered to with the exception of Recommendation 5 relating to the “No Card Policy”. Everything else has been implemented and involves a cultural change of ensuring the recommendations are followed.
- **Control and Monitoring of Disclosure and Barring Service (DBS)** – the audit was to provide assurance that there were sound systems in place within the Council for controlling, monitoring and managing DBS checks on employees who are required to have this clearance. Monthly management information reports are being produced by the HR Service for Divisional Directors detailing those DBS checks in date. DBS certificates are provided directly by the DBS to the applicant with the council receiving reports from the DBS notifying as to when a DBS check includes disclosure information which needs reviewing by the Line Manager. A new risk assessment process has been implemented whereby dates of receipt of a disclosure are logged on ResourceLink to enable the tracking of progress for a risk assessment to be completed and relevant documentation submitted for uploading onto the system. Guidance has also been produced which sets out the roles and responsibilities within the HR Service on receipt of a disclosure.
- **Petty Cash Follow-Up** – a full systems audit on petty cash was finalised in October 2015 and was assigned Limited Assurance. The follow-up review identified that the one high priority recommendation made in the original audit report had not been implemented and therefore a further recommendation was made to improve the control framework. Agreed that all requests should be implemented, however, the NatWest accounts are still in the process of being created and debit cards being issued.

Members enquired about the following –

- Does the 102 vacant post mean a saving for Tower Hamlets over the 4 years;
- Are the systems and processes now more robust than before;
- Would staff be trained to operate the new systems and understand the new processes;
- Is there money in the programme for Troubled Families and is it dependant on other programmes;
- Are staff happy with the situation in Management Control relating to Senior Manager leaving;
- Are families still able to get assistance;
- What was the Ofsted rating prior to 2016 of the Norman Grove Children's Home;
- Does the DBS system operate in real time and do you have to go to it for data or does the data come to you;
- How does the DBS checking work and what happens with the errors when identified;
- Is the team confident that it has captured all the changes;
- What happens to the "waivers" with the new system and how many are there; and
- How are the Planning Decisions and Approvals audited.

The Committee was informed that –

- Though there are 102 vacant posts over 4 years, it does not mean that any money or savings was involved;
- The Establishment Controls are out of date and is as a result of out of posts and job titles not being changed and old structures still in the system, but processes are being monitored and improved and becoming more robust now;
- A software package has been invested in to support organisation charting directly through the web;
- Troubled Families is a short term programme and its funding is dependent on other programmes;
- There are a number of families being supported by Tower Hamlets with an expectation by Government for a quick turnaround, it is a challenge;
- Senior Managers leaving is part of what happens, so it is important that the new person is appointed as quickly as possible;
- There is a dedicated worker in place in relation to Troubled Families and as this is statutory it is a welfare type worker involved;
- Families are still getting support and processes are in place for this to be ongoing for as long as is necessary;
- Regarding the DBS systems, you have to go to it for data, but regular checks have been scheduled together with the system being able to be updated;
- The system is too reliant on individuals, but the new processes and systems in place will improve the safeguarding issues, risk assessments, more robust checks and be able to escalate issues more visibly;

- Previously the system needed a more manual approach of inputting and updating data, there were a number of inconsistencies in terms of reviewing and renewing DBS; and
- The new system will allow for regular updates and it would be monitored properly.

The Chair, Councillor Ronald, informed the Committee of the importance of ensuring that officers were present to respond to and answer questions of the Committee relating to items on the agenda and expressed her disappointment in having to defer 2 reports to the next meeting.

**The Committee agreed to:**

1. Note the contents of the report and to take account of the assurance opinion assigned to the systems reviewed during the period.
2. Seek confirmation from Nasima Patel regarding the Ofsted rating prior to 2016 of the Norman Grove Children's Homes.
3. Seek confirmation from Minesh Jani regarding the number of "waivers" that exist relating to the DBS scheme.
4. Defer the "Management and Control of Parking Permits" and "Brady Arts Centre and Kobi Nazrul Centre" updates to the next meeting of the Audit Committee.

#### 4.2 Annual Internal Audit Plan 2017-18

The Committee considered the Annual Internal Audit Plan for 2017/18 presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani highlighted the following –

- The proposed Annual Internal Audit Plan for 2017/18 was compiled using the Internal Audit Strategy approved by the Audit Committee in December 2010;
- The process uses four assessment categories to produce a risk index for each auditable area as follows –

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

- Following the assessment, those systems with the highest score were added to the proposed audit plan based on the resources available;

- For 2017/17 the Internal Audit Plan comprises of 1,475 days across all directorates; and
- In line with the established protocols, all changes to the agreed 2017/18 plan will be reported to the Audit Committee in December 2017.

Members enquired about the following –

- When will the results of the recent inspection on Children’s Services be available;
- Can an audit be conducted on the reasons why Tower Hamlets has one of the highest drug related deaths and drug related crimes in the country;
- Why is the Council being challenged in Court regarding the ChristChurch Primary School;
- What would be audited for the School Governance and training/clerking service; and
- Do the Inspection of Parks include safeguarding issues.

Minesh Jani informed the Committee of the following –

- Ofsted did come in and inspect Children’s Services, but the report is not available yet, but as soon as it is published it will be made available;
- An audit into drug related deaths and crimes is really not the remit of Risk Management and should really be referred to the Overview and Scrutiny Committee to look into;
- There are some background issues relating to the ChristChurch Primary School and land ownership that is being dealt with and the Committee would be updated at a future meeting;
- Inspection of Parks in light of past situations does include risk assessing safeguarding issues; and
- School Governance and training/clerking service would be audited based upon the Council’s arrangement to provide the service.

The Committee discussed the content of the Annual Internal Audit Plan for 2017/18 and the items that were considered to be “near misses”. It was the view that “Management of Complaints” should be included in the Plan for 2017/18, but consideration needed to be given as to what it would replace. There was also discussion relating to the “calculation of SIL” and being able to include that in the Plan for 2017/18.

**The Committee agreed that –**

1. The Annual Internal Audit Plan for 2017/18 be noted; and
2. Minesh Jani look into including both “Management of Complaints” and “Calculation of SIL” in the Audit Plan for 2017/18 and report back to the Committee with the audits that could potentially be replaced.

### 4.3 Tenancy Fraud Update

The Committee considered the Tenancy Fraud Update presented by Minesh Jani, Divisional Director, Risk Management.

Minesh Jani highlighted the following –

- The team has 5 investigators with 1 Team Leader;
- Tower Hamlet Homes provides 2 investigators comprised of 1 permanent officer on secondment to the team and 1 temporary resource sourced from Comensura;
- The balance of staff, (3) is funded by the Council;
- Government figures acknowledge that between 4% and 6% of all social housing is illegally sublet;
- An agreed target of the recovery of 50 properties was set for the team for the financial year 2016/17
- As of February 2017 the team have achieved 39 recovered sublet properties, 28 of which were THH units, stopped 9 Right to Buys/Acquire and 7 other cases including Parking Permits, Mutual Exchanges and Housing Applications; and
- As a result of the key amnesty in early 2016 a total of 9 properties were surrendered, 8 of these belonged to THH of which several were already being monitored.

The Chair, Councillor Ronald enquired about the 39 recovered properties and whether or not Tower Hamlets were benchmarking against other authorities.

Minesh Jani informed the Committee that there is work continuing with other Boroughs and key partners to discuss experiences and support.

**The Committee agreed** to note the report.

### 4.4 Quarterly Treasury Management Update for Quarter Ended December 2016

The Committee considered the Quarterly Treasury Management Update for Quarter ended December 2016 presented by Neville Murton, Divisional Director, Finance and Procurement.

Neville Murton highlighted the following –

- The Council earned an average of 0.65% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.12%;
- The Council's budgeted investment return of £2.7m for 2016/17 at 0.9% for £300m average balance;
- The performance to date is 0.65% with average balance of £448.75m
- The cash balance is £148.75m more than the budgeted amount and the investment return to date is 25bps lower than the budgeted average investment return; and



- LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management, investment returns against those of similar authorities.

The Chair, Councillor Ronald commented that the resources being used are making improvements quarter to quarter and the appropriate information is being captured.

**The Committee agreed** to note the contents of the Treasury Management activities and performance against targets for quarter ending 31 December 2016.


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

There was no other business to be considered.

The meeting ended at 9.05 p.m.

Chair, Councillor Candida Ronald  
Audit Committee

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<p>Non-Executive Report of the:</p> <p><b>Audit Committee</b></p> <p>28th June 2017</p>	
<p><b>Report of:</b> Graham White, Corporate Director, Governance and Interim Monitoring Officer</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings</b></p>	

<b>Originating Officer(s)</b>	Matthew Mannion
<b>Wards affected</b>	All

## Summary

This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year of 2017/18 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.

### **Audit Committee Arrangements**

- 3.2 At the reconvened Annual General Meeting of the full Council held on 17<sup>th</sup> May 2017, 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 2017/18 was among the committees' memberships approved and these details are set out at Appendix 2 to the report.
- 3.3 Having been established by Council, it is customary that the committee (at its first meeting of the municipal year) note its terms of reference, and quorum. These are set out in Appendix 1 to the report.
- 3.4 The Committee's meetings for the remainder of the year, as agreed at the same meeting of the Council, are also provided at Appendix 3.
- 3.5 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.

## **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 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.

## **5. LEGAL COMMENTS**

- 5.1 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 Council on 17<sup>th</sup> May 2017. There are no specific legal implications arising from this report.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

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

## **7. BEST VALUE (BV) IMPLICATIONS**

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

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no specific sustainability implications arising from this noting report.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 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 Report**

- NONE

#### **Appendices**

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

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

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

- NONE

#### **Officer contact details for documents:**

- N/A

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**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>
45. Duty to approve authority's statement of accounts, income and expenditure and balance sheet, or record of payments and receipts (as the case may be).	The Accounts and Audit Regulations 1996 (S.I. 1996/590).	Audit Committee

**Terms of Reference**

**3.3.11 Audit Committee**

<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



## LONDON BOROUGH OF TOWER HAMLETS

## COMMITTEE MEMBERSHIPS 2017-2018

NOMINATIONS SUBMITTED TO THE ANNUAL COUNCIL MEETING ON 17<sup>th</sup> MAY 2017

<b>AUDIT COMMITTEE</b> (Seven members of the Council)				
<b><i>Labour Group (3)</i></b>	<b><i>Independent Group (1)</i></b>	<b><i>Conservative Group (1)</i></b>	<b><i>People's Alliance of Tower Hamlets (1)</i></b>	<b><i>Ungrouped (1)</i></b>
Cllr Candida Ronald Cllr Danny Hassell Cllr Ayas Miah	Cllr Ohid Ahmed	Cllr Andrew Wood	Cllr Rabina Khan	Vacancy
Substitutes:- <i>Cllr Rajib Ahmed</i> <i>Cllr Shiria Khatun</i> <i>Cllr Marc Francis</i>	Substitutes:- <i>Cllr Harun Miah</i>	Substitutes:- <i>Cllr Craig Aston</i>	Substitutes:- <i>Cllr Shafi Ahmed</i>	Substitutes:- <i>(Substitutes not applicable)</i>

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**AUDIT COMMITTEE**

**SCHEDULE OF MEETING DATES 2017-18**

**Wednesday 28<sup>th</sup> June 2017**

**Wednesday 27<sup>th</sup> September 2017**

**Thursday, 16<sup>th</sup> November 2017**

**Tuesday, 23<sup>rd</sup> January 2018**

**Thursday, 29<sup>th</sup> March 2018**

**Note**

All meetings will start at 7:00 p.m. unless otherwise determined by the Chair.

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Non-Executive Report of the:  <b>Audit Committee</b>  28 June 2017	
<b>Report of:</b> Zena Cooke, Corporate Director Resources	<b>Classification:</b> [Unrestricted]
<b>Draft Annual Financial Report 2016-17</b>	

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

**Summary**

This report presents the Annual Financial Report for 2016-17 which comprises a Narrative Report by the Corporate Director, Resources and the draft Statement of Accounts which is subject to audit. The full Annual Financial Report will also contain the Annual Governance Statement which is the subject of a separate report on this Committee’s agenda. The draft is both for information and comment prior to the commencement of the external audit by KPMG.

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 27th September 2017.

**Recommendations:**

The Audit Committee is recommended to:

1. Note the Annual Financial Report for the financial year ending 31<sup>st</sup> March 2017 comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.

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

- 1.1 The Accounts and Audit Regulations require that each Local Authority publish its draft financial statements by 30th June each year. The external auditors are required to audit this information by 30th September and to provide an audit opinion.

## **2. ALTERNATIVE OPTIONS**

- 2.1 It is not a legal requirement to have the draft financial statements formally approved until they have been audited, therefore an alternative option would be to provide the audited statements at the September committee. However, it is considered best practice to continue to involve the appropriate committee in having oversight of this area and the Chief Financial officer has therefore concluded that the draft statements will be shared with the committee at this stage as has been the case previously.

## **3. DETAILS OF REPORT**

- 3.1 The draft Annual Financial Report 2016-17 comprises three elements:
- A Narrative Report
  - The Statement of Accounts
  - The Annual Governance Statement
- The draft Statement of Accounts is attached as Appendix 1 and is subject to audit. The Annual Governance Statement is the subject of a separate report.
- 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.
- 3.3 For 2016-17 the audit is being conducted by KPMG. The main audit is due to commence in July 2017. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 27<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 2016-17**

- 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 (IFRS). 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. However, the Auditor’s opinion just applies to the Statement of Accounts section of the document. Although the Auditor will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 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
  - Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations.

- 4.4 The Council’s 2016-17 outturn report, detailing net expenditure against individual service budgets, will be reported to Cabinet and Overview and Scrutiny Committee in June.
- 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.

Comprehensive Income and Expenditure Account	This summarises the revenue activities of the Council during 2016-17 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
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	<p>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 2016-17 of £1.23 billion with a net surplus of £55.7 million. The surplus was lower than 2015/16 mainly due to an adverse IAS19 pension deficit valuation compared to the previous year. This surplus includes a number of technical accounting entries which do not form part of the Council's actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund adjustments are then 'reversed out' in the Movement in Reserves Statement. The change in actual usable reserves is explained within the Movement of Reserves statement below.</p> <p>The new Expenditure and Funding Analysis (note 7) explains and reconciles the figures in the CI&amp;E to the Directorate expenditure figures reported in the outturn report.</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>After transferring part of the General Fund balance to earmarked reserves, the General Fund balance at 31<sup>st</sup> March 2017 is £31.7m. This includes the impact of a net surplus of £0.7m on the general fund revenue account during the year as reported to Cabinet. The general</p>



	<p>fund reserve has been reduced from £72.1m at 31<sup>st</sup> March 2016 partly due to transfers to earmarked reserves, including £20m for the Civic Centre reserve, £8m for welfare reform, £6m for free school meals and £7.5m for a risk reserve to manage unforeseen matters arising.</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. A review has been conducted of reserves to ensure funds are available to fund Members' priorities such as social care, Transformation and IT investment, A table of reserves is included as note 8 in the Accounts.</p>
Balance Sheet	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31<sup>st</sup> March 2017. The value of the assets of the Council must equal the value of its liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment have increased to £2.28 billion in value, an increase of around £120 million due to general increase in value of housing stocks and capital expenditure.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council. There was no new external borrowing in 2016/17.</p> <p>The net assets of the Council (assets less liabilities) were £1.85 billion, which was an increase from 31<sup>st</sup> March 2016 when the figure was £1.79 billion. The main reason for the increase is the increase in property values.</p>
Housing Revenue Account	The Housing Revenue Account is a

	<p>separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 11,692 dwellings.</p> <p>The HRA balance as at 31<sup>st</sup> March 2017 is £39.1 million, up £7 million. Most of the increase was due to the government failing to implement its levy on the sale of higher value void properties. It is yet to be confirmed if the levy will be payable in the future.</p>
Group Accounts	<p>For a number of years it has been agreed in principle with the auditors that Group Accounts are not required as the asset and liabilities of Tower Hamlets Homes (THH) are not considered material enough to warrant the production of group accounts. THH is 100% owned by the Council and does all of its business with the Council. Note 44 of the accounts shows a summary of THH's draft accounts.</p>
Collection Fund	<p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000 which is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a deficit of £5.4 million for 2016-17. The overall balance carried forward on the Fund is a deficit of £11.3 million. The 2016-17 deficit was due primarily to appeals on business rates bills.</p>

	<p>The Council is awaiting the Government's announcements on how the business rates system will change in future as it moves towards a '100%' retained business rates model for authorities.</p>
Cash Flow Statement	<p>The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.</p>
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 2017.</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 £1.377 billion (an increase of 22% from the £1.126 billion March 2016 valuation).</p> <p>The results of the triennial revaluation completed during 2016-17 estimated a funding deficit of £235 million (an improvement from £365m in 2013) and a funding level of 82.7% (up from 71.8% in 2013). The next triennial valuation will be in 2020.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p>

5. **COMMENTS OF THE CHIEF FINANCE OFFICER (CFO)**

- 5.1 The draft Annual Financial Statement and in particular the Statement of Accounts have been prepared by the CFO's staff in accordance with the relevant regulatory requirements. These are now subject to the external audit

review process with any required issues being brought to the Committee's attention in September. .

## **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 Local Government, England and Wales, the Accounts and Audit Regulations 2015 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 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. For 2017/18 onwards, the draft accounts are to be published by 31<sup>st</sup> May and the audit opinion received by 31<sup>st</sup> July.
- 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.
- 6.4 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. The Annual Financial Report for 2016-17 will go towards demonstrating that the Council is meeting this duty.
- 6.5 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

## **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 on the Council website.

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

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

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

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

## **10. RISK MANAGEMENT IMPLICATIONS**

- 10.1 There are no specific risk management implications.

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

- 11.1 There are no crime and disorder reduction implications.

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

### **Linked Report**

- [List any linked reports, for example those that went to other Committees on the same issue]
- State NONE if none.

### **Appendices**

- Draft Annual Financial Report 2016-17.

### **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.

- These must be sent to Democratic Services with the report
- State NONE if none.

**Officer contact details for documents:**

- 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 2016-17

# DRAFT ANNUAL FINANCIAL REPORT 2016-17

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## **Narrative Report**

### **Overview by Zena Cooke Corporate Director of Resources**

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2016/17, 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 2016/17, 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 with a slight underspend of £0.7million. The Council reviewed its reserves and has agreed to earmark reserves for key priorities. This included the transfer of general fund balances for priorities such as the New Civic Centre and IT and Transformation programmes.

After these transfers, the Council's general fund balance is £31.7m. This is considered adequate reserve balance for the stable financial management of the Council considering the challenges it faces in the coming years.

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

Key achievements in 2016/17 include:

- Delivering over 1,000 affordable homes, including stock which are family sized for social rent
- Placed over 2,200 households in new accommodation
- Increasing educational attainment at early years, key stage 2, GCSE and A Level
- Over ¼ million people attended community events organised in the Borough
- Over 6,000 children participated in the holiday childcare scheme
- Provision of over 4.9 million free school meals to school children in the borough

- Nearly 80,000 meals provided to older residents
- Over 1,400 tonnes of waste collected each week
- Making our borough greener, including a programme of tree planting in streets, parks and open spaces.

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

The Council has continued to invest in its infrastructure with nearly £82 million spent on its capital programme. The main areas of investment were in housing and schools, with £43.9 million of improvement works through the housing capital programme and £11.4 million spent on school improvements.

During 2016/17, the Government appointed Commissioners completed their review work as they were satisfied that governance processes had improved following the implementation of improvement plans delivery of quality services that are valued by residents.

Looking forward the Council will continue to face significant financial challenges. The Medium Term Financial Plan agreed by Full Council in March 2017 includes a £58m million savings programme in the years to 2020. This forms the basis of a balanced budget over the next three years, Major external challenges include the potential impact of government welfare reforms and changes to the way in which local authority services are funded. The impact of Brexit on the Borough is still to be quantified.

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

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

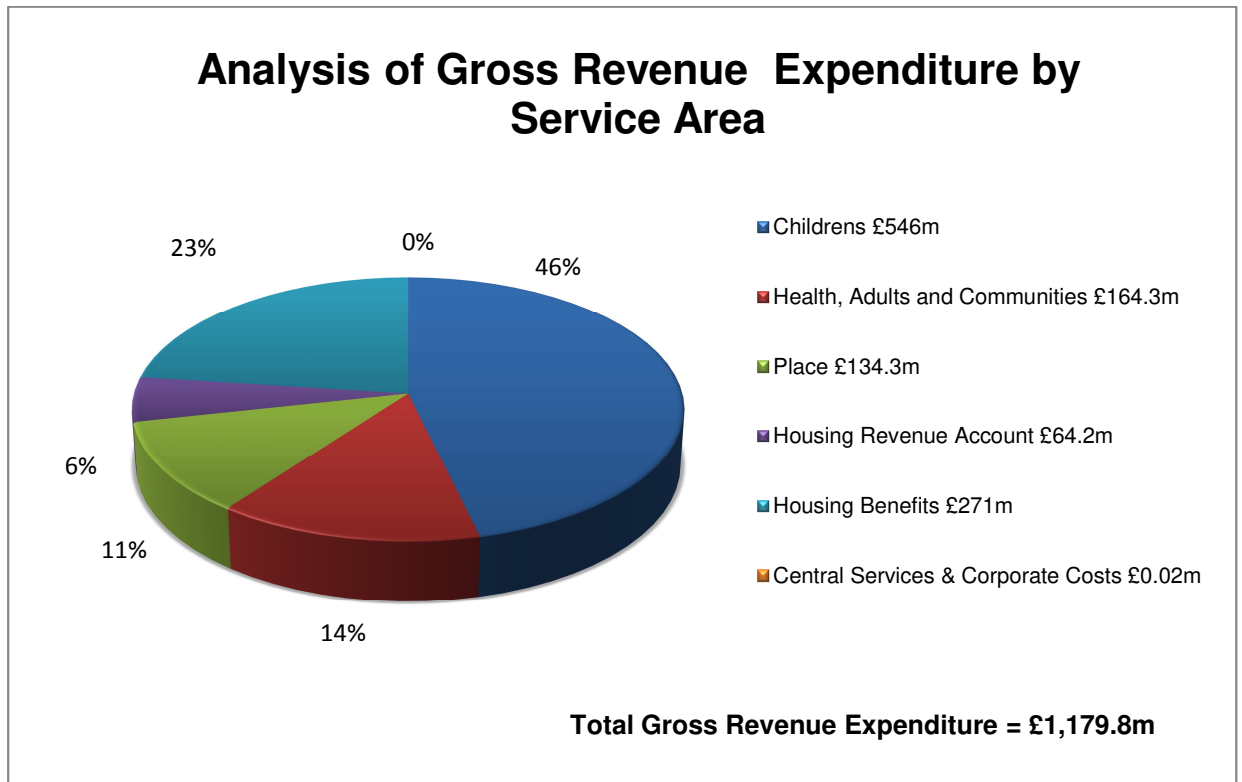
## **Review of the Year**

### **Revenue Income and Expenditure**

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

Overall, the Council's Directorate spend was underspent by £0.73 million against the General Fund budget of £361.984 after the planned transfer to earmarked reserves. The HRA account showed an additional surplus of some £9.1 million against budget, this was mainly due to a void property levy of £8.4m not being payable.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.2 billion (£1.5 billion in 2015/16). An analysis by directorate is shown in the following diagram. Note that these expenditure figures are per the Council's management accounts spend and do not include the effect of technical accounting entries that appear in the Comprehensive Income and Expenditure Account.

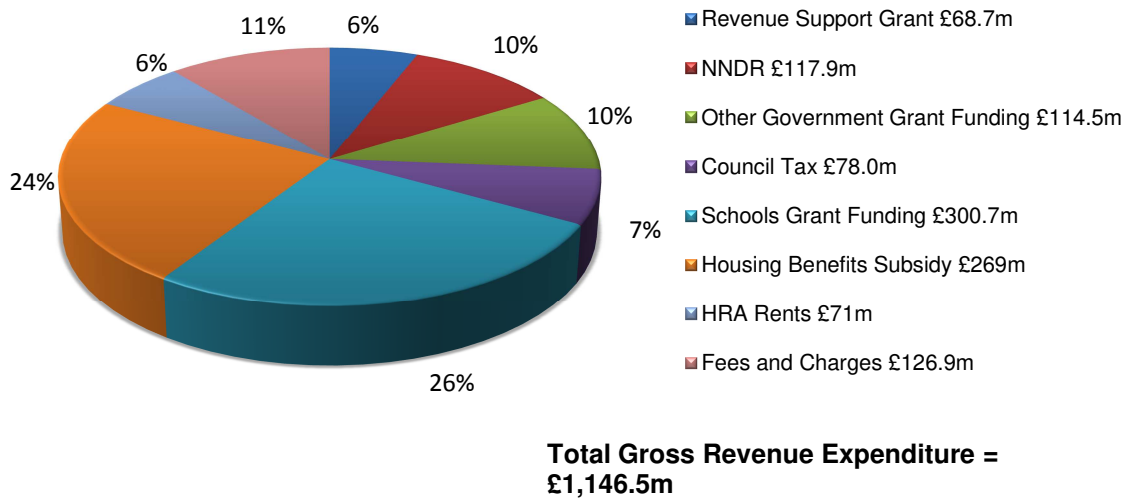


## Revenue Funding

Government grants and subsidies continue to be the main sources of revenue funding (£0.75 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.

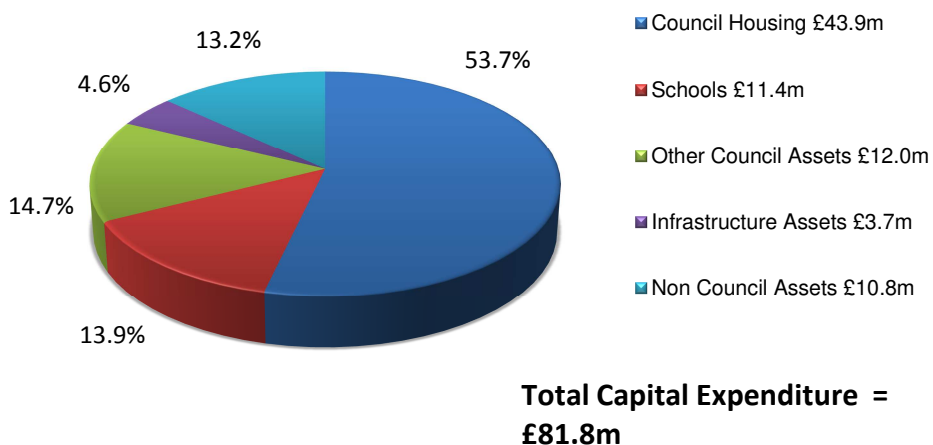
## Analysis of Revenue Funding Sources



### 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 housing and schools.

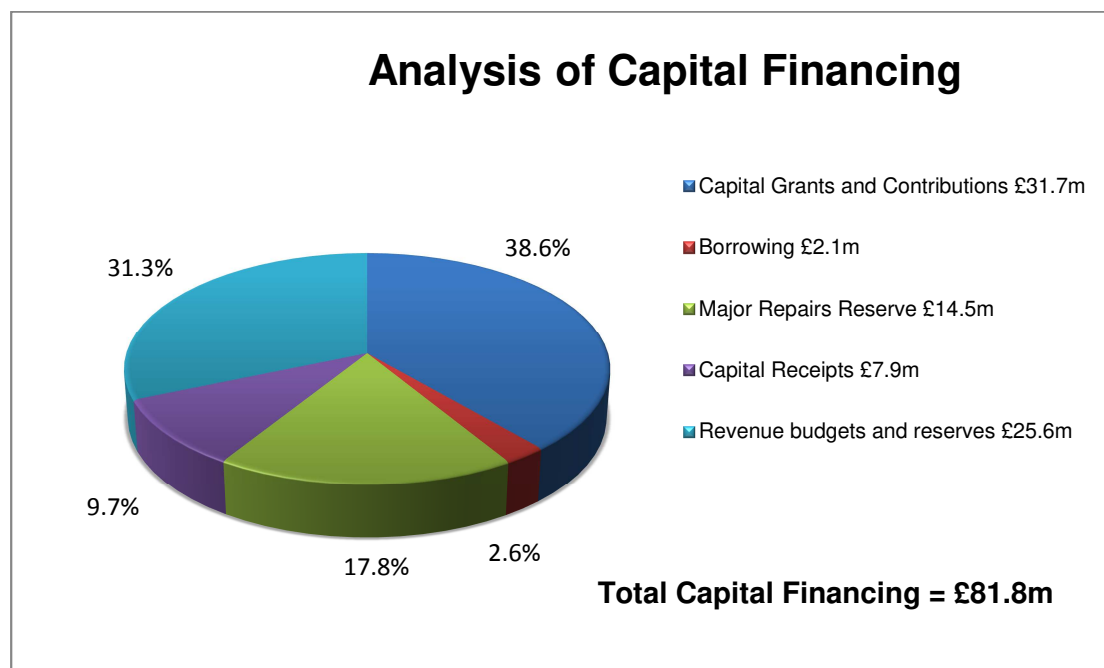
## Analysis of Capital Expenditure



Investment shown as being in 'non-Council assets' includes £3.2 million of expenditure on schools not owned by the Council and £3.3 million of expenditure on leaseholder properties.

The table below shows the sources of funding for the capital programme. The majority of this funding was from capital grants and contributions. In addition,

£25.6 million was also used from earmarked reserves which were set aside for capital investment.



## Borrowing

At the year end the Council had outstanding borrowings of £86.3 million (£88.2 million 2015/16). 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 2016/17 there was a net liability of £619 million (£516 million 2015/16). 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 around £250m in the year, the IAS19 deficit increased as at 31 March 2017 compared to the value reported at 31 March 2016. This is principally due to the impact of

unfavourable financial assumptions used at 31 March 2017. 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 2016 reporting a deficit of £235m a £130m improvement on the £365 million deficit from 2013.

**FURTHER INFORMATION**

Further information about the accounts and a copy of the summary are available from the Divisional Director of Finance, Procurement and Audit, Mulberry Place, 5 Clove Crescent, London, E14 2BG. The summary is also on the Council's website at [www.towerhamlets.gov.uk](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 £'000	
	GENERAL FUND BALANCE £'000	earmarked general fund reserves £'000	housing revenue account balance £'000	major repairs reserve £'000	capital receipts reserve £'000	unapplied grants £'000	total usable reserves £'000	revaluation reserve £'000	pensions reserve £'000	collection fund adjustment account £'000	financial instrument adjustment account £'000	accumulated absences account £'000		deferred capital receipts £'000
<b>Balance as at 31 March 2015</b>	71,450	156,651	21,145	22,174	49,136	55,484	376,040	342,264	(649,564)	8,047	588	(2,988)	11	1,126,909
<b>Movement in reserves during 2015/16</b>														
Surplus or (Deficit) on the Provision of Services	(24,471)	0	94,939	0	0	0	70,468	0	0	0	0	0	0	0
Other comprehensive expenditure and income	0	0	0	0	0	0	64,703	151,822	0	0	0	0	0	216,525
<b>Total Comprehensive Expenditure and Income</b>	<b>(24,471)</b>	<b>0</b>	<b>94,939</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>70,468</b>	<b>64,703</b>	<b>151,822</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>216,525</b>
Adjustments between accounting basis and funding basis under regulations	22,308	0	(83,992)	(12,998)	37,247	711	(36,724)	(5,312)	(18,853)	(7,319)	(284)	618	(9)	36,724
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>(2,163)</b>	<b>0</b>	<b>10,947</b>	<b>(12,998)</b>	<b>37,247</b>	<b>711</b>	<b>33,744</b>	<b>59,391</b>	<b>132,969</b>	<b>(7,319)</b>	<b>(284)</b>	<b>618</b>	<b>(9)</b>	<b>253,249</b>
Transfers to or from earmarked reserves	(1,368)	1,368	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	4,177	(4,177)	0	0	0	0	0	0	0	0	0	0	0	0
<b>Increase or (Decrease) in 2015/16</b>	<b>646</b>	<b>(2,809)</b>	<b>10,947</b>	<b>(12,998)</b>	<b>37,247</b>	<b>711</b>	<b>33,744</b>	<b>59,391</b>	<b>132,969</b>	<b>(7,319)</b>	<b>(284)</b>	<b>618</b>	<b>(9)</b>	<b>253,249</b>
<b>Balance as at 31 March 2016</b>	<b>72,096</b>	<b>153,842</b>	<b>32,092</b>	<b>9,176</b>	<b>86,383</b>	<b>56,195</b>	<b>403,784</b>	<b>401,655</b>	<b>(516,595)</b>	<b>728</b>	<b>284</b>	<b>(2,370)</b>	<b>2</b>	<b>1,380,158</b>
<b>carried forward</b>														<b>1,789,942</b>
<b>Movement in reserves during 2016/17</b>														
Surplus or (Deficit) on the Provision of Services	1,577	0	63,122	0	0	0	64,699	0	0	0	0	0	0	64,699
Other comprehensive expenditure and income	0	0	0	0	0	0	0	82,645	(91,986)	0	0	0	0	(9,341)
<b>Total Comprehensive Expenditure and Income</b>	<b>1,577</b>	<b>0</b>	<b>63,122</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>64,699</b>	<b>82,645</b>	<b>(91,986)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,341)</b>
Adjustments between accounting basis and funding basis under regulations	(36,441)	0	(56,137)	284	70,466	25,834	4,006	(19,705)	(10,541)	(3,029)	(284)	(1,559)	(2)	(4,006)
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>(34,864)</b>	<b>0</b>	<b>6,985</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>68,705</b>	<b>62,940</b>	<b>(102,527)</b>	<b>(3,029)</b>	<b>(284)</b>	<b>(1,559)</b>	<b>(2)</b>	<b>(13,347)</b>
Transfers to or from earmarked reserves	(12,590)	12,590	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	7,097	(7,097)	0	0	0	0	0	0	0	0	0	0	0	0
<b>Increase or (Decrease) in Year</b>	<b>(40,357)</b>	<b>5,493</b>	<b>6,985</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>68,705</b>	<b>62,940</b>	<b>(102,527)</b>	<b>(3,029)</b>	<b>(284)</b>	<b>(1,559)</b>	<b>(2)</b>	<b>(13,347)</b>
<b>Balance as at 31 March 2017</b>	<b>31,739</b>	<b>159,335</b>	<b>39,077</b>	<b>9,460</b>	<b>156,849</b>	<b>82,029</b>	<b>476,489</b>	<b>464,595</b>	<b>(619,122)</b>	<b>(2,301)</b>	<b>0</b>	<b>(3,929)</b>	<b>0</b>	<b>1,366,811</b>
														<b>1,845,300</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.

2015/16 (as restated)			Note	2016/17		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
578,410	465,940	112,470	Children's Services	554,767	439,884	114,883
163,120	66,549	96,571	Health, Adults and Communities	166,216	62,603	103,613
144,775	79,340	65,435	Place	141,027	74,304	66,723
13,940	1,132	12,808	Governance	12,256	2,473	9,783
33,985	92,177	(58,192)	Local Authority Housing (Housing Revenue Account)	64,209	91,545	(27,336)
303,443	281,975	21,468	Resources	294,998	275,378	19,620
12,520	2,419	10,101	Corporate Cost and Central Items	14,388	745	13,643
<b>1,250,193</b>	<b>989,532</b>	<b>260,661</b>	<b>NET COST OF SERVICES</b>	<b>1,247,861</b>	<b>946,932</b>	<b>300,929</b>
		(13,150)	Other Operating Expenditure			(38,985)
		26,783	Financing and Investment Income and Expenditure			26,422
		(344,762)	Taxation and Non-Specific Grant Income			(353,065)
		<b>(70,468)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(64,699)</b>
<b>Other Comprehensive Income and Expenditure</b>						
		(64,703)	(Surplus)/Deficit on revaluation of non-current assets			(82,645)
		(151,822)	Actuarial (gains) or losses on pension assets and liabilities			91,986
		<b>(216,525)</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>9,341</b>
						<b>(286,993)</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>						<b>(55,358)</b>

## 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 2017.

31 March 2016 £'000		Notes	31 March 2017 £'000
	<b>Long-term Assets</b>		
2,156,575	Property, plant and equipment	<a href="#">12</a>	2,277,070
9,310	Heritage Assets	<a href="#">43</a>	9,311
572	Long Term Debtors	<a href="#">13</a>	618
<b>2,166,457</b>	<b>Total Long-term assets</b>		<b>2,286,999</b>
	<b>Current Assets</b>		
291,589	Short-term investments	<a href="#">15</a>	311,667
13,695	Assets held for sale	<a href="#">21</a>	3,850
97,268	Short-term debtors	<a href="#">19</a>	80,487
160,712	Cash and cash equivalents	<a href="#">20</a>	184,299
<b>563,264</b>	<b>Total Current Assets</b>		<b>580,303</b>
	<b>Current liabilities</b>		
3,644	Short-term borrowing	<a href="#">15</a>	3,533
204,158	Short-term creditors	<a href="#">22</a>	154,154
2,076	Provisions	<a href="#">23</a>	4,855
<b>209,878</b>	<b>Total Current liabilities</b>		<b>162,542</b>
	<b>Long Term Liabilities</b>		
7,623	Provisions	<a href="#">23</a>	7,173
85,936	Long-term borrowing	<a href="#">15</a>	84,966
516,595	Liability related to defined benefit pension schemes	<a href="#">41</a>	619,122
76,126	Capital grants receipts in advance	<a href="#">37</a>	83,120
42,040	Deferred liabilities	<a href="#">40</a>	63,871
1,576	Deferred Income - Receipt in Advance		1,205
<b>729,896</b>	<b>Total Long-Term Liabilities</b>		<b>859,457</b>
<b>1,789,947</b>	<b>NET ASSETS</b>		<b>1,845,303</b>
	<b>Reserves</b>		
	<b>Usable Reserves</b>		
72,100	General Fund		31,740
32,092	Housing Revenue Account		39,079
122,031	Earmarked reserves	<a href="#">8</a>	134,619
31,811	Schools reserves	<a href="#">8</a>	24,714
86,383	Capital receipts reserve		156,848
56,195	Capital grants unapplied		82,030
9,176	Major repairs reserve		9,459
<b>409,788</b>	<b>Total Usable Reserves</b>		<b>478,489</b>
	<b>Unusable Reserves</b>	<a href="#">25</a>	
401,655	Revaluation Reserve		464,596
1,496,454	Capital Adjustment Account		1,527,570
728	Collection Fund Adjustment Account		(2,301)
284	Financial Instruments Adjustment Account		0
(516,595)	Pensions reserve		(619,122)
(2,369)	Accumulated Absences Account		(3,929)
2	Deferred capital receipts		0
<b>1,380,159</b>	<b>Total Unusable Reserves</b>		<b>1,366,814</b>
<b>1,789,947</b>	<b>TOTAL RESERVES</b>		<b>1,845,303</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.

2015/16 £'000		Notes	2016/17 £'000
70,468	Net surplus or (deficit) on the provision of services		64,699
52,405	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	62,491
(55,854)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(92,215)
<b>67,019</b>	<b>Net cash flows from Operating Activities</b>		<b>34,975</b>
(105,757)	Investing Activities	<u>27</u>	(10,461)
(2,907)	Financing Activities	<u>28</u>	(928)
<b>(41,645)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>23,586</b>
202,357	Cash and cash equivalents at the beginning of the reporting period		160,712
<b>160,712</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<u>20</u>	<b>184,298</b>

## **Draft Accounting Policies 2016-17**

### **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31st March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the *Service Reporting Code of Practice (SeRCOP) 2016/17*, 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 2017 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.

## **6. Accounting Standards not yet adopted**

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the code.

There are no new standards in the 2017/18 code which are likely to have a material effect on upon the accounts.

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

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2016/17 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

## **8. 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 2017.

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.

## **9. 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.

## **10. Financial Instruments**

### **a. Financial Liabilities**

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

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

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

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

### **b. Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

### **Loans and Receivables**

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

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

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

### **11. 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.

### **12. 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.

### **13. 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 2017. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

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

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

Heritage assets (other than operational heritage assets) shall normally be included in the balance sheet at their current value where material. The Council has a materiality threshold of £50,000 for considering heritage assets for valuation. Where it is not practical to obtain a valuation at a reasonable cost heritage assets are valued at cost where known. Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value.

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

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

### **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 45). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

## **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. 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.

## **17. Overheads and Support Services**

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

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

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

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

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

The Revaluation Reserve contains revaluation gains recognised since 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.

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

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

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

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

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

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

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



## **20. 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.

## **21. 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.

## **22. 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.

## **23. Fair value measurement**

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

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

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

## **24. Value added Tax (VAT)**

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

## **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 Non-Domestic Rates (NDR). This account receives income on behalf of the Council, Central Government and its other preceptor the Greater London Authority (GLA).

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

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

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

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

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

## **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 second phase which commenced on 1 April 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.

## **27. Community Infrastructure Levy**

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be

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

## **28. Schools**

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

## 2 Restated Accounting Statements

The Comprehensive Income and Expenditure Statement was restated to 2015/16 to record expenditure in line with the Council Directorate structure as at 31st March 2017. The Expenditure and Funding Analysis is a new reporting requirement for 2016/17 - comparatives for 2015/16 have also been included.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or 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 2017 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 2016 and 31st March 2017 have been used to construct the balance sheet.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1.3 million for every year that useful lives had to be reduced.

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

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

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

The assumptions interact in complex ways within the IAS19 calculation basis. During 2016/17, the Council's actuaries advised that the net pensions liability had increased by over £100 million to £619 million mainly as a result of a higher discount factor used to calculate the net present value of future pension payments. This is despite the value of the pension fund increasing in value by over £200 million in the year due to rising investment values.

## 4 Material Items of Income and Expense

### Current Year Items

**Actuarial gain on pension fund** - there was a £102.0 million actuarial loss on the pension fund mainly due to an decrease in the discount factor used to calculate the net present value of future pension payments.

**Revaluation of HRA dwellings** - The valuation of property, plant and equipment as at 1st April 2016 resulted in an increase in the value of dwellings of £99.7m, of which £11.4m was credited to HRA gross expenditure as a reversal of previous revaluation losses. The remaining £88.3 was credited to the revaluation reserve and is shown as part of other comprehensive income and expenditure.

## 5 Events After the Balance Sheet Date

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

## 6 EXPENDITURE AND FUNDING ANALYSIS

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

2015/16		2016/17			
Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000	Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000
103,532	8,938	112,470	106,739	8,144	114,883
136,463	(39,892)	96,571	136,684	(33,071)	103,613
62,027	3,408	65,435	68,763	(2,040)	66,723
11,985	823	12,808	10,564	(781)	9,783
(10,948)	(47,244)	(58,192)	(6,988)	(20,348)	(27,336)
17,847	3,621	21,468	19,220	400	19,620
(48,974)	59,075	10,101	19,281	(5,639)	13,643
<b>271,932</b>	<b>(11,271)</b>	<b>260,661</b>	<b>354,263</b>	<b>(53,335)</b>	<b>300,929</b>
(283,521)	(47,608)	(331,129)	(320,888)	(44,740)	(365,628)
<b>(11,589)</b>	<b>(58,879)</b>	<b>(70,468)</b>	<b>33,375</b>	<b>(98,076)</b>	<b>(64,699)</b>
(92,601)			(104,192)		
(11,589)			33,375		
<b>(104,190)</b>			<b>(70,817)</b>		

## 6a NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

Adjustments for Capital Purposes	2015/16		Other Adjustments	Total Adjustments	Adjustments for Capital Purposes	2016/17		Other Adjustments basis	Total Adjustments
	£'000	£'000				£'000	£'000		
218	3,474	12,868	(7,622)	8,938	298	1,047	9,448	(2,650)	8,143
0	1,216	1,807	(42,915)	(39,892)	0	2,224	1,787	(37,082)	(33,072)
714	(2,154)	4,001	847	3,408	1,562	1,894	3,229	(8,726)	(2,040)
0	375	(225)	673	823	0	61	(722)	(119)	(780)
(44,198)	0	(33)	(3,013)	(47,244)	(13,819)	0	(3,040)	(3,488)	(20,348)
(667)	3,149	789	351	3,621	(494)	273	608	14	401
22,938	(8,711)	(20,863)	65,711	59,075	18,982	(14,058)	(18,669)	8,106	(5,639)
<b>(20,995)</b>	<b>(2,651)</b>	<b>(1,856)</b>	<b>14,031</b>	<b>(11,271)</b>	<b>6,528</b>	<b>(8,559)</b>	<b>(7,360)</b>	<b>(43,945)</b>	<b>(53,335)</b>
(63,829)	(7,841)	20,509	3,553	(47,608)	(92,852)	(16,510)	17,901	46,721	(44,740)
(84,824)	(10,492)	18,853	17,584	(58,879)	(86,324)	(25,069)	10,541	2,776	(98,076)
<b>DIFFERENCE BETWEEN SURPLUS OR DEFICIT AND THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>									

### Adjustments for Capital Purposes

This column includes the following adjustments:

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

### Transfers to/from Earmarked Reserves

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

### Net Change for Pensions Adjustments

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

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

### Other Adjustments

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

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

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

2016/17	USABLE RESERVES							UNUSABLE RESERVES	
	GENERAL FUND BALANCE £'000	earmarked general fund reserves* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'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	24,398	0	0	14,801	0	0	39,199	(39,199)	0
Revaluation losses on PPE (charged to SDPS)	(425)	0	(11,370)	0	0	0	(11,795)	11,795	0
Capital grants and contributions applied	(5,917)	0	(6,164)	0	0	(19,510)	(31,591)	31,591	0
Revenue expenditure funded from capital under statute	7,443	0	3,341	0	0	0	10,784	(10,784)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	8,338	0	29,313	0	0	0	37,651	(37,651)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,096)	0	(504)	0	0	0	(7,600)	7,600	0
Capital expenditure charged against the General Fund and HRA balances	(20,340)	0	(5,287)	0	0	0	(25,627)	25,627	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	(17,953)	0	(56,039)	0	73,992	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(7,913)	0	(7,913)	7,913	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,755	0	0	0	(1,755)	0	0	0	0
Unattached capital receipts	(1,853)	0	(4,287)	0	6,140	0	0	0	0
Deferred Capital Receipts	0	0	0	0	2	0	2	(2)	0
<b>Adjustment involving the Major Repairs Reserve</b>									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(14,517)	0	0	(14,517)	14,517	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	55,294	0	1,203	0	0	0	56,497	(56,497)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(42,915)	0	(3,041)	0	0	0	(45,956)	45,956	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	3,029	0	0	0	0	0	3,029	(3,029)	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	(41,860)	0	(3,484)	0	0	45,344	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>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	1,559	0	0	0	0	0	1,559	(1,559)	0
<b>Total Adjustments</b>	<b>(36,441)</b>	<b>0</b>	<b>(56,137)</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>4,006</b>	<b>(4,006)</b>	<b>0</b>



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

2015/16	USABLE RESERVES							UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<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	24,159	0	0	15,321	0	0	39,480	(39,480)	0
Revaluation losses on PPE (charged to SDPS)	4,717	0	(40,892)	0	0	0	(36,175)	36,175	0
Capital grants and contributions applied	(6,097)	0	(9,903)	0	0	(41,073)	(57,073)	57,073	0
Revenue expenditure funded from capital under statute	9,533	0	1,365	0	0	0	10,898	(10,898)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	4	0	23,221	0	0	0	23,225	(23,225)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,084)	0	(82)	0	0	0	(7,166)	7,166	0
Capital expenditure charged against the General Fund and HRA balances	(1,929)	0	(4,671)	0	0	0	(6,600)	6,600	0
<b>Adjustments involving the Capital Receipts Reserve</b>									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(82)	0	(36,063)	0	36,145	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(841)	0	(841)	841	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,774	0	0	0	(1,774)	0	0	0	0
Unattached capital receipts	(1,897)	0	(1,811)	0	3,708	0	0	0	0
Deferred Capital Receipts	0	0	0	0	9	0	9	(9)	0
<b>Adjustment involving the Major Repairs Reserve</b>									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(28,319)	0	0	(28,319)	28,319	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	60,306	0	4,093	0	0	0	64,399	(64,399)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(42,713)	0	(2,833)	0	0	0	(45,546)	45,546	0
<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	7,319	0	0	0	0	0	7,319	(7,319)	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	(25,186)	0	(16,598)	0	0	41,784	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	(618)	0	0	0	0	0	(618)	618	0
<b>Total Adjustments</b>	<b>22,308</b>	<b>0</b>	<b>(83,992)</b>	<b>(12,998)</b>	<b>37,247</b>	<b>711</b>	<b>(36,724)</b>	<b>36,724</b>	<b>0</b>

## 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 2016/17.

	BALANCE AT 1 APRIL 2015 £000	TRANSFERS OUT 2015/16 £000	TRANSFERS IN 2015/16 £000	BALANCE AT 31 MARCH 2016 £000	TRANSFERS OUT 2016/17 £000	TRANSFERS IN 2016/17 £000	REALLOCATIO NS 2016-17 £000	BALANCE AT 31 MARCH 2017 £000
<b>GENERAL FUND</b>								
<b>General Fund Reserve</b>	71,456	0	644	72,100	(40,360)	0	0	31,740
<b>EARMARKED RESERVES</b>								
1 Transformation	16,917	(1,936)	9,047	24,028	(8,194)	0	9,166	25,000
2 Severance	15,000	(4,152)	1,152	12,000	(1,176)	0	(10,824)	0
3 ICT / Finance Systems	2,510	0	0	2,510	(1,932)	25,000	(2,510)	23,068
4 ICT Refresh	1,549	(218)	0	1,331	0	0	(1,331)	0
5 Olympic Legacy Schemes	651	(651)	0	0	0	0	0	0
6 Education Grant Reduction	1,333	0	1,110	2,443	(370)	0	(2,073)	0
7 Employment and other Corporate Initiatives	13,845	(4,471)	3,859	13,233	(3,765)	0	(9,468)	0
8 Other	3,534	(2,334)	0	1,200	0	116	(354)	962
9 Homelessness	2,214	(559)	0	1,655	(496)	0	(1,159)	0
10 Parking Control	1,919	0	1,376	3,295	0	0	0	3,295
11 Building Control	0	0	0	0	0	0	373	373
12 Land Charges	0	0	0	0	0	0	749	749
13 Place (formerly Development & Renewal) Other	4,554	(113)	1,440	5,881	(1,551)	0	(4,330)	0
14 Communities, Localities & Culture	1,837	(190)	1,013	2,660	(413)	0	(2,247)	0
15 Children, Schools & Families	2,181	(1,610)	667	1,238	(160)	0	(1,078)	0
16 Adults, Health & Wellbeing	1,938	(328)	1,092	2,702	(1,402)	0	(1,300)	0
17 Law, Probity & Governance & Resources	564	0	60	624	0	0	(624)	0
18 Insurance	23,065	(1,005)	0	22,060	(1,289)	0	0	20,771
19 Schools Balances	35,988	(4,177)	0	31,811	(7,097)	0	0	24,714
20 CSF - Early Intervention	2,462	(2,244)	0	218	(218)	0	0	0
21 Housing Revenue Account (HRA)	20,145	1,000	10,947	32,092	6,987	0	0	39,079
22 Housing Revenue Account - Future Housing Supply	1,000	(1,000)	0	0	0	0	0	0
23 Capital Programme (General Fund)	24,588	(288)	651	24,951	(19,305)	0	(5,646)	0
24 New Civic Centre	0	0	0	0	0	20,000	0	20,000
25 New Homes Bonus	0	0	0	0	0	7,258	0	7,258
26 Free School Meals	0	0	0	0	0	0	6,000	6,000
27 Mayor's Investment Priorities	0	0	0	0	0	0	10,000	10,000
28 Risk Reserve	0	0	0	0	0	0	7,500	7,500
29 Revenue Grants	0	0	0	0	0	487	1,156	1,643
30 Welfare Reform	0	0	0	0	0	0	8,000	8,000
<b>Earmarked Reserve Total</b>	<b>177,794</b>	<b>(24,276)</b>	<b>32,414</b>	<b>185,932</b>	<b>(40,381)</b>	<b>52,861</b>	<b>0</b>	<b>198,412</b>
<b>Total Usable Reserve Total</b>	<b>249,250</b>	<b>(24,276)</b>	<b>33,058</b>	<b>258,032</b>	<b>(80,741)</b>	<b>52,861</b>	<b>0</b>	<b>230,152</b>

A review has been conducted of the Council's reserves to re-allocate them towards the Council's priorities. These priorities cover the transformation programme, ICT systems improvements, the New Civic Centre, housing, free school meals, welfare reform and the Mayor's Priorities. Reserves marked \* have been reallocated to these priorities. In addition £40.36m of the general fund balance has been earmarked for these priorities.

### Corporate Reserves

- 1 Reserve created to support the delivery of the Council's transformation programme.
- 2 Reserve for potential severance / redundancy payments\*.
- 3 & 4 Reserve to support the planned investment in Council's finance systems.
- 5 Reserve created from grant income to support initiatives related to the Olympics programme.\*
- 6 Reserve to mitigate the impact of reductions to education improvement grant funding.\*
- 7 Reserve for employment, business support and corporate initiatives.\*
- 8 Other - mainstream grants fund.\*
- 9 A reserve to mitigate the impact of the increased cost of managing homelessness.\*
- 10 Parking control reserve.
- 11 Building Control reserve created from Building Control service revenue.
- 12 Reserve created from Land Charges revenue.
- 13-17 Reserves held for service specific initiatives.\*
- 18 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.
- 19 Reserves held by schools under the scheme of delegation.
- 20 Reserve created from grant for Children, School & Families early intervention schemes.
- 21 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 23 An earmarked Housing Revenue Account reserve to fund housing projects.
- 24 Reserve to contribute towards funding of new Civic Centre.
- 25 Unspent New Homes Bonus receipts to be used to fund housing schemes.
- 26 Reserve to fund free school meals programme.
- 27 Reserve to fund Mayor's Investment Priority schemes.
- 28 Risk Reserve to manage funding of risks arising.
- 29 Unspent revenue grants without repayment conditions.
- 30 Contribution toward funding of welfare reform programme.

## 9 Other Operating Expenditure

2015/16 £'000	Note	2016/17 £'000
<b>Levies</b>		
237	- Lee Valley Regional Park Authority	239
180	- Environment Agency	190
1,286	- London Pensions Fund Authority	1,312
<b>1,703</b>	<b>Total Levies</b>	<b>1,741</b>
1,774	Payments to Housing Capital Receipts Pool	1,755
(12,919)	Net (gain)/loss on disposal of non-current assets	(36,341)
(3,708)	Unattached capital receipts	(6,140)
<b>(13,150)</b>	<b>Total</b>	<b>(38,985)</b>

## 10 Financing and Investment Income and Expenditure

2015/16 £'000		2016/17 £'000
9,761	Interest payable and similar charges	10,939
20,509	Pensions interest cost and expected return on pensions assets	17,901
(3,131)	Interest receivable and similar income	(2,519)
(356)	Surplus or deficit of trading operations	101
<b>26,783</b>	<b>Total</b>	<b>26,422</b>

## 11 Taxation and Non Specific Grant Income

2015/16 £'000		2016/17 £'000
(71,793)	Council Tax income	(78,043)
(112,493)	Non domestic rates	(117,870)
(111,500)	Non-ringfenced Government grants	(105,025)
(48,976)	Capital grants and contributions	(52,127)
<b>(344,762)</b>	<b>Total</b>	<b>(353,065)</b>

## 12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2016/17	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
<b>Cost or Valuation</b>									
At 1 April 2016	1,244,394	971,542	24,428	153,803	53,891	11,885	10,705	2,470,648	250,625
Additions	36,447	33,791	263	3,743	523	0	20,812	95,579	6,759
Revaluation increases/(decreases) recognised in the Revaluation Reserve	74,882	(10,050)	0	0	0	0	0	64,832	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of services	11,370	(346)	0	0	0	0	0	11,024	0
Derecognition - Disposals	(24,601)	0	0	0	0	(742)	0	(25,343)	0
Derecognition - Other Assets Reclassified (to)/from Held for Sale	0	(713)	0	0	0	0	0	(713)	0
Other Reclassification of Assets	0	0	0	0	0	(3,568)	0	(3,568)	0
At 31 March 2017	1,342,492	994,224	24,691	157,546	54,414	7,575	31,517	2,612,459	257,384
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2016	151,963	95,190	21,121	46,220	5	(426)	0	314,073	17,250
Depreciation charge	13,525	21,485	666	3,720	0	0	0	39,396	6,532
Depreciation written out to the Revaluation Reserve	(13,465)	(4,348)	0	0	0	0	0	(17,813)	0
Derecognition - Disposals	(278)	0	0	0	0	0	0	(278)	0
Derecognition - Other Assets reclassified (to)/from Held for Sale	0	11	0	0	0	0	0	11	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2017	151,745	112,338	21,787	49,940	5	(426)	0	335,389	23,782
<b>Net Book Value</b>									
At 31 March 2017	1,190,747	881,886	2,904	107,606	54,409	8,001	31,517	2,277,070	233,602
At 31 March 2016	1,092,431	876,352	3,307	107,583	53,886	12,311	10,705	2,156,575	233,375

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

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

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

### 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 2016/17, 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 £38.555 million at 31st March 2017 (£82.186 million at 31st March 2016).

	Committed sum £m	Costs to 31/3/2017 £m	2017/18 onwards £m	Contract End Date
Decent Homes Contract	51.767	26.379	25.388	31/03/2017
Watts Grove - GLA Pipeline	24.550	21.929	2.621	22/07/2017
Whitechapel Civic Centre	2.837	0.799	2.038	03/04/2020
St Paul's Way Trust School	11.379	8.261	3.118	24/08/2018
Stepney Green School 6th Form	4.077	1.722	2.355	22/12/2017
Stephen Hawking School Expansion	3.298	0.263	3.035	22/12/2017
<b>TOTAL</b>	<b>97.908</b>	<b>59.353</b>	<b>38.555</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. In 2016/17, school assets were also subject to a desktop valuation as at 31st March 2017. A summary of total valuation per asset category is shown below.

In 2016/17, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

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

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	12,727	2,904	107,606	54,409	-	31,517	209,163
Valued at current value in:								
2016/17	1,190,747	682,595	-	-	-	282	-	1,873,624
2015/16	-	59,755	-	-	-	7,719	-	67,474
2014/15	-	65,673	-	-	-	-	-	65,673
2013/14	-	58,984	-	-	-	-	-	58,984
2012/13	-	2,152	-	-	-	-	-	2,152
<b>Value at 31 March 2017</b>	<b>1,190,747</b>	<b>881,886</b>	<b>2,904</b>	<b>107,606</b>	<b>54,409</b>	<b>8,001</b>	<b>31,517</b>	<b>2,277,070</b>

## 13 LONG TERM DEBTORS

	1st April 2015 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2016 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2017 £'000
Mortgages on Right to Buy properties	28	11	(10)	29	0	(3)	26
Sundry Loans	585	83	(125)	543	160	(111)	592
	<b>613</b>	<b>94</b>	<b>(135)</b>	<b>572</b>	<b>160</b>	<b>(114)</b>	<b>618</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
	2016	2017	2016	2017	2016	2017
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>						
Borrowings at amortised cost	85,936	84,966	2,267	1,310	88,203	86,276
Deferred Liabilities (PFI and Finance Leases)	42,040	63,871	1,377	2,223	43,417	66,094
Creditors - Financial Liabilities carried at contract amount	0	0	49,681	40,292	49,681	40,292
<b>Total Liabilities</b>	<b>127,976</b>	<b>148,837</b>	<b>53,325</b>	<b>43,825</b>	<b>181,301</b>	<b>192,662</b>
<b>Financial Assets</b>						
Loans and receivables	0	0	291,589	311,667	291,589	311,667
Debtors - financial assets carried at contract amounts	0	0	25,560	7,701	25,560	7,701
Cash held at bank and cash equivalents	0	0	160,712	184,299	160,712	184,299
<b>Total Financial Assets</b>	<b>0</b>	<b>0</b>	<b>477,861</b>	<b>503,667</b>	<b>477,861</b>	<b>503,667</b>

### NOTES

1. Market loans of £77.5 million have been included in long term borrowing. At 31st March 2016, these were all LOBO (lender's option, borrower's option) loans, however during 2016/17 £17.5m of these loans had the interest rate change option removed at the request of the lender.
2. Included in loans and receivables is £10m of deposits due to be settled within 1 and 3 years as at 31 March 2017.
3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, stepped deposits, collar/structured deposits, certificates of deposits, call accounts and money market funds.
4. The terms of the stepped deposits of £5m from 30.04.2015 - 29.04.2018 are from 30.04.2015 - 29.04.16 to earn interest rate of 0.90%; from 30.04.2016 - 29.04.2017 to earn interest rate of 1.25% and from 30.04.2017 - 30.04.2018 to earn interest rate of 1.79%.
5. Balances in the money market funds at 31 March 2017 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 £136.9 million (£89.8 million as at 31st March 2016) 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 2016/17 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 30 to the accounts. The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.

## FINANCIAL INSTRUMENTS (continued)

### Gains and Losses on Financial Instruments

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

	2015/16		2016/17	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£'000	£'000	£'000	£'000
Interest expense	9,761	0	10,939	0
Interest income	0	3,131	0	2,519
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>9,761</b>	<b>3,131</b>	<b>10,939</b>	<b>2,519</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 2017.
- 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 2016		31 March 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	10,375	13,019	8,458	10,871
Market Loans - Fixed Interest	0	0	17,577	29,278
Market Loans - Lender's option, borrower's option loans	77,828	132,814	60,241	93,895
Deferred liabilities - (PFI/Finance Leases)	43,417	43,417	66,092	66,092
Creditors - Financial Liabilities carried at contract amount	49,681	49,681	40,292	40,292
<b>Financial Liabilities</b>	<b>181,301</b>	<b>238,931</b>	<b>192,660</b>	<b>240,428</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 2016		31 March 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	291,589	318,842	311,660	312,237
Equity Shares (not quoted in an active market)	7	7	7	7
Debtors - financial assets carried at contract amounts	25,560	25,560	7,701	7,701
Cash held at Bank	68,398	68,398	47,448	47,448
Cash equivalents (deposits with banks and other financial institutions)	92,314	92,314	136,851	136,851
<b>Financial Assets</b>	<b>477,868</b>	<b>505,121</b>	<b>503,667</b>	<b>504,244</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 2016 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2016 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	97,888	0%	0%	0%
Money Market Funds	62,824	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	27,001	0%	0%	0%
3 - 6 months	50,142	0%	0%	0%
6 - 12 months	135,729	0%	0%	0%
Over 12 months	105,718	0%	0%	0%
<b>TOTAL</b>	<b>479,302</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

	Amounts at 31 March 2017 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2017 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits		0%	0%	0%
Money Market Funds	41,814	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	95,037	0%	0%	0%
3 - 6 months	55,023	0%	0%	0%
6 - 12 months	211,409	0%	0%	0%
Over 12 months	45,228	0%	0%	0%
<b>TOTAL</b>	<b>448,511</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 £3.7 million of the £64 million balance (2015/16 - £6.0 million of the £79.7 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

## 15 FINANCIAL INSTRUMENTS (continued)

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

Credit Risk	31 March 2016 £'000	31 March 2017 £'000
Three to six months	570	344
Six months to one year	626	401
More than one year	2,553	721
<b>TOTAL</b>	<b>3,749</b>	<b>1,466</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 2016 £'000	31 March 2017 £'000
Public Works Loans Board	10,375	8,458
Market debt	77,828	77,818
PFI / Finance Leases	43,417	66,092
<b>TOTAL</b>	<b>131,620</b>	<b>152,368</b>
Less than 1 year	3,643	3,532
Between 1 and 2 years	3,157	4,090
Between 2 and 5 years	8,885	12,804
Between 5 and 10 years	27,354	28,152
More than 10 years	88,581	103,790
<b>TOTAL</b>	<b>131,620</b>	<b>152,368</b>

In the more than 10 years category, there are £60 million of Lender's Option, Borrower's Option (LOBO) market loans. 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 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2015/16 £'000	2016/17 £'000
Increase in interest payable on variable rate borrowings	645	600
Increase in interest receivable on variable rate investments	(3,000)	(3,000)
<b>Impact on Income and Expenditure Account</b>	<b>(2,355)</b>	<b>(2,400)</b>

Fair Value Movements	2015/16 £'000	2016/17 £'000
Decrease in fair value of fixed rate investments	508	1,016
Decrease in fair value of fixed rate borrowing liabilities	1,458	293
<b>Impact on Income and Expenditure Account</b>	<b>1,966</b>	<b>1,309</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)

	2015/16 £'000	2016/17 £'000
The Tower Hamlets Local Education Partnership	7	7
<b>Total</b>	<b>7</b>	<b>7</b>

## 16 CONSTRUCTION CONTRACTS

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

## 17 IMPAIRMENT LOSSES

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

## 18 HERITAGE ASSETS

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

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

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

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

	Balance at 31st March 2015 £'000	2015/16 Acquisitions £'000	2015/16 Disposals £'000	2015/16 Revaluation £'000	Balance at 31st March 2016 £'000	2016/17 Acquisitions £'000	2016/17 Disposals £'000	2016/17 Revaluation £'000	Balance at 31st March 2017 £'000
<b>Value of Heritage Assets held by Council</b>									
(a) - Works of art	8,910	0	0	0	8,910	0	0	0	8,910
(b) - Civic Regalia	389	0	0	0	389	0	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0	0	0
(d) - Public Art (Middlesex Street)	11	0	0	0	11	1	0	0	12
<b>TOTAL HERITAGE ASSETS</b>	<b>9,310</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,310</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>9,311</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.

## 19 DEBTORS

	31 March 2016 £'000	31 March 2017 £'000
Central government bodies	23,835	21,669
Other local authorities	7,107	3,320
Other entities and individuals	63,583	52,661
Payments in advance	2,743	2,837
<b>Total</b>	<b>97,268</b>	<b>80,487</b>

## 20 CASH AND CASH EQUIVALENTS

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

	31 March 2016 £'000	31 March 2017 £'000
Cash held by the Council	68,398	47,448
Short-term deposits with banks and building societies	92,314	136,851
<b>Total Cash and Cash Equivalents</b>	<b>160,712</b>	<b>184,299</b>

## 21 ASSETS HELD FOR SALE

As at the 31st March 2017, the Council has one property which is classified as an Asset Held for Sale.

	Current		Non Current	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
<b>Value at 1st April</b>	225	13,695	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	13,914	3,850	0	0
Revaluation losses	0	(1,550)	0	0
Revaluation gains	0	0	0	0
Assets declassified as held for sale:				
Property, Plant and Equipment	0	(282)	0	0
Assets sold	(444)	(11,863)	0	0
<b>Value at 31st March</b>	<b>13,695</b>	<b>3,850</b>	<b>0</b>	<b>0</b>

## 22 CREDITORS

	31 March 2016 £000	31 March 2017 £000
Central government bodies	30,025	29,330
Other local authorities	21,946	8,871
Other entities and individuals	87,001	61,174
Accruals	49,681	40,292
Receipts in advance	15,505	14,487
<b>Total</b>	<b>204,158</b>	<b>154,154</b>

## 23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2015 £'000	Amounts used in 2015/16 £'000	Contributions in 2015/16 £'000	Balance at 31 March 2016 £'000	Amounts used in 2016/17 £'000	Contributions in 2016/17 £'000	Balance at 31 March 2017 £'000
(a) Single Status	174	(112)	0	62	0	0	62
(b) ICT provision and other corporate provisions	1,455	(200)	53	1,308	(436)	3,034	3,906
(c) Contract disputes	102	0	21	123	0	181	304
(d) Business rates appeals provision	3,010	(2,427)	0	583	0	0	583
<b>TOTAL</b>	<b>4,741</b>	<b>(2,739)</b>	<b>74</b>	<b>2,076</b>	<b>(436)</b>	<b>3,215</b>	<b>4,855</b>

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

LONG-TERM PROVISIONS	Balance at 1 April 2015 £'000	Amounts used in 2015/16 £'000	Contributions in 2015/16 £'000	Balance at 31 March 2016 £'000	Amounts used in 2016/17 £'000	Contributions in 2016/17 £'000	Balance at 31 March 2017 £'000
(e) Insurance Fund	6,777	(75)	358	7,060	(244)	188	7,004
(f) Repayment of deposits	169	0	0	169	0	0	169
(g) Repayment of European funding	394	0	0	394	(394)	0	0
<b>TOTAL</b>	<b>7,340</b>	<b>(75)</b>	<b>358</b>	<b>7,623</b>	<b>(638)</b>	<b>188</b>	<b>7,173</b>
							<b>12,028</b>

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provisions including adult social care payments due in 2017/18.
- (c) Provision for contract disputes.
- (d) Council share of provision for NNDR business rates appeals.
- (e) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.
- (f) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.
- (g) There are a number of European funded schemes where there is a probability that grant will need to be repaid. The potential for repayment expired in 2016/17, ten years after the grant was received.

## 24 USABLE RESERVES

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

## 25 UNUSABLE RESERVES

31 March 2015 £'000		31 March 2016 £'000
401,655	Revaluation Reserve	464,596
1,496,454	Capital Adjustment Account	1,527,570
284	Financial Instruments Adjustment Account	0
(516,595)	Pensions Reserve	(619,122)
728	Collection Fund Adjustment Account	(2,301)
(2,369)	Accumulating Compensated Absences Adjustment Account	(3,929)
2	Deferred Capital Receipts	0
<b>1,380,159</b>	<b>Total Unusable Reserves</b>	<b>1,366,814</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.

2015/16 £'000		2016/17 £'000
342,265	<b>Balance at 1 April</b>	401,656
106,896	Upward revaluation of assets	102,462
(42,193)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(19,817)
<u>64,703</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	82,645
(3,735)	Difference between current value depreciation and historical cost depreciation	(4,046)
<u>(1,577)</u>	Accumulated gains on assets sold or scrapped	(15,659)
(5,312)	Amount written off to the Capital Adjustment Account	(19,705)
<b>401,656</b>	<b>Balance at 31 March</b>	<b>464,596</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 current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

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

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

2015/16 £'000		2016/17 £'000
<b>1,428,571</b>	<b>Balance at 1 April</b>	<b>1,496,455</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(39,480)	Charges for depreciation and impairment of non current assets	(39,199)
36,175	Revaluation losses and reversals on Property, Plant and Equipment	11,795
(10,898)	Revenue expenditure funded from capital under statute	(10,784)
(23,225)	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	(37,651)
<u>(37,428)</u>		<u>(75,839)</u>
5,312	Adjusting amounts written out of the Revaluation Reserve	19,705
<u>(32,116)</u>	Net written out amount of the cost of non current assets consumed in the year	<u>(56,134)</u>
	Capital financing applied in the year:	
841	Use of the Capital Receipts Reserve to finance new capital expenditure	7,913
28,319	Use of the Major Repairs Reserve to finance new capital expenditure	14,517
57,073	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	31,591
7,167	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,601
6,600	Capital expenditure charged against the General Fund and HRA balances	25,627
<u>100,000</u>		<u>87,249</u>
<b>1,496,455</b>	<b>Balance at 31 March</b>	<b>1,527,570</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 was charged to the General Fund over 10 years with the final charge in 2016/17.

2015/16 £'000		2016/17 £'000
568	<b>Balance at 1 April</b>	284
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with	
(284)	statutory requirements	(284)
<b>284</b>	<b>Balance at 31 March</b>	<b>0</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

2015/16 £'000		2016/17 £'000
(649,564)	<b>Balance at 1 April</b>	(516,595)
151,822	Actuarial gains or losses on pensions assets and liabilities	(91,986)
(64,399)	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	(56,497)
45,546	Employer's pensions contributions and direct payments to pensioners payable in the year	45,956
<b>(516,595)</b>	<b>Balance at 31 March</b>	<b>(619,122)</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.

2015/16 £'000		2016/17 £'000
8,047	<b>Balance at 1 April</b>	728
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in	
(7,319)	accordance with statutory requirements	(3,029)
<b>728</b>	<b>Balance at 31 March</b>	<b>(2,301)</b>

### Accumulated Absences Account

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

2015/16 £'000		2016/17 £'000
(2,988)	<b>Balance at 1 April</b>	(2,370)
2,988	Settlement or cancellation of accrual made at the end of the preceding year	2,370
(2,370)	Amounts accrued at the end of the current year	(3,929)
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from	
618	remuneration chargeable in the year in accordance with statutory	(1,559)
<b>(2,370)</b>	<b>Balance at 31 March</b>	<b>(3,929)</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.

2015/16 £'000		2016/17 £'000
11	<b>Balance at 1 April</b>	2
(9)	Transfer to the Capital Receipts Reserve upon receipt of cash	(2)
<b>2</b>	<b>Balance at 31 March</b>	<b>0</b>

## 26a NOTE A TO THE CASH FLOW STATEMENT

2015/16 £'000		2016/17 £'000
70,468	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>64,699</b>
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>	
39,479	Depreciation	39,199
(36,175)	Impairment and downward valuations	(11,795)
(2,168)	Adjustments for effective interest rates	2,849
	Increase/Decrease in Interest Creditors	
(6,469)	Increase/Decrease in Creditors	(41,427)
18,022	Increase/Decrease in Debtors	23,144
	Increase/Decrease in Inventories	
18,873	Pension Liability	10,541
(2,382)	Contributions to/(from) Provisions	2,329
	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	
23,225		37,651
<b>52,405</b>		<b>62,491</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>	
(16,001)	Capital Grants credited to surplus or deficit on the provision of services	(12,082)
	Premiums or Discounts on the repayment of financial liabilities	
	Proceeds from the sale of property plant and equipment, investment property and intangible assets	
(39,853)		(80,133)
<b>(55,854)</b>		<b>(92,215)</b>
<b>67,019</b>	<b>Net cash flows from operating activities</b>	<b>34,975</b>

## 26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2015/16 £'000		2016/17 £'000
1,621	Interest received	2,519
(10,419)	Interest paid	(8,090)
<b>(8,798)</b>		<b>(5,571)</b>

## 27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2015/16 £'000		2016/17 £'000
(86,126)	Purchase of property, plant and equipment, investment property and intangible assets	(72,347)
(75,841)	Purchase of short-term and long-term investments	(20,078)
	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	73,995
36,154	Proceeds from short-term and long-term investments	
20,057	Other receipts from investing activities	7,969
<b>(105,756)</b>	<b>Net cash flows from investing activities</b>	<b>(10,461)</b>

## 28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2015/16 £'000		2016/17 £'000
(1,572)	Billing Authorities - Council Tax and NNDR adjustments	0
	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(557)
(964)		
(371)	Repayments of short- and long-term borrowing	(371)
<b>(2,907)</b>	<b>Net cash flows from financing activities</b>	<b>(928)</b>

## 29 TRADING OPERATIONS

The following services are reported as trading activities

	2015/16			2016/17			Balance 31/03/2017 £'000
	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	
Street Trading	2,125	2,481	356	2,520	2,419	(101)	767
<b>TOTAL TRADING ACCOUNTS</b>	<b>2,125</b>	<b>2,481</b>	<b>356</b>	<b>2,520</b>	<b>2,419</b>	<b>(101)</b>	<b>767</b>

## 30 CONTINGENT LIABILITIES

### Housing Transfers to Registered Social Landlords

Between March 1998 and March 2016 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to East End Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

### Death of Child in Mile End Park

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

## 30a CONTINGENT ASSETS

### Regeneration Schemes

Over recent years the Council has entered into development agreements to develop sites as part of its regeneration of the Ocean Estate and Blackwall Reach areas. In the event of any of the individual sites achieving overall profit for the development partners, an overage payment may become due to the Council. Any subsequent use of overage receipts arising from the Ocean Estate scheme must contribute towards the development of new affordable homes as agreed with the Greater London Authority.

### Leisure Contracts

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

## 31 POOLED BUDGETS

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

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

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

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

2016/17	ICES £'000	BCF £'000
<b>Income</b>		
The Council	1,167	9,015
Barts and the London Trust health services	813	0
Clinical Commissioning Group (CCG)	0	12,448
	<b>1,980</b>	<b>21,463</b>
<b>Expenditure</b>	1,980	19,195
<b>Surplus/(Deficit) for the year</b>	<b>0</b>	<b>2,268</b>
2015/16	ICES £'000	BCF £'000
<b>Income</b>		
The Council	812	9,092
Barts and the London Trust health services	836	0
Clinical Commissioning Group (CCG)	0	12,357
	<b>1,648</b>	<b>21,449</b>
<b>Expenditure</b>	1,680	20,329
<b>Surplus/Deficit for the year</b>	<b>(32)</b>	<b>1,120</b>

## 32 MEMBERS' ALLOWANCES

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

	2015/16 £'000	2016/17 £'000
Allowances	788	882
<b>Total</b>	<b>788</b>	<b>882</b>

### 33 OFFICERS' REMUNERATION

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

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

<sup>1</sup> Commenced 19/10/2015

<sup>2</sup> Head of paid service role ended 18/10/2015

<sup>3</sup> Commenced 01/07/2015

<sup>4</sup> Commenced 14/03/2016

<sup>5</sup> From 14/07/2015 to 11/03/2016

<sup>6</sup> From 19/10/2015

<sup>7</sup> Left 13/07/2015

<sup>8</sup> Commenced 17/09/2015

<sup>9</sup> Commenced 03/08/2015

<sup>10</sup> Acting up ended 02/08/2015

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

2016/17	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	196,926	0	0	30,623	110	227,659
<b>Total Head of Paid Service</b>	<b>196,926</b>	<b>0</b>	<b>0</b>	<b>30,623</b>	<b>110</b>	<b>227,659</b>
<b>Corporate Directors</b>						
Childrens Services	139,568	0	0	0	0	139,568
Communities, Localities and Culture <sup>1</sup>	34,090	0	236,777	5,386	0	276,253
Health, Adults & Community <sup>2</sup>	116,938	0	0	18,005	0	134,943
Law, Probity & Governance <sup>3</sup>	80,605	0	0	14,450	0	95,055
Mr G White - Law, Probity & Governance & Monitoring Officer (Interim) <sup>4</sup>	111,978	7	0	0	0	111,985
Place (formerly Development & Renewal) <sup>5</sup>	139,467	0	0	21,545	0	161,012
Public Health	101,562	0	0	14,523	0	116,085
Resources	126,162	0	0	19,443	0	145,605
	<b>1,047,296</b>	<b>7</b>	<b>236,777</b>	<b>123,975</b>	<b>110</b>	<b>1,408,165</b>

<sup>1</sup> Left 30/06/2016

<sup>2</sup> Post title Director of Adult Services until 08/01/2017

<sup>3</sup> Left 27/11/2016

<sup>4</sup> Commenced 15/08/2016

<sup>5</sup> Post title Director of Development & Renewal until 08/01/2017

amounts:

amounts:\*

Remuneration band (£)	2015/16					2016/17				
	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	246	(1)	117	(17)	363	199	0	110	(4)	309
55,000 - 59,999	159	0	48	(6)	207	156	(3)	50	(7)	206
60,000 - 64,999	53	0	53	(9)	106	70	(2)	45	(6)	115
65,000 - 69,999	36	0	24	(2)	60	36	(1)	26	(2)	62
70,000 - 74,999	35	0	27	(6)	62	34	(1)	24	0	58
75,000 - 79,999	20	(1)	13	(1)	33	18	0	15	(3)	33
80,000 - 84,999	17	(2)	4	0	21	15	(3)	8	(1)	23
85,000 - 89,999	4	0	6	(3)	10	8	0	2	(1)	10
90,000 - 94,999	6	0	2	(1)	8	3	0	2	0	5
95,000 - 99,999	7	0	4	(3)	11	5	(1)	3	(2)	8
100,000 - 104,999	2	0	7	(1)	9	3	0	3	0	6
105,000 - 109,999	3	0	4	(2)	7	4	0	4	(2)	8
110,000 - 114,999	2	0	1	0	3	2	0	3	(2)	5
115,000 - 119,999	0	0	0	0	0	1	0	0	0	1
120,000 - 124,999	0	0	1	(1)	1	0	0	0	0	0
125,000 - 129,999	1	0	0	0	1	2	0	0	0	2
130,000 - 134,999	1	0	0	0	1	1	(1)	0	0	1
140,000 - 144,999	2	0	0	0	2	0	0	0	0	0
145,000 - 149,999	0	0	0	0	0	0	0	1	(1)	1
150,000 - 154,999	0	0	1	(1)	1	1	0	0	0	1
155,000 - 159,999	1	0	0	0	1	1	0	1	(1)	2
160,000 - 164,999	0	0	2	(2)	2	0	0	0	0	0
180,000 - 184,999	0	0	0	0	0	0	0	2	(2)	2
185,000 - 189,999	0	0	1	(1)	1	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0	0	1	(1)	1
230,000 - 234,999	0	0	0	0	0	0	0	1	(1)	1
	<b>595</b>	<b>(4)</b>	<b>315</b>	<b>(56)</b>	<b>910</b>	<b>559</b>	<b>(12)</b>	<b>301</b>	<b>(36)</b>	<b>860</b>

## 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)	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
0 - 20,000	3	0	109	78	112	78	981	667
20,001 - 40,000	1	0	55	40	56	40	1,649	1,137
40,001 - 60,000	0	0	30	25	30	25	1,434	1,233
60,001 - 80,000	0	0	18	5	18	5	1,205	320
80,001 - 100,000	0	0	9	6	9	6	813	554
100,001 - 150,000	0	0	11	10	11	10	1,352	1,207
150,001 - 200,000	0	0	3	0	3	0	494	0
200,001 - 250,000	0	0	1	1	1	1	226	235
<b>Total</b>	<b>4</b>	<b>0</b>	<b>236</b>	<b>165</b>	<b>240</b>	<b>165</b>	<b>8,154</b>	<b>5,353</b>

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

## 34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2015/16 £'000	2016/17 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	82,081	70,960
Intangible Assets	0	0
Heritage Assets	0	1
Revenue Expenditure Funded from Capital Under Statute	10,898	10,784
<b>TOTAL</b>	<b>92,979</b>	<b>81,745</b>
<b>Sources of Finance</b>		
Borrowing	145	2,096
Capital Grants and Contributions	57,073	31,591
Capital Receipts	841	7,913
Major Repairs Reserve	28,319	14,517
Direct Revenue Funding	6,600	25,627
<b>TOTAL</b>	<b>92,978</b>	<b>81,744</b>

	2015/16 £'000	2016/17 £'000
<b>Opening Capital Financing Requirement<sup>1</sup></b>	<b>263,618</b>	<b>262,588</b>
<b>Capital investment</b>		
Property, Plant and Equipment	88,072	95,579
Intangible Assets	0	0
Heritage Assets	0	1
Revenue Expenditure Funded from Capital under Statute	10,898	10,784
<b>Sources of finance</b>		
Capital grants and contributions	(57,073)	(31,591)
Capital receipts	(841)	(7,913)
Major repairs reserve	(28,319)	(14,517)
Sums set aside from revenue:		
• Direct revenue contributions	(6,600)	(25,627)
• Minimum Revenue Provision <sup>1</sup>	(7,084)	(7,097)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(83)	(504)
<b>Closing Capital Financing Requirement</b>	<b>262,588</b>	<b>281,703</b>
<b>Explanation of movements in year</b>		
Decrease in underlying need to borrow (supported by government financial assistance)	(7,166)	(7,599)
Increase in underlying need to borrow (unsupported by government financial assistance)	145	2,096
Assets acquired under finance leases	5,991	24,618
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(1,030)</b>	<b>19,115</b>

## 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.

	2015/16 £'000	2016/17 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	210	210
Addition fees payable to external Audit for inquiries relating to previous year	20	2
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	20	23
Fees payable in respect of other services provided by external auditors during the year	46	53
<b>Total</b>	<b>296</b>	<b>288</b>

The fees payable to the external auditors for other services comprise £6.5k for Pooling of Housing Capital Receipts & Teachers Pensions and other Audit work; £28k for consideration of objection to accounts relating to the use of LOBO loans (including legal fees to date); and £18k for 2015/16 additional work and testing.

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

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

Notes	DSG Receivable for 2016/17	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2016/17 before Academy Recoupment	30,684	295,847	326,531
B	Academy figure Recouped 2016/17		(30,745)	(30,745)
C	Total DSG after Academy Recoupment 2016/17	30,684	265,102	295,786
D	Brought forward from 2015/16			6,074
E	Carry forward to 2017/18 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2016/17	36,758	265,102	301,860
G	In-year adjustments	0	0	0
H	Final budget distribution for 2016/17	36,758	265,102	301,860
I	Less actual central expenditure	(38,413)	0	(38,413)
J	Less actual ISB deployed to schools	0	(265,102)	(265,102)
K	Council contribution for 2016/17	0	0	0
L	<b>Carry forward to 2017/18</b>	<b>(1,655)</b>	<b>0</b>	<b>(1,655)</b>

- A DSG figure as issued by DfE in March 2017.  
 B Academy figure Recouped 2016/17.  
 C Total DSG after Academy Recoupment 2016/17.  
 D Figure brought forward from 2015/16.  
 E The amount which the Council decided after consultation with the schools forum to carry forward to 2016/17 rather than distribute in 2016/17.  
 F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.  
 G Changes to Initial distribution in 2016/17.  
 H Budgeted distribution of DSG at year end.  
 I Actual amount of central expenditure items in 2016/17.  
 J Amount of ISB distributed to schools.  
 K Contribution from the Council in 2016/17 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 2016/17:

	2015/16 Restated <sup>1</sup> £'000	2016/17 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Non-Ringfenced Government Grants</b>		
Business Rate Related Grants	(7,972)	(7,486)
Council Tax Freeze Grant	(901)	0
Council Tax Related Grants	(96)	0
Local Service Support Grant	(88)	0
New Homes Bonus	(18,143)	(28,875)
Revenue Support Grant (Formula Grant)	(84,300)	(68,664)
<b>Total Non-Ringfenced Government Grants</b>	<b>(111,500)</b>	<b>(105,025)</b>
<b>Capital Grants and Contributions</b>		
Non-conditional grants:		
Schools-funded Capital Programme	(1,815)	(1,824)
Transport for London Funding	(2,315)	(2,895)
Major Works Contributions (cash received)	(3,328)	(3,236)
Capital Maintenance Grant	(3,126)	(3,165)
Basic Needs/New Pupil Places	(6,459)	(11,477)
Decent Homes Backlog Funding	(13,270)	0
Community Infrastructure Levy (CIL)	(6,832)	(18,165)
Other Non-Conditional Grants Received	(99)	(1,071)
Conditional grants:		
Energy Efficiency Grant (Fuel Poverty Fund)	(2,254)	0
Building the Pipeline Housing Grant	(5,828)	0
National Affordable Housing Programme	0	(6,163)
Other Conditional Grants Applied	245	(346)
Developers' Contributions (capital)	(3,895)	(3,785)
<b>Total Capital Grants and Contributions</b>	<b>(48,976)</b>	<b>(52,127)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(6,615)	(4,397)
Developers' Contributions (capital) funding REFCUS	(2,192)	(902)
Developers' Contributions (revenue)	(4,491)	(2,117)
Dedicated Schools Grant	(300,087)	(300,651)
Education Services Grant	(4,153)	(3,751)
PFI Credits	(8,148)	(7,922)
School Sixth Form Grant	(17,660)	(16,448)
Pupil Premium Grant	(24,606)	(22,231)
Public Health Grant	(34,017)	(36,883)
Reception Baseline Assessment	(3,229)	(3,009)
Housing Benefit Subsidy	(273,497)	(270,375)
Other Revenue Grants	(16,430)	(16,601)
<b>Total Credited to Services</b>	<b>(695,125)</b>	<b>(685,287)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(855,601)</b>	<b>(842,439)</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:		
Receipt in Advance Grant Balances	31st March 2016 £'000	31st March 2017 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions (capital)	61,788	74,350
Major Works Invoices	6,028	6,123
National Affordable Housing Programme	6,163	0
New Homes Bonus London Enterprise Panel (LEP) - capital element	1,000	1,000
Other conditional capital grants and contributions	1,147	1,647
<b>Total Capital Grants Receipts in Advance</b>	<b>76,126</b>	<b>83,120</b>
<b>Revenue Grants Receipts in Advance</b>		
Developers' Contributions (revenue)	6,029	8,151
Dedicated Schools Grant	6,115	1,655
PFI Credits	2,541	4,001
New Homes Bonus London Enterprise Panel (LEP) - revenue element	5,685	4,355
Housing Benefit Subsidy	18,726	31,929
Other conditional revenue grants	5,744	1,206
<b>Total Revenue Grants Receipts in Advance</b>	<b>44,840</b>	<b>51,297</b>
<b>Total Grant Receipt in Advance Balances</b>	<b>120,966</b>	<b>134,417</b>

<sup>1</sup> 2015/16 figures restated to include Dedicated Schools Grant, Education Services Grant and Benefit Subsidy and to show receipt in advance balances for revenue grants with conditions



## 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 44.

### Membership of and relationship with other organisations

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

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2015/16 £'000	Payments by the Council over £10k 2016/17 £'000	Amounts due to Orgs. > £10k at 31/03/17 £'000
Aldgate and Allhallows Barking Foundation	S Islam	Council Representative			
	D Jones	Council Representative			
Balagonji Educational Trust	S Ali				
Bangladesh Football Association	A Begum	Husband - Trustee	28		
Bangladesh Youth Movement	A Khan	Employee	41	39	
Bengali Educational Society	S Islam	Treasurer			
Betar Bangla	S Islam	Member		13	
Bromley By Bow Centre	H Uddin	Employee	994	961	153
Central Foundation Girls School	M M Miah	Governor		30	
Culloden Bangladeshi Parents Association	A M O Ahmed	Member	13	15	
Community Martial Arts Trust	A Miah	Employee			
Developmental Council of Bangladeshis in the UK	K U Ahmed	Joint Treasurer			
Docklands Sailing & Watersports Centre	D Chesterton	Member		13	
Department for Work and Pensions	O Rahman	Employee			
East London Foundation Trust	A W Gibbs	Council Representative	3,557	3,549	220
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	A Cregan	Council Representative	758	622	21
	G Robanni	Member			
Gateway Housing Association	H Uddin	Employer has a Working Relationship with this Organisation	69	46	11
Golapgonj Education Trust	A M O Ahmed	Trustee			
	S Khatun	Member			
Green Candle Dance Company	P Golds	Council Representative	40	52	
Hermitage Primary School	M Alam	Governor			
Ian Mikardo High School	D Hassell	Governor			
Island Homes Housing Association	M Miah	Resident Board Member - receives a monthly allowance			
Island Neighbourhood Project	M Miah	Employee	11		
Island Sports Trust	P Golds				
Isle of Dogs Community Foundation	D J Edgar	Council Representative			
John Scurr Primary School	S Islam	Governor			
Leaside Regeneration Ltd	D J Edgar	Council Representative			
Lee Valley Regional Park Authority	D Jones	Council Representative	237*		
London Councils	C Harrison	Pensions CIV Joint Committee	1,143	923	287
London Education Trust	M A Mustaqim				
London Legacy Development Corporation	R Blake	Council Representative	186		
	J Biggs	Member			
Mile End Park Partnership Board	D Jones	Council Representative			
Mulberry Girls School	D Jones	Governor	12	29	26
National Housing Federation	J Pierce	Employee			
National Union of Teachers	D Hassell	Member			
Norton Folgate Almshouses Charity	J Pierce	Council Representative			
Old Ford Housing Association	M Francis	Board Director	90	153	16
Old Palace School	M Miah	Governor			
Olga Primary School	C Harrison	Governor	34	12	20
Poplar Bangladeshi Project	A M O Ahmed	Member	11		
Poplar Harca	A M O Ahmed		5,819	4,220	1,034
Rich Mix Cultural Foundation	D Jones	Director	711	11	
	A Begum	Council Representative			
Solander Gardens Community & Education	H Miah	Secretary			
Spitalfields Housing Association Ltd	A Mukit*	Board Member			
	A Begum	Family Member- Trustee			
St Katherine & Shadwell Trust	S Haque	Deputy			

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2015/16 £'000	Payments by the Council over £10k 2016/17 £'000	Amounts due to Orgs. > £10k at 31/03/17 £'000
St Matthias Primary School	A Mukit*	School Governer			
St Pauls Way Trust School	R Saunders	Council Representative	41	19	28
St Peters Bengali Associaltion	M A Mustaqim		60		
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
The Childrens Society	A Whitelock				
Tower Hamlets Cemetry	D J Edgar	Member	47		
	R Blake	Member			
Tower Hamlets Community Housing	G Robanni	Council Representative	199	139	28
	C Harrisson	Member			
	R Khan	Member			
	A W Gibbs	Husband - Member			
Tower Hamlets Homes	G Robanni	Council Representative	15,282	12,385	
Tower Hamlets Youth Sport Foundation	A Begum	Husband - Trustee	19	74	
Toynbee Hall	S Khatun	Employee	643	680	168
Trinity Buoy Wharf	D Jones	Director			
Unison	C Harrisson	Employee	424	469	35
	D Hassell*	Member			
	S Islam	Member			
	A W Gibbs	Member			
	R Saunders	Member			
	A Ali	Member			
Victoria & Albert Museum of Childhood	D Jones	Council Representative			
Wadajir Somali Centre	A M O Ahmed	Member	32	28	16

\* Lee Valley Regional Park Authority levy shown

24,482

## 39 LEASES

### Authority as Lessee

#### **Finance Leases**

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

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

#### **Leased In Assets**

	<b>Buildings 31 March 2016 £'000</b>	<b>Buildings 31 March 2017 £'000</b>
Poplar Baths Leisure Centre	0	15,429
Poplar Baths Housing	0	9,189
Dame Colet Residential Development	5,991	8,165
<b>Total</b>	<b>5,991</b>	<b>32,783</b>

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

	<b>Buildings 31 March 2016 £'000</b>	<b>Buildings 31 March 2017 £'000</b>
Finance lease liabilities (net present value of minimum lease payments)	5,908	29,789
Finance costs payable in future years	14,280	65,053
<b>Minimum lease payments</b>	<b>20,188</b>	<b>94,842</b>

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

	<b>Minimum Lease</b>		<b>Finance Lease</b>	
	<b>31 March 2016 £'000</b>	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>	<b>31 March 2017 £'000</b>
Not later than one year	585	2,785	171	875
Later than one year and not later than five years	2,340	11,138	685	3,498
Later than five years	17,264	80,919	5,052	25,416
	<b>20,189</b>	<b>94,842</b>	<b>5,908</b>	<b>29,789</b>

The minimum lease payments do not include rents that are contingent on event taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 no contingent rents were payable by the Authority.

## 39 LEASES

### Authority as Lessee

#### Operating Leases

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

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

#### Leased In Assets

	Land & Buildings 31 March 2016 £'000	Vehicles Plant & Equipment 31 March 2016 £'000	Land & Buildings 31 March 2017 £'000	Vehicles Plant & Equipment 31 March 2017 £'000
<b>Adults Health and Wellbeing</b>				
Not later than one year	149	0	149	0
Later than one year and not later than five years	597	0	597	0
Later than five years	1,519	0	1,370	0
<b>Chief Executive's</b>				
Not later than one year	0	82	0	98
Later than one year and not later than five years	0	2	0	74
Later than five years	0	0	0	0
<b>Children Schools and Families</b>				
Not later than one year	113	255	74	246
Later than one year and not later than five years	244	244	210	283
Later than five years	537	1	498	1
<b>Communities Localities and Culture</b>				
Not later than one year	0	517	0	405
Later than one year and not later than five years	0	1,193	0	958
Later than five years	0	170	0	0
<b>Development and Renewal</b>				
Not later than one year	2,905	13	2,840	4
Later than one year and not later than five years	9,360	4	6,480	0
Later than five years	1,863	0	1,824	0
<b>Total</b>				
<b>Not later than one year</b>	3,167	867	3,063	753
<b>Later than one year and not later than five years</b>	10,201	1,443	7,287	1,315
<b>Later than five years</b>	3,919	171	3,692	1
	<b>17,287</b>	<b>2,481</b>	<b>14,042</b>	<b>2,069</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 2016 £'000	Vehicles Plant & Equipment 31st March 2016 £'000	Land & Buildings 31st March 2017 £'000	Vehicles Plant & Equipment 31st March 2017 £'000
<b>Adults Health and Wellbeing</b>				
Minimum Lease Payments	149	0	149	0
<b>Chief Executive's</b>				
Minimum Lease Payments	0	166	0	55
<b>Communities Localities and Culture</b>				
Minimum Lease Payments	0	751	0	533
<b>Children Schools and Families</b>				
Minimum Lease Payments	240	369	113	287
<b>Development and Renewal</b>				
Minimum Lease Payments	2,905	13	2,840	13
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>3,294</b>	<b>1,299</b>	<b>3,102</b>	<b>888</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 2016 £'000	31st March 2017 £'000
Not later than one year	(3,469)	(3,320)
Later than one year and not later than five years	(10,618)	(10,700)
Later than five years	(15,736)	(19,286)
	<b>(29,823)</b>	<b>(33,306)</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 2016</b>	29,804	201,326	2,244	233,374
Depreciation	(760)	(5,591)	(181)	(6,532)
Revaluations	0	0	0	0
Enhancements	0	6,760	0	6,760
Derecognition	0	0	0	0
<b>Asset value at 31 March 2017</b>	<b>29,044</b>	<b>202,495</b>	<b>2,063</b>	<b>233,602</b>

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2016</b>	6,228	29,107	2,174	37,509
Repayments/Amortisation of deferred liability	(302)	(706)	(198)	(1,206)
<b>Liabilities at 31 March 2017</b>	<b>5,926</b>	<b>28,401</b>	<b>1,976</b>	<b>36,303</b>
<b>Consisting of:</b>				
Long term liability	5,593	27,585	1,779	34,957
Short-term liability	333	817	198	1,348
<b>Liability value at 31 March 2017</b>	<b>5,926</b>	<b>28,402</b>	<b>1,977</b>	<b>36,305</b>

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	333	817	198	1,348
Within 2 - 5 years	1,360	6,150	791	8,301
Within 6 - 10 years	2,813	18,816	988	22,617
Within 11 - 15 years	1,420	2,619	0	4,039
	<b>5,926</b>	<b>28,402</b>	<b>1,977</b>	<b>36,305</b>
<b>Interest</b>				
Within 1 year	665	4,469	0	5,134
Within 2 - 5 years	2,282	16,196	0	18,478
Within 6 - 10 years	1,808	11,898	0	13,706
Within 11 - 15 years	243	412	0	655
	<b>4,998</b>	<b>32,975</b>	<b>0</b>	<b>37,973</b>
<b>Service Charges</b>				
Within 1 year	673	1,709	0	2,382
Within 2 - 5 years	2,694	11,721	0	14,415
Within 6 - 10 years	3,367	13,701	0	17,068
Within 11 - 15 years	1,347	1,104	0	2,451
	<b>8,081</b>	<b>28,235</b>	<b>0</b>	<b>36,316</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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Cost of Services</b>						
Current service costs	42,358	37,301	385	274	42,743	37,575
Impact of settlements and curtailments	1,147	918	0	0	1,147	918
<b>Total Service Cost</b>	<b>43,505</b>	<b>38,219</b>	<b>385</b>	<b>274</b>	<b>43,890</b>	<b>38,493</b>
Interest income on plan assets	(32,439)	(35,790)	(1,587)	(1,667)	(34,026)	(37,457)
Interest cost on defined benefit obligation	52,532	53,333	2,003	2,025	54,535	55,358
<b>Total Net Interest</b>	<b>20,093</b>	<b>17,543</b>	<b>416</b>	<b>358</b>	<b>20,509</b>	<b>17,901</b>
<b>Net Charge to the Comprehensive Income and Expenditure Account</b>	<b>63,598</b>	<b>55,762</b>	<b>801</b>	<b>632</b>	<b>64,399</b>	<b>56,394</b>
<b>Remeasurement of the Scheme Liabilities</b>						
Changes in demographic assumptions	0	(25,190)	0	0	0	(25,190)
Changes in financial assumptions	(149,342)	290,196	(4,424)	10,217	(153,766)	300,413
Other experience	(22,390)	(27,267)	(10)	(1,755)	(22,400)	(29,022)
Return on plan assets excluding amounts included in net interest	29,352	(140,952)	2,104	(9,091)	31,456	(150,043)
<b>Total remeasurements recognised in Comprehensive Income and Expenditure Statement</b>	<b>(142,380)</b>	<b>96,787</b>	<b>(2,330)</b>	<b>(629)</b>	<b>(144,710)</b>	<b>96,158</b>
<b>Movement in Reserves Statement - General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(63,598)	(55,762)	(801)	(632)	(64,399)	(56,394)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>44,753</b>	<b>45,136</b>	<b>793</b>	<b>820</b>	<b>45,546</b>	<b>45,956</b>

In 2016/17 the Council paid £12.794 million into the Teachers Pension Scheme, representing 16.5% of pensionable pay. The figures for 2015/16 were £12.659 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 2016/17 and 2015/16 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 £92.0 million (£151.822 million in 2015/16) 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 £459.934 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	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
1st April	(1,777,605)	(1,663,196)	(68,409)	(63,016)	(1,846,014)	(1,726,212)
In-year adjustment to exclude/(incorporate) THH deficit	4,466	(13,053)	0	0	4,466	(13,053)
Current service cost	(42,358)	(37,301)	(385)	(274)	(42,743)	(37,575)
Interest cost	(52,532)	(53,333)	(2,003)	(2,025)	(54,535)	(55,358)
Contributions	(9,626)	(9,763)	(78)	(63)	(9,704)	(9,826)
Actuarial gains / (losses)	171,732	(237,739)	4,434	(6,718)	176,166	(244,457)
Benefits paid	43,874	52,488	3,425	3,547	47,299	56,035
Past service costs	0	0	0	(103)	0	(103)
Losses on curtailments	(1,147)	(918)	0	0	(1,147)	(918)
<b>31st March</b>	<b>(1,663,196)</b>	<b>(1,962,815)</b>	<b>(63,016)</b>	<b>(68,652)</b>	<b>(1,726,212)</b>	<b>(2,031,467)</b>

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

	The Council		LPFA		Total	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
1st April	1,139,418	1,155,656	57,032	53,961	1,196,450	1,209,617
In-year adjustment to exclude/(incorporate) THH deficit	2,646	14,861	0	0	2,646	14,861
Expected rate of return	32,439	35,790	1,587	1,667	34,026	37,457
Actuarial (losses) / gains	(29,352)	140,952	(2,104)	9,711	(31,456)	150,663
Contributions					0	0
Members contributions	9,626	9,763	78	63	9,704	9,826
Employer contributions	44,753	45,136	793	820	45,546	45,956
Benefits paid	(43,874)	(52,488)	(3,425)	(3,547)	(47,299)	(56,035)
<b>31st March</b>	<b>1,155,656</b>	<b>1,349,670</b>	<b>53,961</b>	<b>62,675</b>	<b>1,209,617</b>	<b>1,412,345</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

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
The Council	(1,453,831)	(1,503,100)	(1,777,605)	(1,663,196)	(1,962,815)
LPFA	(67,336)	(61,951)	(68,409)	(63,016)	(68,652)
Fair value of assets					
The Council	947,684	1,012,951	1,139,418	1,155,656	1,349,670
LPFA	50,521	56,154	57,032	53,961	62,675
Deficit in the scheme					
The Council	(506,147)	(490,149)	(638,187)	(507,540)	(613,145)
LPFA	(16,815)	(5,797)	(11,377)	(9,055)	(5,977)
<b>Total deficit in the schemes</b>	<b>(522,962)</b>	<b>(495,946)</b>	<b>(649,564)</b>	<b>(516,595)</b>	<b>(619,122)</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 £619.1 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 2018 are £43.440 million to the Council's scheme and £0.179 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	
	2015/16	2016/17	2015/16	2016/17
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	22.1 years	21.2 years	20.6 years
Women	24.2 years	24.1 years	24.5 years	23.6 years
Longevity at 65 for future pensioners:				
Men	24.3 years	23.9 years	23.6 years	23.0 years
Women	26.4 years	25.8 years	26.9 years	25.9 years
Rate of inflation			2.9%	2.4%
Rate of increase in salaries	3.7%	2.2%	3.8%	3.9%
Rate of increase in pensions	2.2%	2.4%	2.0%	2.4%
Rate for discounting scheme liabilities	3.5%	2.5%	3.3%	2.3%
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.

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

### Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2015/16	2016/17	2015/16	2016/17
Equities	64%	64%	46%	59%
Bonds	17%	17%	0%	0%
Property	11%	11%	4%	5%
Infrastructure	0%	0%	5%	5%
Commodities	0%	0%	0%	0%
Cash	5%	5%	13%	9%
Cash flow matching	0%	0%	10%	0%
Target return portfolio/other	3%	3%	22%	22%

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2015/16 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2017:

	2012/13	2013/14	2014/15	2015/16	2016/17
	%	%	%	%	%
<b>The Council</b>					
Experience gains and (losses) on assets	6.10	0.05	6.96	-2.87	11.73
Experience gains and (losses) on liabilities	9.89	-2.20	11.94	-11.25	13.11
<b>London Pensions Fund Authority</b>					
Experience gains and (losses) on assets	4.52	13.47	0.00	-0.04	0.15
Experience gains and (losses) on liabilities	12.05	-5.45	10.35	-7.04	9.79

## 42 Income and Expenditure Analysed by Nature

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

2015/16 £'000		2016/17 £'000
	<b><u>Expenditure:</u></b>	
472,587	Employee benefits expenses	477,114
721,639	Other service expenses	708,596
42,585	Support service recharges	21,544
13,025	Depreciation, amortisation and impairment	40,706
30,270	Interest payments	28,840
1,703	Precepts and levies	1,741
1,774	Payments to housing capital receipts pool	1,755
(16,627)	Gains and losses on disposal of non-current assets	(42,481)
<b>1,266,956</b>	<b>TOTAL EXPENDITURE</b>	<b>1,237,816</b>
	<b><u>Income:</u></b>	
(309,982)	Fees, charges and other service income	(286,235)
(3,131)	Interest and investment income	(2,519)
(184,286)	Income from council tax and non-domestic rates	(195,913)
(840,024)	Government grants and contributions	(817,848)
<b>(1,337,424)</b>	<b>TOTAL INCOME</b>	<b>(1,302,515)</b>
<b>(1,407,891)</b>	<b>SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>(64,699)</b>

## 43 TRUST FUNDS

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

	Balance at 1/4/2015	2015/16 Expenditure	2015/16 Income	Balance at 31/3/2015	2016/17 Expenditure	2016/17 Income	Balance at 31/3/2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings / Client Financial Affairs	3,643	2,875	2,697	3,465	2,683	2,737	3,519
(b) Social Services Trust Funds - sundry other	67	9	68	126	10	92	208
(c) Tower Hamlets Further Education Trust	101	3	0	98	0	0	98
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	14	0	142	156	6	28	178
<b>TOTAL TRUST FUNDS</b>	<b>3,985</b>	<b>2,887</b>	<b>2,907</b>	<b>4,005</b>	<b>2,699</b>	<b>2,857</b>	<b>4,163</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 residents of the borough in various social care trust funds.

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2017 may be summarised as follows:

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

## 44 TOWER HAMLETS HOMES

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

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

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

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

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

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

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

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

	The Council		THH		TOTAL	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
Non-current assets - equipment	3,307	3,307	83	68	3,390	3,375
Inventories	0	0	0	0	0	0
Short-term debtors	97,268	80,487	(617)	(865)	96,651	79,622
Cash and cash equivalents	160,712	160,712	7,744	7,820	168,456	168,532
Short-term creditors	204,158	154,154	2,508	3,065	206,666	157,219
Pensions liability	516,595	516,595	0	0	516,595	516,595
Pensions reserve	(516,595)	(516,595)	0	0	(516,595)	(516,595)
Income and Expenditure Reserve	0	0	4,702	3,958	4,702	3,958

## 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	2015/16 £'000	2016/17 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		19,807	18,726
Supervision and management		37,990	33,503
Rents, rates, taxes and other charges		2,821	2,528
Depreciation of non-current assets	6		
On dwellings		13,754	13,525
On other assets		1,570	1,276
Revaluation losses (and reversals)		(42,267)	(9,049)
Debt management costs		73	73
Movement in the allowance for bad debts		(1,128)	287
Sums directed by the Secretary of State that are expenditure in accordance with the Code		1,365	3,341
<b>TOTAL EXPENDITURE</b>		<b>33,985</b>	<b>64,210</b>
<b>INCOME</b>			
Gross rental income			
Dwelling rents		68,116	66,802
Non dwelling rents		4,253	4,188
Charges for services and facilities		19,693	20,440
Contributions towards expenditure		115	115
<b>TOTAL INCOME</b>		<b>92,177</b>	<b>91,545</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(58,192)</b>	<b>(27,335)</b>
HRA services share of Corporate and Democratic Core		157	157
<b>NET COST OF HRA SERVICES</b>		<b>(58,035)</b>	<b>(27,178)</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		(12,841)	(26,726)
Unattached capital receipts		(1,811)	(4,287)
Interest payable and similar charges	12	3,516	4,059
Interest and investment income		(560)	(545)
Pensions interest cost and expected return on pension assets	7	1,293	1,203
Capital grants and contributions receivable		(26,501)	(9,648)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>(94,939)</b>	<b>(63,122)</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	2015/16 <sup>1</sup>		2016/17	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(21,145)		(32,093)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(94,939)		(63,122)	
Net additional amount required by statute to be credited to the HRA balance for the year		83,991		56,136	
Decrease (Increase) in the HRA Balance			<b>(10,948)</b>		<b>(6,986)</b>
Transfers to or (from) reserves			0		0
<b>Balance on the Statutory HRA Carried Forward</b>			<b>(32,093)</b>		<b>(39,079)</b>

<sup>1</sup> Brought forward balance corrected as per balance sheet

## NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2015/16		2016/17	
	£'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	(1,365)		(3,341)	
Capital grants and contributions	26,501		9,648	
Gain or loss on sale of HRA non-current assets	12,841		26,726	
Unattached capital receipts	1,811		4,287	
Reversal of revaluation losses on non-current assets	40,892		11,370	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(182)		(182)	
Net charges made for retirement benefits in accordance with IAS19	(1,260)		1,837	
Transfers from General Fund (as directed by Secretary of State)	<u>0</u>	79,238	<u>0</u>	50,345
<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	4,671		5,287	
Transfer to / from Capital Adjustment Account	82		504	
Other adjustments (transfer to capital receipts reserve)	<u>0</u>	4,753	<u>0</u>	5,791
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>83,991</b>		<b>56,136</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:

	2015/16	2016/17
Low-rise flats (1-2 storeys)	259	257
Medium-rise flats (3-5 storeys)	6,994	6,829
High-rise flats (6 or more storeys)	3,849	3,834
Houses and bungalows	782	772
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>11,884</b>	<b>11,692</b>

## 3 NON-CURRENT ASSETS

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

	2015/16 £'000	2016/17 £'000
Dwellings	1,092,431	1,190,747
Other Land and Buildings	65,248	63,329
Surplus Assets Not Held for Sale	0	282
Assets Under Construction	10,705	31,517
Assets Held for Sale	6,178	0
<b>TOTAL</b>	<b>1,174,562</b>	<b>1,285,875</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 2015	973,479	57,087	1,690	2,840	225	1,035,321
Additions, disposals, transfers and revaluations	118,952	8,161	(1,690)	7,865	5,953	139,241
Total value at 31 <sup>st</sup> March 2016	1,092,431	65,248	0	2,840	225	1,160,744
Additions, disposals, transfers and revaluations	98,316	(1,919)	282	28,677	(225)	125,131
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2017</b>	<b>1,190,747</b>	<b>63,329</b>	<b>282</b>	<b>31,517</b>	<b>0</b>	<b>1,285,875</b>

The vacant possession value of dwellings within the Council's HRA was £4,660 million in 2016/17 (£4,154 million in 2015/16). 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

	2015/16 £'000	2016/17 £'000
<b>Balance at 1<sup>st</sup> April</b>	<b>22,174</b>	<b>9,176</b>
Transfer from Capital Adjustment Account - depreciation	15,321	14,801
Financing of capital expenditure	(28,319)	(14,517)
<b>Balance at 31<sup>st</sup> March</b>	<b>9,176</b>	<b>9,460</b>



## 5 CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2015/16			2016/17		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
<b>Expenditure</b>	64,994	1,365	<b>66,359</b>	53,070	7,531	<b>60,601</b>
<b>Sources of finance</b>						
Borrowing	0	0	<b>0</b>	9,189	0	<b>9,189</b>
Capital Receipts	720	0	<b>720</b>	4,839	1,257	<b>6,096</b>
Capital Grants and Contributions	32,649	0	<b>32,649</b>	6,413	0	<b>6,413</b>
Major Repairs Reserve	26,954	1,365	<b>28,319</b>	11,176	3,341	<b>14,517</b>
Direct Revenue Financing	4,671	0	<b>4,671</b>	21,453	2,933	<b>24,386</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>64,994</b>	<b>1,365</b>	<b>66,359</b>	<b>53,070</b>	<b>7,531</b>	<b>60,601</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2016/17 from the disposal of non-current assets within the HRA amounted to £x million (£36.235 million in 2015/16) as follows:

	2015/16 £'000	2016/17 £'000
Dwellings	32,444	42,098
Other land and buildings	3,791	14,552
<b>TOTAL CAPITAL RECEIPTS</b>	<b>36,235</b>	<b>56,650</b>

## 6 DEPRECIATION

The total depreciation charge for the year was £14.801 million (£15.321 million in 2015/16), made up of £13.525 million (£13.754 million in 2015/16) in respect of council houses and £1.276 million (£1.567 million in 2015/16) 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.

	2015/16 £'000	2016/17 £'000
Dwellings	13,754	13,525
Other Land and Buildings	1,567	1,276
<b>TOTAL DEPRECIATION</b>	<b>15,321</b>	<b>14,801</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	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
<b>Net Cost of Services</b>						
Current service costs	2,726	0	0	0	2,726	0
<b>Net Operating Expenditure</b>						
Interest cost	3,381	3,656	0	0	3,381	3,656
Settlements / Curtailments	74	0	0	0	74	0
Expected return on assets in the scheme	(2,088)	(2,453)	0	0	(2,088)	(2,453)
<b>Net Charge to the Income and Expenditure Account</b>	<b>4,093</b>	<b>1,203</b>	<b>0</b>	<b>0</b>	<b>4,093</b>	<b>1,203</b>
<b>Statement of Movement in the HRA Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS19	(4,093)	(1,203)	0	0	(4,093)	(1,203)
<b>Employer's contribution to scheme</b>	<b>2,557</b>	<b>3,040</b>	<b>0</b>	<b>0</b>	<b>2,557</b>	<b>3,040</b>

## 8 RENT ARREARS

	2015/16 £'000	2016/17 £'000
Gross rent arrears at 31 <sup>st</sup> March	4,121	4,421
Arrears as % of rent receivable	6.0	6.6
Provision made for bad debts	3,079	3,337

## 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 2016/17.

## 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	2015/16 £'000	2015/16 £'000	2016/17 £'000	2016/17 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	97,503		104,615	
Transfers from General Fund - Council Tax Benefits			97,503		104,615
Distribution of prior year deficit on Collection Fund			0		
National Non-Domestic Rates - Transitional Protection	3	377,998 41	378,039	407,671 (755)	406,916
Business Rate Supplement			11,513		12,529
<b>TOTAL INCOME</b>			<b>487,055</b>		<b>524,060</b>
<b>EXPENDITURE</b>					
<b>Council Tax</b>					
Precepts and demands					
London Borough of Tower Hamlets		69,814		76,885	
Greater London Authority		23,258	93,072	23,044	99,929
Increase in provision for Council Tax bad debts	5		1,793		3,181
Distribution of prior year Council Tax surplus on Collection Fund			2,556		1,863
NNDR Estimated surplus for 2013/14 applied in 2015/16			(95)		0
National Non-Domestic Rates					
Interest		34		48	
Transitional Protection		0		0	
Cost of collection allowance		965	999	963	1,011
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets		114,738		118,182	
DCLG		191,230		196,969	
Greater London Authority		76,492	382,460	78,788	393,939
Distribution of Prior Year Surplus on NNDR Collection Fund					
London Borough of Tower Hamlets		4,922		2,598	
DCLG		8,045		1,013	
Greater London Authority		3,218	16,185	405	4,016
Business Rate Supplement	4				
Payment to Greater London Authority *		12,263		11,880	
Cost of collection allowance		19	12,282	15	11,895
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		619		1,456	
DCLG		1,032		2,426	
Greater London Authority		413	2,064	971	4,853
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		0		2,446	
DCLG		0		4,076	
Greater London Authority		0	0	1,630	8,152
<b>TOTAL EXPENDITURE</b>			<b>511,316</b>		<b>528,839</b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>			<b>(24,261)</b>		<b>(4,779)</b>
BRS Debtor/(Creditor)			700		(634)
<b>COLLECTION FUND BALANCE (Deficit)/Surplus for the year</b>			<b>(23,561)</b>		<b>(5,413)</b>
Balance at the beginning of the year			15,862		(5,851)
LBTH estimated surplus for 2013/14 B/Fwd to apply in future years			1,848		0
<b>BALANCE AT END OF YEAR</b>	1		<b>(5,851)</b>		<b>(11,264)</b>

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

## NOTES TO THE COLLECTION FUND

### 1. GENERAL

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

The Council Tax surplus on the Fund (£2.337m) is attributable to the Council (£1.778m) and the Greater London Authority (£0.559m). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a deficit of £5.053m in 2016/17 (a deficit of £23.574m during 2015/16). Back-dated NNDR charges have been raised in 2016/17 to recover the 2015/16 deficit. Of this deficit, £1.516m (30%) is attributable to the Council, £1.011m (20%) to the GLA and £2.526m (50%) to the CLG.

### 2. COUNCIL TAX

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

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

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

Band	2015/16 No. of Properties	2015/16 Council Tax Base	2016/17 No. of Properties	2016/17 Council Tax Base
A	3,527	515	3,517	488
B	25,903	16,741	25,820	16,841
C	36,875	29,260	37,390	29,812
D	24,461	21,939	25,277	22,831
E	18,293	20,077	18,967	20,950
F	8,470	10,987	8,805	11,500
G	3,280	4,966	3,350	5,112
H	507	938	537	998
<b>Total</b>	<b>121,316</b>	<b>105,423</b>	<b>123,663</b>	<b>108,532</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:

	2015/16		2016/17		Increase / (Decrease)	
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	£	%
Tower Hamlets	885.52	69,814	920.85	76,885	35.33	3.99%
Greater London Authority	295.00	23,258	276.00	23,044	-19.00	-6.44%
<b>TOTAL</b>	<b>1,180.52</b>	<b>93,072</b>	<b>1,196.85</b>	<b>99,929</b>	<b>16.33</b>	<b>1.36%</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 2016/17 was 49.7p in the £ (49.3p in the £ in 2015/16). The total rateable value in the borough as at 31 March 2017 was £875.2 million (£865.2 million at 31 March 2016). A periodic revaluation of business properties took place in April 2010. At March 2017 there were around 6,200 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. Of these 3,467 will not result in a reduction in rateable value and 1,936 are considered speculative. Provision has been made for the remaining appeals

### 4. CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) in April 2010 to finance £4.1 billion of the costs of the £15.9 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2016/17 financial year are set out below.

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

The Crossrail BRS multiplier for 2016/17 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)

2015/16 £'000		2016/17 £'000
12,345	Non Domestic Rates Due	14,096
	Less Allowances and Other Adjustments	
832	Mandatory & Discretionary Relief	868
0	Provision for Bad Debts	0
19	Cost of Collection	15
<b>11,494</b>	<b>Collectable from Business Rate Supplement Payers</b>	<b>13,213</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 2016/17 the Council Tax bad debt provision was increased by £3.181 million (£1.793 million in 2015/16) and £1.269 million of irrecoverable debts were written off (£1.621 million in 2015/16).

## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2015/16 £'000	2016/17 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers			
Normal	3	26,812	28,429
Augmentation	3	1,697	1,288
Deficit funding	3	20,500	22,000
From members	3	10,951	11,151
<b>Transfers in</b>			
Transfers in from other pension funds	4	2,166	1,906
<b>Benefits</b>			
Pensions	4	(39,103)	(40,194)
Lump sum benefits	4	(13,158)	(12,341)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(169)	(259)
State scheme premiums		(196)	(29)
Transfers out to other pension funds		(4,092)	(3,517)
<b>Administrative expenses</b>	13	(1,038)	(683)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>4,370</b>	<b>7,751</b>
<b>RETURN ON INVESTMENTS</b>			
		2015/16 £'000	2016/17 £'000
Investment income	11	14,349	15,689
Taxes on Income		(409)	0
Change in market value of investments			
Realised		1,321	415,494
Unrealised	10	(28,625)	(197,035)
Investment management expenses	13	(3,076)	(2,876)
<b>NET RETURN ON INVESTMENTS</b>		<b>(16,440)</b>	<b>231,272</b>
Net increase in the Fund during the year		(12,070)	240,747
Add: Opening net assets of the scheme		1,138,199	1,126,129
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>1,126,129</b>	<b>1,366,876</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2016 £'000	2017 £'000
<b>Investments Assets</b>			
Equities		214,617	247,485
Pooled Investment Vehicles			
Unit Trusts		572,275	971,562
Property		129,933	133,609
Other		54,607	0
		<hr/>	
		971,432	1,352,656
Cash deposits	6	5,647	4,096
Other investment balances	5	1,973	1,673
<b>Investments Liabilities</b>			
Other investment balances	5	(35)	(45)
<b>Current Assets</b>			
	5	149,054	19,688
<b>Current Liabilities</b>			
	5	(1,942)	(11,192)
<b>TOTAL NET ASSETS</b>		<b>1,126,129</b>	<b>1,366,876</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 six 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), the Local Government Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

### (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 2017. 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 2017.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2017.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2017.
- (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 2017. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

### (e) Investment Income

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

# NOTES TO THE PENSION FUND ACCOUNTS

## 2 ACCOUNTING POLICIES Cont...

### Fund account - expense items

#### (f) Management Expenses

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

##### Administrative Expenses

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

##### Oversight & Governance Costs

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

##### Investment Management Expenses

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

#### (g) Benefits Payable

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

### Net assets statement

#### Financial Assets

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

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

#### (i) Market-quoted investments

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

#### (ii) Fixed interest securities

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

## 2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

There is just one item in the authority's net asset statement as at 31st March 2017 for which there which there is a significant risk of material adjustment in the forthcoming financial year.

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

The assumptions interact in complex ways. During 2016/17, the Council's actuaries advised that the net pensions liability had increased by £107.4 million to £612.4 million as a result of falling 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 2017 range from 15.8% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £22.0m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2015/16 £'000	2016/17 £'000
Members normal contributions		
Council	9,673	9,835
Admitted bodies	184	157
Scheduled body	1,094	1,159
<b>Total members</b>	<b>10,951</b>	<b>11,151</b>
Employers		
Normal contributions		
Council	22,105	22,655
Admitted bodies	887	1,992
Scheduled bodies	3,820	3,782
Deficit funding contributions		
Council	20,500	22,000
Other contributions		
Council	1,697	1,288
<b>Total employers</b>	<b>49,009</b>	<b>51,717</b>
<b>Total contributions</b>	<b>59,960</b>	<b>62,868</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 2016/17 employees made contributions of £12,699.25 (£10,870.28 in 2015/16) into the AVC Scheme operated by Aviva (Norwich Union) and £6,542.88 to Equitable Life (£6,434.33 in 2015/16). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

### 4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

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

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

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

	2015/16				2016/17			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(37,467)	(585)	(1,051)	(39,103)	(35,486)	(460)	0	(35,946)
Lump sum retirement benefits	(10,828)	(441)	(425)	(11,694)	(10,827)	0	0	(10,827)
Lump sum death benefits	(1,080)	(175)	(208)	(1,463)	(1,514)	0	0	(1,514)
<b>Total Pensions and Benefits</b>	<b>(49,375)</b>	<b>(1,201)</b>	<b>(1,684)</b>	<b>(52,260)</b>	<b>(47,827)</b>	<b>(460)</b>	<b>0</b>	<b>(48,287)</b>
Transfer Values Received (Individual)	2,166	0	0	2,166	1,906	0	0	1,906
Transfer Values Paid (Individual)	(4,092)	0	0	(4,092)	(3,517)	0	0	(3,517)
<b>Total</b>	<b>(51,301)</b>	<b>(1,201)</b>	<b>(1,684)</b>	<b>(54,186)</b>	<b>(49,438)</b>	<b>(460)</b>	<b>0</b>	<b>(49,898)</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.

	2015/16 £'000	2016/17 £'000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	805	0
Dividends receivable	649	961
Tax recoverable	519	712
	<u>1,973</u>	<u>1,673</u>
<b>Current Assets</b>		
Contributions due from admitted bodies	237	241
London Borough of Tower Hamlets Pension Fund	457	1,019
	<u>694</u>	<u>1,260</u>
<b>Total Debtors</b>	<b>2,667</b>	<b>2,933</b>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	35	45
<b>Current Liabilities</b>		
Unpaid benefits	1,271	2,306
Administrative expenses	671	747
London Borough of Tower Hamlets Pension Fund	0	3,940
HMRC Creditor Income Tax Deducted		4,199
	<u>1,942</u>	<u>11,192</u>
<b>Total Creditors</b>	<b>1,977</b>	<b>11,237</b>
<b>Net Debtors</b>	<b>690</b>	<b>(8,304)</b>

## 6. CASH

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

	2015/16 £'000	2016/17 £'000
Aberdeen: Private Equity Portfolio	10	0
GMO	3,702	1,075
Schroders: Multi Asset Portfolio	0	0
Schroders: Property Portfolio	1,934	3,021
London Borough of Tower Hamlets Pension Fund	148,359	18,428
<b>TOTAL CASH</b>	<b>154,005</b>	<b>22,524</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 7th December 2016.

## 9. MEMBERSHIP OF THE FUND

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

	2016	2017
<b>London Borough of Tower Hamlets</b>		
Active Members	6,365	6,497
Pensioners	4,352	4,356
Deferred Pensioners	6,770	7,076
Dependants	1,018	1,030
	<b>18,505</b>	<b>18,959</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	657	651
Pensioners	247	275
Deferred Pensioners	375	406
Dependants	26	29
	<b>1,305</b>	<b>1,361</b>

The following bodies have been admitted into the Fund:

### Admitted Bodies

Agilysis  
 City Gateway  
 East End Homes  
 Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)  
 Greenwich Leisure Limited  
 One Housing Group (formerly Island Homes)  
 Swan Housing Association  
 Tower Hamlets Community Housing  
 Swan Housing Association  
 Tower Hamlets Community Housing  
 Vibrance (formerly Redbridge Community Housing Limited)

### 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  
 Wapping High School

## 10. INVESTMENTS

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

### Manager

GMO UK Ltd.  
 Goldman Sachs Asset Management  
 Insight Investment Management (Global) Ltd  
 Investec Asset Management  
 London LGPS CIV  
 Schroders Asset Management Property Fund

### Mandate

Global Equity  
 Absolute Return Fund  
 Absolute Return Fund  
 Absolute Return Bonds  
 Pooled/Cash  
 Property

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

	2016		2017	
	£ million	%	£ million	%
Baillee Gifford Life Ltd - Diversified Growth	0.0	-	0.0	-
Baillee Gifford Life Ltd - Equities	209.9	21.4	0.0	-
GMO UK Ltd.	248.4	25.4	326.9	24.1
Goldman Sachs Asset Management Property Fund	0.0	-	77.9	5.7
Insight Investment Management (Global) Ltd	0.0	-	71.7	5.3
Legal & General Investment Management - Equities	217.3	22.2	265.9	19.6
Legal & General Investment Management	60.6	6.2	74.0	5.4
Ruffer LLP	54.6	5.6	0.0	-
Schroders Asset Management Property Fund	131.9	13.5	136.7	10.1
London CIV	56.3	5.8	405.2	29.8

## 10. INVESTMENTS (continued)

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

	as at 1 Apr 2016 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at £'000
Equities	214,616	222,584	(290,605)	(60,369)	86,226
Pooled Investments	626,883	804,730	(166,671)	(132,122)	1,132,820
Pooled Property Investments	129,933	19,897	(11,675)	(4,545)	133,610
	<b>971,432</b>	<b>1,047,211</b>	<b>(468,951)</b>	<b>(197,036)</b>	<b>1,352,656</b>

### Other Investment Balances

Cash Deposits	5,647	0	0	0	4,096
<b>Amounts receivable for sales of investments</b>					
Investment income due	1,973	0	0	0	1,673
Amounts payable for purchases of investments	(35)	0	0	0	45
<b>Net Investment Assets</b>	<b>7,585</b>				<b>5,814</b>

	Market Value as at 1 Apr 2015 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2016 £'000
Bonds	99,631	0	(98,701)	(930)	0
Equities	270,637	244,815	(256,368)	(16,288)	242,796
Pooled Investments	604,114	67,622	(50,020)	(23,014)	598,702
Pooled Property Investments	116,945	10,359	(8,978)	11,607	129,933
	<b>1,091,327</b>	<b>322,796</b>	<b>(414,067)</b>	<b>(28,625)</b>	<b>971,431</b>

### Other Investment Balances

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

## 10. INVESTMENTS (continued)

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2016 £'000	Market Value as at 31 Mar 2017 £'000
<b>Equities</b>		
<b>UK</b>		
Quoted	16,023	21,564
<b>Overseas</b>		
Quoted	198,593	225,922
	<u>214,616</u>	<u>247,486</u>
<b>Pooled Funds - Additional Analysis</b>		
<b>UK</b>		
Fixed Income Unit Trust	60,630	73,978
Unit Trusts	538,072	820,774
<b>Overseas</b>		
Unit Trusts	28,181	76,809
	<u>626,883</u>	<u>971,561</u>
Pooled Property Investments	<u>129,934</u>	<u>133,609</u>
	<u>129,934</u>	<u>133,609</u>
Cash Deposits	5,647	4,096
Investment Income Due	1,973	1,673
	<u>7,620</u>	<u>5,769</u>
<b>Total Investment Assets</b>	<u>979,053</u>	<u>1,358,425</u>
<b>Investment Liabilities</b>		
Amounts Payable for Purchases	(35)	45
<b>Total Investment Liabilities</b>	<u>(35)</u>	<u>45</u>
<b>Net Investment Assets</b>	<b>979,018</b>	<b>1,358,470</b>

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2015/16 £'000	2016/17 £'000
Dividends from overseas equities	8,660	10,282
Net rents from properties	4,733	5,002
Interest on cash deposits	387	130
Foreign tax	160	275
<b>TOTAL</b>	<b>13,940</b>	<b>15,689</b>

## TAXES ON INVESTMENT INCOME

	2015/16 £'000	2016/17 £'000
Withholding tax - fixed interest securities	0	0
Withholding tax - equities	360	286
Withholding tax - pooled	49	77
<b>TOTAL</b>	<b>409</b>	<b>363</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 2016 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £235 million and the funding level to be 82.8%. This compares to a deficit at the previous revaluation in 2013 of £365 million and a corresponding funding level of 71.8%.

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

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

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2016 determined that this would require a contribution (additional to the future contribution rate) of 9.1% of members' pensionable pay equivalent to £15.0 million per annum.

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

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

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

## 12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2016/17 was 19.9%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". 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 2016. The main actuarial assumptions used in revaluation and applied during the intervalation 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 £1,983 million (£1,659 million in 2015/16). This includes both vested and non-vested benefits.

### Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at 31 March 2016 using financial assumptions that comply with IAS 19

### Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2016

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

### Financial assumptions

Year ended	31st March 2016	31st March 2017
Pension increase rate	2.2%	2.4%
Salary increase rate	3.7%	2.2%
Discount rate	3.5%	2.5%

## 13. MANAGEMENT EXPENSES

	2015/16 £'000	2016/17 £'000
Administration costs	677	500
Investment management expenses	3,076	2,876
Oversight & governance	86	183
	<b>3,839</b>	<b>3,559</b>

## 14. INVESTMENT EXPENSES

	2015/16 £'000	2016/17 £'000
Management fees	2,901	2,841
Custody fees	29	35
Transaction Costs	146	122
	<b>3,076</b>	<b>2,998</b>

## 14b. EXTERNAL AUDIT FEE

	2015/16 £'000	2016/17 £'000
Audit Fee	21	21
	<b>21</b>	<b>21</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 2016 and 31st March 2017 is set out below.

Interest Rate Risk	As At 31st March 2016	As At 31st March 2017
Asset Type	£'000	£'000
Cash and cash equivalents	5,647	4,096
Cash balances	149,053	19,688
Fixed interest securities	60,630	73,978
<b>Total</b>	<b>215,330</b>	<b>97,762</b>

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2017	Change in year in net assets available	
Asset Type		+100 BPS £'000	-100 BPS £'000
Cash and cash equivalents	4,096	41	(41)
Cash balances	19,688	197	(197)
Fixed interest securities	73,978	(740)	740
<b>Total change in net assets available</b>	<b>97,762</b>	<b>(502)</b>	<b>502</b>

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

## 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 8.8%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2016 £'000	As At 31st March 2017 £'000
Asset Type		
Overseas quoted securities	230,423	306,252
Overseas unit trusts	3,574	0
Cash	0	0
<b>Total overseas assets</b>	<b>233,997</b>	<b>306,252</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2016 £'000	Change in year in net assets available to pay benefits	
		+8.8% £'000	-8.8% £'000
Asset Type			
Overseas quoted securities	306,252	333,202	279,302
Overseas unit trusts	0	0	0
Cash	0	0	0
<b>Total change in net assets available</b>	<b>306,252</b>	<b>333,202</b>	<b>279,302</b>

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

The percentage change in the year of 8.8% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

### Other Price risk

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

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

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

### Other price risk - sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
Asset Type	
UK equities	7.9%
Global equity	11.0%
Total fixed interest	4.9%
Alternatives	6.0%
Cash	0.0%
Pooled Property Investments	2.1%

## 15. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	22,524	0.0%	22,524	22,524
<b>Investment portfolio assets</b>				
UK equities	265,886	7.9%	286,997	244,775
Global equity	324,294	11.0%	360,064	288,524
Total fixed interest	73,978	4.9%	77,588	70,368
Alternatives	554,887	6.0%	588,402	521,372
Pooled Property Investments	133,611	2.1%	136,457	130,765
Net derivative assets	0	0.0%	0	0
Investment income due	1,673	0.0%	1,673	1,673
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	(45)	0.0%	(45)	(45)
<b>Total assets available to pay benefits</b>	<b>1,376,808</b>	<b>0%</b>	<b>1,473,660</b>	<b>1,279,956</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 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	154,005	0.0%	154,005	154,005
<b>Investment portfolio assets</b>				
UK equities	217,234	10.6%	240,261	194,207
Global equity	452,685	11.3%	503,838	401,532
Total fixed interest	60,630	3.8%	62,934	58,326
Alternatives	110,950	4.6%	116,054	105,846
Pooled Property Investments	129,934	2.2%	132,793	127,075
Net derivative assets	0	0.0%	0	0
Investment income due	1,973	0.0%	1,973	1,973
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	(35)	0.0%	(35)	(35)
<b>Total assets available to pay benefits</b>	<b>1,127,376</b>		<b>1,211,822</b>	<b>1,042,930</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. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

### Fair Value Hierarchy

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

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

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

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

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2017.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	247,485	0	0	247,485
Pooled Funds				
Unit Trusts	971,562	0	0	971,562
Property Unit Trust	133,609	0	0	133,609
Other	0	0	0	0
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	23,544	0	0	23,544
Current Assets	1,914	0	0	1,914
Current Liabilities	(10,595)	0	0	(10,595)
	<b>1,367,519</b>	<b>0</b>	<b>0</b>	<b>1,367,519</b>

During the year ended 31st March 2017 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2016 were as follows:

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

The market value per investment manager is as follows:

	Market Value 31 Mar 2016 £'000	Market Value 31 Mar 2017 £'000
Baillie Gifford	209,888	0
GMO UK Ltd	242,796	324,295
Insight Investment Management (Global) Ltd	0	71,743
Legal & General	277,864	339,865
London LGPS CIV	56,344	405,215
Goldman Sachs Asset Management		77,929
Ruffer	54,606	0
Schroders Asset Management Property Fund	129,934	133,609
	<b>971,432</b>	<b>1,352,656</b>

## 16. FINANCIAL INSTRUMENTS DISCLOSURES

### Net gains and losses on financial instruments

	Long-term	
	2015/16 £'000	2016/17 £'000
<b>Financial Assets</b>		
Loans and receivables	398	148
Financial assets at fair value through profit or loss	(27,304)	218,459
<b>Total Financial Assets</b>	<b>(26,906)</b>	<b>218,607</b>
<b>Financial Liabilities</b>		
Payables		
Financial liabilities at fair value through profit or loss	0	0
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>

## 17. CURRENT ASSETS

	2015/16 £'000	2016/17 £'000
Contributions due - employees		
Contributions due - employers	236	241
Sundry debtors	458	1,019
Cash balances	148,359	18,428
	<b>149,053</b>	<b>19,688</b>

### Analysis of debtors

	2015/16 £'000	2016/17 £'000
Other entities and individuals	149,053	19,688
	<b>149,053</b>	<b>19,688</b>

## 18. CURRENT LIABILITIES

	2015/16 £'000	2016/17 £'000
Sundry creditors	671	705
Benefits payable	1,271	1,664
	<b>1,942</b>	<b>2,369</b>

### Analysis of creditors

	2015/16 £'000	2016/17 £'000
Other entities and individuals	1,942	2,369
	<b>1,942</b>	<b>2,369</b>

## 19. RELATED PARTY TRANSACTIONS

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

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

The Council incurred costs of £669k (£669k 2015/16) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £22.0m (£20.5m 2015/16) 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 2017, the Fund held an average investment of £26.1m (£48.1m 31st March 2016), earning interest of £148k (£398k in 2015/16).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.3m (£3.4m 2015/16) from this company.

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

	2015/16	2016/17
	£'000	£'000
<b>Fund Administration Expenses</b>		
Payroll / HR Support	494	494
Corporate Finance	175	175
	<b>669</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

	2015/16	2016/17
	£'000	£'000
Short term benefits	19	0
Long term/post retirement benefits	4	0

### Governance

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

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

## 20. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. The liability as at 31st March 2017 was £0.734m (£2.542m 2015/16).

## 21. CONTINGENT ASSETS

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

## 22. IMPAIRMENT LOSSES

During 2016/17 impairment losses were nil (impairment losses in 2015/16 were also nil).

Auditors Report – to follow

To be included after the Year End Audit



## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's responsibilities

The Council is required:

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

### The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

### Certificate of the Corporate Director or Resources

I certify that the Statement of Accounts 2015/16 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31<sup>st</sup> March 2017 and its income and expenditure for the year ended 31 March 2017.

**Zena Cooke**

Corporate Director of Resources  
31<sup>st</sup> May 2017

### Audit Committee Certificate of Approval

The Statement of Accounts for the year ended 2016/17 will be approved by the Council's Audit Committee on 20<sup>th</sup> September 2017.

## **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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fees and Charges** – Income receivable as payment for goods or services provided. These charges are reviewed annually as part of the annual budget process.

**Finance Lease** - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee.

**Financial Instrument** - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Financial Instrument Adjustment Account** - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWL) debt.

**General Fund (GF)** - The Council's main revenue account from which the cost of providing most of the Council's services is met.

**Greater London Authority (GLA)** – A strategic Local Authority with a capital-wide role.

**Gross Spending** – the total cost of providing services before any income such as government grants, fees and charges are deducted.

**Group Accounts** – Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts. If the council controls an entity, it is a subsidiary (as in the case of Tower Hamlets Homes for the Council).

**Heritage asset** – An asset with historical, artistic, scientific, technological, geo-physical and/or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Historic Cost** – The actual cost of an asset in terms of past consideration as opposed to current value.

**Housing Revenue Account (HRA)** - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

**Impairment** – A reduction in the valuation of PPE caused either by a change in the market price of the asset or damage/deterioration of the asset in excess of depreciation.

**Infrastructure Assets** – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

**Intangible Assets** – Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council i.e. purchased software licences.

**Interest Rate Risk** – The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

**International Financial Reporting Standards (IFRS)** – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

**Inventories** – The values of, stocks held and work in progress that have not been completed.

**Investment Properties** – Those properties that are held solely to earn rentals and/or for capital appreciation, rather than for the delivery of services.

**Liability** – A liability is where the Council owes payment to an individual or another organisation.

**Levy** – Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

**Long-Term Assets** – Assets that yield benefit to the Council and the services it provides for a period of more than one year.

**Long-Term Liability** – An amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

**Major Repairs Reserve** – Represents the funds available to meet capital investment in council housing

**Materiality** - the level (usually expressed in financial terms but not usually expressly stated) below which accountants, auditors, or their clients or employers, consider risks or problems not to be significant.

**Medium Term Financial Plan (MTFP)** – The Council's strategic plan surrounding its finances for the next 3 years.

**Minimum Revenue Provision (MRP)** – The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

**Movement in Reserves Statement** – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves.

**National Non-Domestic Rates (NNDR) Pool** - Non-Domestic Rates are collected by the Council. From 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**

**AGS** - Annual Governance Statement  
**ALMO** - Arm's Length Management Organisation (Tower Hamlets Homes)  
**BSF** - Building Schools for the Future  
**CAA** - Capital Adjustment Account  
**CDC** - Corporate and Democratic Core  
**CFR** - Capital Financing Requirement  
**CIES** - Comprehensive Income and Expenditure Statement  
**CIL** - Community Infrastructure Levy  
**CIPFA** - Chartered Institute of Public Finance and Accountancy  
**CPI** - Consumer Price Index  
**CRR** - Capital Receipts Reserve  
**DCLG** - Department of Communities and Local Government  
**DEFRA** - Department for Environment, Food and Rural Affairs  
**DfE** - Department for Education  
**DRF** - Direct Revenue Funding  
**DSG** - Dedicated Schools Grant  
**DWP** - Department for Work and Pensions  
**EIR** - Effective Interest Rate  
**GAAP** - Generally Accepted Accounting Principles  
**GF** - General Fund  
**GLA** - Greater London Authority  
**HRA** - Housing Revenue Account  
**IAS** - International Accounting Standard  
**IFRS** - International Financial Reporting Standards  
**LABGI** - Local Authority Business Growth Incentive  
**LAML** - London Authorities Mutual Limited  
**LASAAC** - Local Authority (Scotland) Accounts Advisory Committee  
**LATS** - Landfill Allowance Trading Scheme  
**LBTH** - London Borough of Tower Hamlets  
**LGPS** - Local Government Pension Scheme  
**LOBO** - Lender's Option – Borrower's option  
**LPFA** - London Pensions Fund Authority  
**MRA** - Major Repairs Allowance  
**MRP** - Minimum Revenue Provision  
**MTFP** - Medium Term Financial Plan  
**NBV** - Net Book Value  
**NCS** - Net Cost of Services  
**NDC** - Non Distributed Costs  
**(N)NDR** - (National) Non-Domestic Rates  
**NPV** - Net Present Value

**NRV** - Net Realisable Value  
**PBC** - Prepared By Client  
**PCT** - Primary Care Trust  
**PFI** - Private Finance Initiative  
**PPA** - Prior Period Adjustment  
**PPE** - Property, Plant and Equipment  
**PWLB** - Public Works Loans Board  
**RCCO** - Revenue Contributions to Capital Outlay  
**REFCUS** - Revenue Expenditure Funded by Capital Under Statute  
**RICS** - Royal Institute of Chartered Surveyors  
**RPI** - Retail Price Index  
**RR** - Revaluation reserve  
**RSG** - Revenue Support Grant  
**RTB** - Right To Buy  
**SBR** - Supplementary Business Rates  
**SDPS** - Surplus or Deficit on the Provision of Services  
**SeRCOP** - Service Reporting Code of Practice  
**SLAs** - Service Level Agreements  
**SORP** - Statement of Recommended Practice (now Code of Practice on Local Authority Accounting)  
**TH** - Tower Hamlets  
**THH** - Tower Hamlets Homes  
**VFM** - Value For Money  
**WDA** - Waste Disposal Authority  
**WGA** - Whole of Government Accounts

<p style="text-align: center;"><i>Non-Executive Report of the:</i></p> <p><b>Audit Committee</b></p> <p>28<sup>th</sup> June 2017</p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Zena Cooke - Corporate Director - Resources</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>2016/17 Head of Audit Report</b></p>	

<b>Originating Officer(s)</b>	<i>Minesh Jani</i>
<b>Wards affected</b>	<i>All wards</i>

## 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 2015.
- 1.2 The report concludes that the Council has a reasonably effective system of internal control which was in operation throughout 2016/17. The Head of Audit opinion is attached to this report at Appendices 7 and 8.

## 2. Recommendation

- 2.1 The Audit 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.
- 2.2. The Audit Committee should consider and approve the Audit Charter and the Audit Strategy attached at Appendix 1.

## 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 2016/17**
  - **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 CLT.
  - **Appendix 4 – Follow Up Audits**
  - **Appendix 5 – List of planned audits undertaken in 2016/17**
  - **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 2016/17. 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 2016/17. 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. However, there have been delays in responding to Internal Audit enquiries and responding to draft audit reports. This matter has been raised with the Corporate Director, Resources and escalation routes have been developed to ensure timely response.
- 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.
- 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 2016/17. 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 2016/17 financial year, the resources had been increased in view of the Directions set out by the Secretary of State to support the work of the Council.
- 7.3 Productivity was maintained at planned levels. Sickness absence in the team was 21 days per person on average, compared with 3.6 days per person the previous year. This was due to a long term sickness for one member of staff.
- 7.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2016/17, which reflects the internal audit

strategy in providing assurance to the Council over its systems of internal control to manage risks. 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 2016/17 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 the CLT and the Audit Committee. Appendix 3 provides the summaries of those reports finalised in the period March to May 2017.
- 8.3 A summary of the audit assurance resulting from audit reports in 2016/17 is provided in the table below.

Audits 16/17		Full	Substantial	Limited	N/A	TBC
		Significance	5	48	24	4
Extensive	-	25	2	-	-	
Moderate	-	-	-	-	-	
Low	5	73	26	4	8	
Total	4%	63%	22%	4%	7%	
%						

- 8.4 The table shows that of 116 systems audits where we have issued audit reports, 67% 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. 22% of systems audited were rated as limited or nil assurance, 7% have their assurance levels yet to be confirmed; and 4% of audits did not require an audit opinion as these were consultancy audits.
- 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 2016/17 financial year, we identified risks in the Council's systems in a number of areas including Management of Markets, Management of Housing Allocations and Lettings, Establishment Control, Management of DBS checks, Troubled Families, Management of No Recourse to Public Funds cases, Management of Parking Permits, Management of Major Works and Procurement and Contract Monitoring.

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 2016/17, 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 three core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Committee. The performance for 2016/17 is set out in the table below.

Performance Measure	2016/17	
	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%	69% 48 out of 70
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	53% 42 out of 80

- 9.2. As at the 31<sup>st</sup> March 2017, 97% of the operational plan was completed in terms of days used. There were a few audits still in progress as at 31<sup>st</sup> March 2017 that 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 2016/17 as a whole, 69% of priority 1 recommendations had been implemented against a target of 100%, and 53% of priority 2 recommendations had been implemented against a target of 95%. Appendix 4 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 carries out further checks on recommendations not complete at the six month review.
- 9.4. The budget outturn for the service is set out in Appendix 2. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. The results of benchmarking exercise for 2015/16 are attached at Appendix 8.



## **10. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 10.1. The Head of Internal Audit is required to provide an annual independent opinion on the adequacy of the systems of control in the authority from his work which is a vital part of the internal scrutiny activity of the organisation.
- 10.2 The Chief Finance Officer CFO must support the authority's internal audit arrangements and ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively. This report demonstrates that there has been wide ranging internal audit coverage across the authority. There are still some areas where a more timely response to audit reports and the implementation of recommendations arising from them is required however the escalation process that has been put in place is beginning to address this.
- 10.3 Any financial implications arising from the implementation of any individual audit recommendation are dealt with through the Council's usual budgeting and budget monitoring processes so there are no direct financial implications arising from this report.

## **11. LEGAL COMMENTS**

- 11.1 A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. In that regard, HM Treasury has adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The PSIAS is therefore addressed to Accounting Officers, Accountable Officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.
- 11.2 Pursuant to the PSIAS the Chief audit executives are expected to report conformance on the PSIAS in their annual report and this report is confirming such conformance.
- 11.3 This report is also consistent with the Council's obligation under the Accounts and Audit Regulations 2015 to have 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. Further, the report is consistent with the Council's best value duty pursuant to section 3 of the Local Government Act 1999 and which requires the Council as a best value authority 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".
- 11.4 Finally, this report supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2015.

## **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**

### **Mission Statement**

**The Mission of LBTH Internal Audit Service is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.**

### **The 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 Leadership Team (CLT) 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 Leadership 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 2016/17 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 2016/17**

	<b>Revised Plan</b>	<b>%</b>	<b>Outturn</b>	<b>%</b>
In-house staff days	1037	62%	994	61%
Mazars	637	38%	629	39%
	<b>1674</b>		<b>1623</b>	
<b>Gross days</b>				
<i>less</i> Leave	118	48%	110	46%
<i>less</i> Sickness absence	70	28%	70	30%
<i>less</i> Non Operational Time	56	24%	56	24%
<b>Unproductive time</b>	<b>244</b>		<b>236</b>	
<b>Net productive days</b>	<b>1,430</b>		<b>1,387</b>	

**Internal Audit Budget 2016/17**

	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Salaries</b>	<b>431</b>	<b>431</b>	<b>0</b>
<b>Contract costs</b>	<b>205</b>	<b>235</b>	<b>+30</b>
<b>Running costs</b>	<b>24</b>	<b>20</b>	<b>-4</b>
<b>Central Recharges</b>	<b>150</b>	<b>150</b>	<b>0</b>
<b>Gross cost recharged</b>	<b>810</b>	<b>836</b>	<b>+26</b>

\*- includes the cost of three officers in the corporate fraud team.

## Internal Audit Reports 2016/17 – 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

- Extensive**              High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
- Moderate**              Medium impact, key systems and / or Scale of Service £1m- £5m.
- Low**                      Low impact service area, Scale of Service below £1m.

### Direction of Travel

Each audit summary presented at Appendix 2, shows the Direction of Travel for that audit. Each Direction of Travel is defined in the following Table.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
	Not previously visited by Internal Audit.

Appendix 3


**Summaries of 2016/17 audit reports not previously reported**

Assurance level	Significance	Directorate	Audit title
<b>Limited</b>	Extensive	Place	Market Vouchers Follow-Up
	Extensive	Place	Control and Monitoring of Right to Buy Valuations
	Extensive	Place	Highways Repairs and Maintenance – Follow Up Audit
	Extensive	Children’s Services	Commissioning of SEN Placements
	Extensive	Resources	Pensions
Page 161	Extensive	Resources	Financial Assessments
	Extensive	Tower Hamlets Homes	THH Housing Insurance Claims Follow-Up
	Extensive	Tower Hamlets Homes	THH Management of Asbestos Follow-Up
	Moderate	Children’s Services	St Luke's CoE Primary School
<b>SUBSTANTIAL</b>			
	Extensive	Resources	Debtors
	Extensive	Resources	Revenue and Capital Budgetary Control
	Extensive	Resources	General Ledger
	Extensive	Resources	Back Office Revenue Collection and Processing Follow-Up
	Extensive	Tower Hamlets Homes	Unauthorised Occupancy Follow-Up
	Extensive	Tower Hamlets Homes	Programme and Project Management Follow-Up
	Extensive	Children’s Services	Adoption and Fostering Panels – Follow Up
	Extensive	Place	Penalty Charge Notices

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
	Extensive	Corporate	Asset Disposal
	Moderate	Children's Services	Idea Store Watney Follow-Up
	Moderate	Children's Services	Bonner Primary School
	Moderate	Children's Services	Stephen Hawking Primary School
	Moderate	Children's Services	Kobi Nazrul Primary School
	Moderate	Children's Services	Wellington Primary School
<b>FULL</b>	Extensive	Place	Poplar Mortuary Follow-Up
	Extensive	Corporate	Transparency Code Compliance
	Extensive	Resources	Independent Review of Pensions Statements

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## Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Market Vouchers Follow-Up	April 2017	<p>This follow-up audit has been undertaken as part of the 2016/17 agreed Internal Audit Plan. The Council operates 11 markets across the area, which is cumulatively open for 364 days each year. These include iconic markets such as Brick Lane, Columbia Road and Petticoat Lane. The responsibility for the management, control and enforcement of markets and other street trading activity now sits with the Place Directorate.</p> <p>A full systems audit of the Market Vouchers section was undertaken in September 2016 and was assigned Limited Assurance with three high priority recommendations and one medium priority recommendation raised. The objective of this follow-up audit was to assess whether the agreed recommendation at the conclusion of the original systems audit had been implemented.</p> <p>Our follow up review identified that of the three high priority and one medium priority recommendations made in the original audit report, one high priority recommendation has been fully implemented. The remaining three recommendations are partly implemented.</p> <p>The following issues were raised:-</p> <ul style="list-style-type: none"> <li>• A handheld machine is not yet in place to track Tower Hamlets Enforcement Officers (THEOs) daily movements. It was previously recommended that 10 spot checks be undertaken per month in respect of THEO activity. However, at the time of follow-up, only two per month were taking place.</li> <li>• There was not a formalised log of all training provided (and to verify attendance). Consequently, some e-mail trail evidence was provided which indicated some disagreement regarding the level of training that had been received to date.</li> <li>• Policies and procedures, although having been partly updated following the original audit, still omit the expected version history detail. Standard</li> </ul>	Extensive	Limited 

		Operating Procedures (SOPs) are still in the process of being updated.		
		All findings and recommendations were agreed with the Markets and Enforcement Development Manager and reported to the Divisional Director Public Realm and Chief Executive (Interim Corporate Director, Communities, Localities and Culture).		

**Management Comments**

With regards to the recommendations, progress to achieve the desired outcomes are as follows:

- Page 164
- The PSI handheld logging and tracking system is now on course to be implemented within the street markets service by August 2017. This will enable the service to monitor markets officer’s activities and movements throughout the borough. The current system in place records traders attendance and markets officers are tasked on a daily basis to specific markets. The market supervisor and manager makes random checks and sporadic visits to ensure compliance.
  - The markets service has been reviewed and is currently going through a restructure. The restructure includes a new post of markets Audit & Business development Officer, responsible for spot checks and audits on street markets. We are waiting on a failure to agree to be resolved but early indications shows that the new structure will be agreed by August 2017 and recruitment will be enabled.
  - An on-going training programme has been established including refresher training for markets officers for enforcement, statements preparation and court procedure. Further training in health & safety and personal safety has been carried out with further training sessions to follow. A record of officers who have received training is in place.
  - The markets services review identified a number of changes that needed to take place in order for the service to develop into a business unit, therefore the new standard operations procedures will bear no resemblance to the new SOPs that are currently being written. Standard operating procedures are in place that mirror the THEO service. The new markets service SOP is being redesigned to reflect the new working practices. This will be completed in Mid-August.



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Right to Buy Valuations	March 2017	<p>This audit examined systems for procuring, ordering, controlling and monitoring Right to Buy (RTB) valuations. It is the Council's responsibility to undertake valuations under the RTB legislation. Tower Hamlets Homes (THH) has the delegated functions to administer the RTB applications, including processing and checking of applications, ordering the valuations, preparing S125 Notices and referring cases to the District Valuer for determination.</p> <p>THH initiates valuation requests directly from an External Valuer, who then provides the valuation report to THH. LBTH Strategic Housing has responsibility for checking the Section 125 Notice and authorising the sale. There were 30 RTB completions in April 2016 generating £3,817,620. The following issues were raised :-</p> <ul style="list-style-type: none"> <li>• Our testing showed that the External Valuer had been paid £176,272 for RTB valuations covering the period October 2014 to June 2016. However, the procurement process undertaken by Asset Management in September 2014, assumed spend up to £25,000 and used a Level 2 procurement process, requiring three quotations. Audit was advised that the monitoring of valuation costs was THH responsibility, but the budget holder was Strategic Housing. As a consequence, there is a breach of the Council's Procurement Procedures. Competitive tendering was required for services over £25,000. We have, therefore recommended that a report is submitted to the Council's Section 151 Officer and the Monitoring Officer to regularise the expenditure.</li> <li>• Reliance was placed on one valuation company for RTB valuations, with no additional cross reference checks to ensure that valuations undertaken were consistent and in line with average median prices.</li> <li>• There was no system of sample checking the valuations provided by the External Valuer. Our testing of a sample of 20 valuations (for valuations undertaken during 2015), showed that in 10 cases the valuations were outside the median market prices for that area.</li> <li>• Audit testing showed that all four purchase orders issued by THH to the External Valuer covering the period 15th September 2015 to 29<sup>th</sup> June</li> </ul>	Extensive	Limited

2016, were issued in retrospect. This is breach of THH Financial Regulations and LBTH Financial Regulations and Procurement Procedures.

- An examination of invoices paid to the External Valuer showed that of the 602 RTB Valuations invoiced, supporting RTB information was submitted by the company on 52 addresses only (8.63%). This brings into question the level and adequacy of checks undertaken by THH prior to the invoice being processed for payment.
- The RTB Log maintained by LBTH officers was not been kept up to date. Testing of a sample 20 sales completed between November 2015 and April 2016 showed that one case was not recorded on the Log and 15 cases (78.94%) were not updated with the date of sales completion.

All findings and recommendations were agreed with the Interim Divisional Director of Housing Strategy, Regeneration, Sustainability and Housing Options. Final Report was issued to the Corporate Director, Place.

### Management Comments

#### Recommendation 1

S151 report - THH instructed to write the report regarding the breach of Procurement procedures and to seek approval for the expenditure for which there was not approval – the report is attached.

#### Recommendation 2

A procurement process has started which will award a 4 year contract for the provision of RTB valuations – it is expected that this contract will be completed in September 2017. Two companies will be procured as recommended.

#### Recommendation 3

THH now sends monthly RTB analysis data for asset management to view and challenge if required. The information is in summary version. Procedures covering sampling and checking of valuations carried out by the contracted Valuation company are to be formalised and written up.

These are now in place and complete

#### Recommendation 4

Strategic Housing Management team to formally write to the THH Interim Director of Finance, to ensure that THH purchase orders for RTB Valuations are raised prior to the RTB Valuations service request in accordance with Financial Regulations.

In addition, the THH Interim Director of Finance to be asked to ensure that invoices are approved for payment only after the valuation company has provided supporting documentation (e.g. valuation report) that the requisitioned service has been provided.

This action is now in place and complete

Strategic Housing Management team to instruct THH to provide monthly reconciliation statements of orders raised against invoices paid. Housing Strategy team to audit RTB valuations against payment in order to ensure no duplicate payments are processed. Advice to be sought from Place Finance team on the funding issues.

Action partially complete as THH are yet to provide monthly reconciliation statements of orders raised against invoices paid.

#### Recommendation 5

THH now sends monthly RTB analysis data for asset management to view and challenge if required. The information is in summary version. Procedures covering sampling and checking of valuations carried out by the contracted Valuation company are to be formalised and written up.

These procedures are now in place and complete

#### Recommendation 6

Strategic Housing Management team will instruct THH to provide monthly expenditure reports on RTB Valuation costs. Strategic Housing Management team to monitor the RTB valuation costs against the approved budget.

THH was instructed to provide monthly expenditure reports on RTB Valuation costs, and a monitoring regime is in place.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Highways Repairs and Maintenance – Follow Up Audit	April 2017	<p>This follow up audit assessed the progress made in implementing the recommendations made in the original report finalised in October 2015.</p> <p>The contract for Carriageway &amp; Footway Maintenance was awarded for a period of five years, starting from 01/10/2014. The anticipated spend for 2016/17 is £1.3M. Audit testing showed that ten of the fourteen high priority audit recommendations made in the Final Report had been progressed. However, the remaining four key high priority recommendations had not been implemented and embedded. In addition, the two medium priority recommendations had not been fully implemented. The key findings contributing to the assurance assigned are:</p> <ul style="list-style-type: none"> <li>• The procedures for monitoring the overdue jobs, selection criteria for post – inspections, and managing, controlling and monitoring of variations had not been documented.</li> <li>• No risk - assessment had been undertaken on the contract to identify critical areas for contract monitoring purposes.</li> <li>• There was not sufficient evidence to demonstrate on-site post– inspections and related outcomes.</li> <li>• Consistent practices had not been used by the contractor (e.g. provision of photographic evidence) to enable effective desk top post-inspection of jobs.</li> <li>• Robust KPIs had to be developed for monitoring the performance of the contractor and instigation of corrective actions, mainly where the quality of the jobs completed are not of the required standards.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director, Public Realm and final report was issued to the Corporate Director, Place.</p>	Extensive	Limited

## Management Comments

A review of the contract will be carried out by end of June 2017, in line with the Corporate Management Toolkit.

To accompany each element of the processes mapped, procedures will be updated and added by end of June 2017.

The Well Managed Highways Liability Risk (a code of Practice for well managed infrastructure) was launched on 14<sup>th</sup> March 2017. This long awaited document aims to provide a reference source and practical guidance on best practice in the management of highways liability risk exposures. In particular how to apply the principles of risk management and a risk based approach to highway liability claims exposure which will be beneficial to all levels of performance. Now that we have this guidance we have already started to review the current regime and frequencies of highways inspections. A system will be set up to monitor and review levels of frequency on a regular basis by end of July 2017.


From March 2017, a list of overdue works are now being produced and discussed at Monthly contract meetings. This will filter down to the weekly operational discussions, These discussions are minuted and comments are included on a report with actions. In addition, any repeat performance related issues that are not resolved in the monthly meeting are now being escalated to senior management in the quarterly meetings.

From March 2017, the highways engineer can run two reports (pending approval) that show all the jobs that have been issued or completed within the last week. These can inspected as part of the 20% sample checking system. This is to replace the use of the hand written notebook as they will update a spreadsheet with the findings.

The contractor was informed in March 2017, that all photos provided for post inspection purposes need to include the Job ID, date, time, location and the highways engineer will carry out the same process if an inspection takes place.

The Street works team currently carryout Coring and have already completed first trial on statutory undertakers and utilities, we have requested that this should be considered in the next trial.

With effect from April 2017, an agreed set of operational KPI's have been drawn up to measure performance at a local level in line with the audit recommendation. High level KPI's are now provided as set out in the contract and presented at Quarterly meetings but they do not provide the level of detail outlined in the recommendation. Reports are now produced at a local level by LBTH officers and given to senior managers in time for the Quarterly strategic meetings.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Commissioning of SEN Placements	March 2017	<p>Every child who has special educational needs should have Special Education Needs (SEN) support to help them achieve their outcomes or learning objectives. SEN support means support that is additional to or different from the support generally made for other children of the same age. Section 14 of the Education Act 1996 places local authorities under a duty to secure sufficient schools for providing primary and secondary education in their area and to have particular regard to securing special educational provision for pupils who have SEN. In addition local authorities are under a duty to keep under review the arrangements they make for special educational provision (section 315 of the Education Act 1996). The Education and Inspections Act (2006) includes a duty on authorities to consider and respond to parental representations when carrying out their planning duty under section 14. Benchmarking data shows that Tower Hamlets had the highest number of placements in 2015 in respect of SEN of all the inner London councils, with 1,754 children who have significant educational needs. This amounts to an increase of 35% since 2007. The Council has six 'in-house' special schools with places for 486 children in the 2015/16 year, with the remainder of the SEN placements being placed in schools and other organisations both across the borough and outside. Current SEN placement fees for 2016/17 totalled £32,925,140 as at 04/01/17 compared to a total of £30,889,235 for 2015/16.</p> <p>It should also be noted that, at the time of audit fieldwork, a number of personnel changes were being made. Findings of this report will likely be taken forward by staff not originally involved with the audit fieldwork. This audit was undertaken as part of the 2016/17 agreed Audit Plan.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• There are concerns over the capacity to store, archive and recall all of the SEN documentation effectively.</li> <li>• Annual reviews of EHCPs and Statements of SEN are not being received from schools in a consistent manner and it was identified that there was an absence of robust monitoring over the completion of annual reviews. For four out of 20 SEN placement cases tested there was no evidence of the</li> </ul>	Extensive	Limited 

required annual review taking place for each pupil. It is expected that the current Impulse database system, which has a limited reporting suite to help identify and monitor missed reviews, is to be replaced by a new system known as Tribal (but a deadline for implementation is yet to be confirmed). The SEN Team need to ensure that any system in place (whether database or manual control in the interim) has sufficient ability to enable management information to be produced efficiently as and when required.

- There were no dates recorded indicating reviews or updates on the Terms of References (ToRs) for the Pre-Assessment Panel (PAP), Special Education Needs (SEN) Panel and the Protocol for the Joint Commissioning Panel.
- There are concerns over whether the Council had sufficient policy in place concerning SEN for post-19 education.
- There was not an annual plan in place to help guide the facilitation of review meetings (to be held between appropriate individuals of the school and professionals such as psychologists where possible). As stated above, for four out of 20 SEN placement cases tested, there was no evidence of the required annual review taking place.
- Performance information is not currently required to be reported through the Council's governance structure (i.e. outside of the local team through the Service Head to the Directorate Management Team (DMT), Corporate Management Team (CMT) and ultimately up to Cabinet) with issues escalated accordingly.


All the findings and recommendations were agreed with the Head of Pupil Services and Divisional Director, Education and Partnerships and reported to the Divisional Director, Resources and Corporate Director, Children's Services.

## Management Comments

- New interim leadership, management and team structure has been established to increase the capacity and capability of the SEN team. This includes the appointment of a new SEN Manager, 14-25 SEN/High Needs manager and additional SEN caseworkers from the 1 May 2017. A permanent restructure of the SEN Team will be completed by January 2018.
- Confidential documents removed from corridors and securely stored. Internal investigation into whereabouts of missing documentation has taken place, prior to follow up audit. A project plan was drafted in April/May 2017 to identify and implement an effective electronic document management system to record, process, store and archive all SEN documentation. This will be in place by the October 2017.
- Bespoke training sessions for the SEN Team on Information Governance is being devised and is planned for June/July.
- The migration to the new Tribal SEN Pupil Database along with the development of new reporting suite has assisted in establishing of a more robust recording and tracking system for annual review documentation. A new monthly reporting cycle to the Head of Service, including the monitoring of Annual Reviews will ensure that they are undertaken in line with statutory timescales.
- New guidance for schools and officers on the EHCP assessment process, thresholds and annual review is being drafted in consultation with school leaders and will be piloted from September 2017.
- Mapping of referral pathways and decision – making groups including Pre-Assessment Panel and Panel (TOR have not been updated since 2004 and therefore not statutorily compliant) has taken place. Simplification and streamlining underway, new TORs for both the Pre-Assessment and SEN Panels are being finalised and consulted upon. They will be implemented during May/June 2017.
- The appointment of the new 14-25 SEN/High Needs Manager has enabled LA to begin to develop its Post 19 SEN Policy and 'local offer' in line with the new statutory guidance issued in March 2017. This includes establishing a tracking system for young people aged 14 -25 to ensure the SEN Team, Children's and Adult Social Care provide these young people with coordinated transition plans as part of the 'Preparation for Adulthood' process. The revised policy and processes will in place by September 2017.
- Discussions re Joint Commissioning underway with the CCG, with a plan to jointly commission Speech and Language Therapy for schools from January 2018. A new protocol for joint commissioning will be developed in parallel with this work
- Development of joint CS and health SEND strategy underway, currently at the informal consultation stage, providing a mechanism to consider demand management as well as more effective use of resources. Due for publication in February 2018, to influence financial decisions for 2018-19 onwards



- SEND improvement board established, jointly chaired by LA and CCG to drive improvements and preparation for SEND Local Area Inspection
- Headteachers SEND board under development to improve governance of SEND

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions	March 2017	<p>This audit was undertaken as part of the 2016/17 agreed internal audit plan.</p> <p>The Pensions function is responsible for the administration of the Pensions scheme from the Council side, excluding the investment of the funds.</p> <p>Employees of the Council up to 75 years of age, who have a contract of more than three months duration, are entitled to join the Local Government Pension Scheme (LGPS). Decisions on delegated provisions are agreed by the Pensions Committee. The LGPS is a contributory scheme, whereby the employees contribute from their salary.</p> <p>The level of contribution is determined by whole time salary and contribution levels are set by the National Government.</p> <p>As at 31 December 2016, employees and employers contributions totalled £8,351m and £37,397m respectively.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around the Pensions 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>• Examination of 20 out of 170 overseas individuals identified seven cases where the required life certificate form had not been returned, but these individuals were still being paid. In addition, no reminder letters were sent.</li> <li>• A sample of 20 leavers, from a total of 765 pension scheme leavers since April 2016, was tested. Two exceptions were identified, one where the same officer had undertaken and reviewed his own work, the other where the second officer is yet to review the work undertaken.</li> <li>• Examination of a sample of 20 retirements, tested from a total population</li> </ul>	Extensive	Limited 

148 retirements since April 2016, identified that there were missing signatures on one AP1 form (payments voucher) and two payroll input forms. In three of the Final Pay calculations, not all pages had been scanned onto the individual's records and therefore evidence of the physical sign-offs could not be verified.

- Examination of five transfers in, from a total of 19 transfers into the pension scheme since April 2016, identified that in one case a second officer review should have taken place in August 2016 but is yet to take place (as at end of January 2017).
- Where the parameters for NI number, payroll number and the post number are found not to match (between the payroll system and pensions system), or there are any changes required to be made to employee addresses, hours, surname and first name, amendments and adjustments should be actioned by the Pensions Team. However, processing of these cases is known not to be up to date and there is also no review by a second officer of the changes subsequently made. This has the implication that confidential pensions information could be provided to the wrong locations or individuals may not receive accurate information regarding their pensions.
- Three key reconciliations are performed between Altair and Agresso (covering refunds, lump sum payments, and transfers out). A fourth reconciliation is conducted between Altair and a manually maintained spreadsheet (within the Finance Department) which records details of transfer payments received. This acts as a double check that the expected transfer-in monies have been received. However, there is no evidence to suggest a second officer reviews any of these reconciliations on a monthly/quarterly basis.
- Although procedures exist for the Pensions Team, as well as flow charts, some of these are now out of date and version controls are not sufficiently detailed.

All findings and recommendations were agreed with the Pension Manager and Team Leader, and reported to the Corporate Director, Resources.

## **Management Comments**

The performance of the Pensions Team during 2016 was impacted by the prolonged absence of the Pension Manager and the diversion of one of the two team leaders to address weaknesses in the payroll system relating to auto-enrolment. In addition, a built up of work had been allowed to develop relating to the recording of monthly earnings from a growing number of external payroll providers. Since the introduction of CARE benefit in 2014, the volume of data required to calculate benefits has increased and reliance was being placed on manual processes. Starting from December 2016, steps have been taking to address the underlying problems with two interim appointments; a pension manager and pension officer. Although the backlog of earnings data has been cleared and technology solutions to capture this data have been identified, they have not yet been implemented. In addition, the diversion of pension staff time to resolve the inability of the Council's payroll system to handle auto-enrolment continues.

### Checks on Continued Entitlement to Pension

The overseas life certificate exercise undertaken in Q1, 2016 was not followed through to the issue of reminders or the suspension of pensions. This exercise is undertaken annually and was repeated in Q1, 2017 from which 3 deaths were notified and 4 pensions suspended due to non replies. Also undertaken in Q4, 2016 was the matching of members records against the UK national death register. This identified 27 deaths which had not been notified to the pension team. These pensions have all been suspended and recovery action is being pursued with next of kin.

### Use of Workflows and Recording of Work Undertaken

Bullet points 2-4 relate to the same issue, that the correct procedures for the use of Task Management Workflow have not been followed. Workflows are set up for each task within the pension administration system and guide staff through the process and record who does what and when. The design of workflows were reviewed with the software provider in December 2016 and significantly amended to record each stage of a calculation or task leading to greater accuracy in the recording of work and the performance of the team against KPIs. Staff have been shown how to use the new workflows and reminded of the need to record the work undertaken. Previously, in some instances tasks undertaken have not been signed off in workflow meaning that the tasks remain classified as outstanding even if the work (a review) has been undertaken. At a later date it is not possible to demonstrate task completion and by which team member. The absence of timely reviews of tasks shown as remaining outstanding within workflow has caused uncertainty as to whether work was checked or not and resulted in short cuts being taken to close workflows e.g. same individual recorded as both checking and completing calculations. In addition, to improving workflow processes, weekly task management reports are being issued to staff to remind them of outstanding work and to monitor that tasks are being completed in accordance with targets.

### Scanning Paper Documents to Record Signatures

Where a computer record exists of the staff that completed and checked a task, there is no need to sign paper calculations and scan. The computer records provide sufficient, and superior, evidence of the work undertaken. Procedures notes will be amended to remove reference to scanning signatures where alternative records of work undertaken exist.

### Pension / Payroll Interface Rejections (5<sup>th</sup> bullet point)

A considerable volume of data on earnings and changes in staff working arrangements passes from payroll to pensions each month. When the interface cannot find a matching record in the pension's administration system due to a mismatch in identification data, the interface file has to be amended to correct the identification headers and re-run to allow the interface to operate. In future, exception reports will be printed with a note of all manual adjustments. Changes will be verified by a second officer and reports will be scanned and saved.

The reference to delays in updating and amending members records relate to the recording of CARE benefits. These are now up to date.


### Reconciliations between Pension Administration System and General Ledger

The comments regarding reconciliations of lump sums, refunds and transfers out are agreed and have been implemented. These reconciliations will be completed within a month and reviewed by a second officer (normally the Pension Manager). A schedule will be maintained of reconciliations undertaken, including data and names (preparer and checker). The checker will sign each reconciliation to evidence the review.

With regards to the transfers in reconciliation this is not a financial reconciliation as such, rather Pensions will only credit the transferred service once the transfer value has been received and require a means of identifying when funds are received. Workflow memos are established when a transfer request is made and delays in receiving funds are queried with the previous pension provider.

### Procedure Notes

All procedures were reviewed prior to the Audit, but those that required no action were not amended. In future all procedures will be checked annually, with each review being evidenced by a name and date.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Financial Assessments	May 2017	<p>This audit has been undertaken as part of the 2016/17 agreed Audit Plan to the review systems for carrying out financial assessments of service users to ensure that assessments are undertaken and charged for in accordance with the policy, procedures and regulations of Tower Hamlets Council (the Council).</p> <p>Financial assessments are undertaken for all persons in placements where care is required. A Financial Assessment is required to take place when an individual first enters into a placement as well as on an annual basis thereafter, at the start of each new financial year, as obligations for charging may differ if circumstances change.</p> <p>Individuals pay a set fee dependent on their income. Where individuals have savings between £14,250 and £23,250 they are expected to pay a notional charge (£1 for every £250 held between these limits). Where the individual has savings greater than £23,250 they are expected to pay the full cost of their placement. However, if an individual is sectioned under the Mental Health Act S117, there is no financial assessment required to take place and no payment is due on the placement provided.</p> <p>Prior to November 2015, the Financial Assessment Team gained information on a monthly basis from a Residential Care Panel. This information would feed through to the Financial Assessment Team to notify of any financial assessments that were required. This control has since been removed and the team are now notified through the Frameworki system directly.</p> <p>However, the findings within this audit should be considered in the appropriate context, in light of the various inter-dependencies to which the Financial Assessment Team works within. In particular:</p> <ul style="list-style-type: none"> <li>• the social work practitioners for whom the Financial Assessment Team rely on being notified of a client's permanent placement via a Frameworki outcome - before a Financial Assessment is carried out.</li> <li>• the Client Financial Affairs Team who manage the income for clients who fall under Appointeeship and Court of Protection (COP).</li> </ul>	Extensive	Limited 

- the dependency on the Department of Work and Pensions (DWP) for information, updates to allowances and payments and supporting information with assessments.

Consequently, it should be noted that the responsibility for implementing proposed actions may not fall directly within the powers delegated to the Financial Assessment Team specifically and will likely need to be considered at a wider/higher level within the Council to ensure that appropriate consideration of the risks be considered.

Although this audit has been conducted with the assistance of the Financial Assessment Team, it is noted that dependency is on social work practitioners and the client to provide the required information (as per the above stated interface between the placing Practitioner, the Client Affairs Team and the DWP). The Financial Assessment Team can only work with the information that is provided and available and has no power or authority to require DWP or COP to hasten their work.

The audit was designed to provide assurance to management as to whether the systems of control around the Financial Assessments system are sound, secure and adequate and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The main weaknesses were as follows:-

- There was no clear directive from the Local Authority about the course of action that will be taken when a client fails to disclose. Some assessments were therefore completed on previous declarations which did not account for any new changes in income because clients failed to submit revised benefit statements.
- The scope for conducting any reconciliation of the care placements awarded against evidence of the financial assessments completed was entirely limited to the local Private and Voluntary (P&V) database currently used by the Financial Assessment Team, but which was due to be disbanded following the introduction of the Frameworki Financial Assessment module (a corporate decision). Therefore, it has not been possible to provide assurance that the Council is in a position to

		<p>transparently identify any instances where it may be losing income through an inability to confirm exceptions where social work practitioners do not request financial assessments to be performed.</p> <ul style="list-style-type: none"> <li>• Policies and procedures did not state a date of creation or an expected review timeframe by way of version history. It could also not be confirmed that the policies and procedures had been formally approved.</li> <li>• Formalised Key Performance Indicators (KPIs) were not produced and monitored in relation to financial assessments.</li> </ul> <p>All findings and recommendations were agreed with the Interim Business Partner (Health, Adults, Community Services &amp; Children's Social Care), and reported to the Divisional Director of Finance and Procurement, Corporate Director Resources, and Corporate Director Adult Services.</p>		
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**Management Comments**

The findings of the report and the recommendations made have been accepted and a number of actions are being progressed. The management responsibility for the financial assessment team has been transferred to the Resources Directorate to strengthen the working arrangements, monitoring and oversight of the team's work.

*Agreed Action for Recommendation 1*

Action: For the FA Team to obtain access to the DWP Customer Information System, which would verify the client's income. This has been agreed with the Housing Benefits Team. (High, Aug 16)

Update: The full implementation of this recommendation was delayed due to systems access issues. Work is underway with the Housing Benefit Service to resolve this and full system access expected by the end of July 2017.

*Agreed Action for Recommendation 2*

Action: Financial Assessment Manager to explore the options available to verify on a regular basis by Adults Social Care Team Managers, that all long term permanent placements have been checked and that the Financial Assessment Team have been notified. Options to be considered and proposal to be put to the Adults' Services DMT and implemented (High, DMT Jan 2017, implementation April 17)

Update: The full implementation of this recommendation was delayed due to the appointment of the responsible senior manager. Manager now in post



and project team established to review and implement the changes required to ensure all placements are checked and the team are notified. The team includes representatives from Adults Social Care, Performance and Finance to take this forward. Full Implementation expected to be completed by Jan 2018

*Agreed Action for Recommendation 3*

Action: Financial assessment policies and procedures should be clearly dated and confirm details of when each will next be subject to review. To strengthen control, a monitoring log may be implemented to record details of the policies in place, who is responsible for the update of each policy, when each was last updated and when each is due for review. By RAG (Red/Amber/Green) rating such a log, upcoming deadlines can be more easily identified so that mitigating action can be taken in a timely manner. (Medium, Jan to April 2017)

Update: The implementation of this recommendation was delayed due to the appointment of the responsible senior manager. Manager now in post and work underway and expected to be fully completed by September 2017

*Agreed Action for Recommendation 4*

Action: We accept KPIs would be a positive introduction to the work of the team. These would need to accommodate the external co-dependencies which impact on timeliness and quarterly activity. Options to DMT in January. To be overseen in Star Chamber performance review. To be overseen quarterly at Provider Services management team meetings. (Medium, developed quarter 3 and tested quarter 4 2016/2017, implemented 2017/18)

Update: The implementation of this recommendation was delayed due to the appointment of the responsible senior manager. Manager now in post and work underway to develop the options for quarter 3 and full implementation on quarter 4 2017/18 and expected to be fully completed by September 2017

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Housing Insurance Claims Follow-Up	March 2017	<p>A full systems audit on Housing Insurance Claims was undertaken in 2014/15, with the final report published in September 2015. This audit did not assign an opinion to the area, as it had followed the customer journey from beginning to end of the process in order to provide recommendations for improvements to the user experience. However, there were issues identified based on the audit findings and recommendations were raised on how to address these issues.</p> <p>This report presents the findings and recommendations of the follow up audit, conducted in November and December 2016; the objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented.</p> <p>Our follow up review showed that the one high priority recommendation and the six medium priority recommendations made at the conclusion of the original audit had not been fully addressed. Following our audit work, we have re-raised the original recommendations (either in part or in full) to enhance the control environment within this area. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• THH does not adequately investigate claims in a timely manner, the relevant forms are not being completed.</li> <li>• Leaseholder and tenant handbooks have not been updated, the produced flowchart has not been made available to those who may need it and it is not made sufficiently clear to potential claimants that contractor-related claims should be directed to the responsible party.</li> <li>• The relevant insurance forms have not been updated. It could not be evidenced that staff have been trained regarding new procedures.</li> <li>• The new insurance claim handling process has not been agreed and procedure documents have not been updated and made available to staff. Review after a trial period has not been carried out and information available to tenants has not been updated.</li> </ul>	Extensive	<p>Limited</p> <p><i>Direction of travel not applicable (as an opinion was not provided for original report).</i></p>


	<ul style="list-style-type: none"> <li>• Letters of acknowledgement are not sent out and the Northgate system is not being properly updated by THH staff and contractors. Adherence to a 90-day target could not be tested.</li> <li>• Performance review cannot occur as reports have not been agreed and regular meetings are not held.</li> <li>• Contractor meetings are not attended by LBTH Insurance representatives and feedback on and monitoring of trends in claims is therefore not occurring.</li> </ul> <p>All findings and recommendations were agreed with the Head of Customer Access and Facilities (THH), and reported to the Chief Executive (THH).</p>		
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**Management Comments**

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- THH does not adequately investigate claims in a timely manner, relevant forms are not being completed.  
*Forms are completed in a timely manner by Repair inspectors and sent to LBTH insurance. Review meeting occurred with LBTH Insurance in April 2017 and this looked at how this could further improve. Since October 16 89% have been responded to within the time frame. (45 cases)*
- Leaseholder and tenant handbooks have not been updated, the produced flowchart has not been made available to those who may need it and it is not made sufficiently clear to potential claimants that contractor-related claims should be directed to the responsible party.  
*An updated process flow of the insurance process has been completed for internal use. This provides clarity in respect of contractor related claims LBTH have developed a claim flow that is yet to be published on the website. It's unlikely that handbooks will be updated with this information.*
- Relevant forms have not been updated. It could not be evidenced that staff have been trained regarding new procedures.  
*Updated forms have been completed but not placed on the website. Staff are aware of requirements for complete of the relevant forms, LBTH Insurance and THH met in April 2017 to review process and see further improvements in handling of information shared for the claim. The old form is still utilised as the updated forms have not been uploaded to our IT systems.*

- The new insurance claim handling process has not been agreed and procedure documents have not been updated and made available to staff. Review after a trial period has not been carried out and information available to tenants has not been updated.  
*The reviewed process has not been built on COMINO as THH is moving towards Northgate workflow, work around is in place on COMINO to reflect the new process. Process documents have been updated and circulated to only staff who are involved with the process, once developed on Northgate this will be available more widely. Information for tenants is not yet published.*
- Letters of acknowledgement are not sent out and the Northgate system is not being properly updated by THH staff and contractors. Adherence to a 90-day target could not be tested.  
*Acknowledgement letter are not sent from COMINO as per the current work around, the service area booking for the Inspector will confirm the appointment by telephone with the claimant. Appointments are recorded on Northgate. The 90 day adherence could be tested using this information.*
- Performance review cannot occur as reports have not been agreed and regular meetings are not held.  
*We have agreed with LBTH Insurance to send claim data to us on a monthly cycle. No regular cycle of meeting have been set up.*
- Contractor meetings are not attended by LBTH Insurance representatives and feedback on and monitoring of trends in claims is therefore not occurring.  
*THH will invite LBTH insurance to relevant contactor meeting once regular cycle of meeting between THH & LBTH Insurance occurs, invitation to meeting will depend on claims data shared.*

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Management of Asbestos Follow-Up	Feb 2017	<p>Tower Hamlets Homes (THH) manages approximately 22,000 rented and leasehold homes on behalf of LB Tower Hamlets. Approximately 50% of the stock is leasehold properties. THH is responsible for managing the maintenance and repair of the housing stock and this means managing the asbestos in each property.</p> <p>A full systems audit on Management of Asbestos was concluded in in February 2015 and the final audit report was issued in October 2015. This audit was assigned Substantial Assurance.</p> <p>Our follow up review identified that of the six medium priority recommendations made in the original audit report, one of these has been fully implemented, two recommendations are partly implemented and three are not implemented. Therefore, five further recommendations have been raised to address these issues, as follows:</p> <ul style="list-style-type: none"> <li>• THH should ensure that data is fully uploaded to Keystone, such that contractors can be encouraged to rely on the database without risk of false impression. Keystone log-in records should be used/reviewed to provide assurance that access is being made on a regular basis.</li> <li>• A monthly report of all works orders and inspections should be developed and scheduled, with statuses and reasons cited, that will be sent to the Health &amp; Safety Co-ordinating Group for follow up. This should be used to mitigate the risk of both work orders and post inspections being amended/cancelled and going unnoticed. Northgate security configuration should be reviewed and options provided to control access to asbestos post-inspections.</li> <li>• The Asbestos Policy and Management Plan (including the planned inspections programme) should be completed in a timely manner and presented at the first available opportunity to the H&amp;S Forum for approval. Reporting on the progress made against the agreed inspection programme should subsequently be communicated to senior management on a regular basis.</li> </ul>	Extensive	Limited 

- As noted in Follow-Up Recommendation 3, the Asbestos Policy and Management Plan should be completed and presented to the H&S Forum at the first available opportunity for approval.  
On completion, the planned steps above should be taken to ensure that this document is adequately distributed and made available to staff.
- Each month, a team member should undertake an independent 10% sample check in respect of entries made to the Keystone System, to help ensure that input errors are corrected. Evidence of these checks should be maintained.  
The findings should be reported to the Head of Service as part of the Performance Management Framework.

All findings and recommendations were agreed with the THH Health and Safety Manager and THH Director of Asset Management and reported to the THH Director of Finance and THH Chief Executive.

**Management Comments**

1. The Asbestos Register and access to it by all those who need it, continues to be developed, and this is addressed as part of the Asbestos Management Plan (AMP) and in our ongoing improvements with addressing asbestos matters.
2. This point has been answered previously in writing during the follow up audit. Reports on asbestos surveys and treatment works are run automatically on a weekly basis (not monthly), which means we can monitor more closely) and sent through to the Health and Safety Team (previously called the Health and Safety Co-ordinating Group). They consist of the following:
  - Orders out of target
  - Cancelled Orders; and
  - Variations.

These reports are scrutinized by the Health and Safety Technical Officer and, as required, communicated with Mears our Partnering Contractor for follow up to ensure there are no gaps in the process.

'Northgate security configuration should be reviewed', we are unclear what this means in relation to the audit.

3. As previously reported during the follow up audit, the Asbestos Management Plan (AMP) has been in consultation and is now complete. We have provided the auditors with copies. However, as a result of this audit and developing the AMP we have plans to proceed with important areas of work some of which were not covered in the original audit. These include:
  - Commissioning communal asbestos surveys
  - Addressing staff resourcing issues


- Ensuring our Asbestos Register is as up to date and accessible as necessary.  
These actions will require additional funding from LBTH and in preparation for that we are presenting the AMP and an Asbestos proposals paper to our Executive Management Team in June.

In the meantime, we are continually reviewing and addressing our processes. The AMP ensures 100% post-inspection on all of the new Better Neighbourhoods projects going forwards and we are working towards a proportionate post-inspection regime for other areas of works.

Also, in the meantime, Health and Safety and Repairs have undergone Organisational Review with the Health and Safety Team moving to a corporate health and safety advisory, policy and reassurance role. The AMP requires the Health and Safety Team to carry out an independent audit of progress with the AMP on an annual basis. The first review will be in summer 2018. The operational function of managing various types of orders, variations etc. on Northgate repairs ordering system will be moving to the Repairs Team once the Organisational Review is completed in the near future.

4. As 3 above. This appears to be a repeated point in the Comments/Findings.

5. As explained in 2 above the Health and Safety Technical Officer is already carrying out this function and the follow up auditor was made of aware of this.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Luke's CoE Primary School	March 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• All purchases / contracts over £10k should be approved by the Full Governing Body and minuted.</li> <li>• The Code of Practice for Financial Management and Delegations of Financial Authority also known as Scheme of Delegation should be presented to the Full Governing Body annually for review, sign-off and minuting.</li> <li>• The Curriculum Committee should meet every term in accordance with its Terms of Reference. Meetings should be minuted with signed copies provided to the School.</li> <li>• Declaration of Business Interest forms should be refreshed on an annual basis for both Governors and staff with financial responsibilities. A copy should be retained by the School. The School should also consider redesigning the form to enable the business interest of family members to be added.</li> <li>• Unpresented cheques over six months old should be cancelled and be removed / written back on the RM Finance system.</li> <li>• Staff expense forms should be dated to evidence that the purchase(s) have been pre-authorised. In addition, the £50 reclaim limit should not be exceeded. Should the £50 limit no longer be appropriate then subject to Full Governing Body approval this limit could be increased.</li> <li>• Assets should be updated onto Parago as soon as they are purchased. In addition, the School should carry out a full review in line with the planned timescale with the results of the check, and the list of assets marked for disposal, presented to the FGB for review and sign-off. This should be</li> </ul>	Moderate	Limited 



formally minuted. Inventory checks should then be undertaken on an annual basis.

- To help ensure that only overtime agreed at the time the work is undertaken is paid, a standard overtime claim form should be completed, by the member of staff, reviewed and then signed-off by the Head Teacher.
- The School should maintain a signed copy of the Schools Financial Value Standards (SFVS), to help ensure that they are measuring performance / targets against the final version of the document.
- The Financial Consultant and the Head Teacher should sign-off all the key documentations in the monthly reconciliations as evidence of being checked / reviewed.
- The School should complete the identification all its current contracts and record them into one single Contracts Register.
- The School should confirm the tax status (including the Inland Revenue tax code) of all self-employed individuals and also that the contractor holds suitable public liability insurance.
- The School should ensure that goods / services provided are receipted to enable the Budget Holder to agree the purchases as part of the financial monitoring process.
- All invoices should be paid within 30 days of the supply of the goods / service or receipt of the invoice. Where payment needs to be delayed, the invoice should be annotated accordingly.
- To help ensure a consistent and transparent approach in collecting outstanding debt, the School should adopt a formal Debt Policy outlining the debt collection procedures.
- All staff should complete a pre-employment medical questionnaire as part of the recruitment process and also supply details of two referees who can provide references. The information should be obtained before the member of staff commences employment at the School.
- The School should consider developing a leaver's checklist to capture all the necessary checks and information into one comprehensive document for when a member of staff leaves. This should be kept in the member of staff's personnel file.
- The School should ensure that an End of Journey Statement is produced and presented to the Full Governing Body for review and sign-off.

	<ul style="list-style-type: none"> <li>The loan of School equipment form should be signed-off by the member of staff authorising the loan.</li> </ul>		
	All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.		

**Management Comments**

The Education 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 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 Schools Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities.

Comments:

The school have acted immediately and agreed to complete all actions with a defined timeframe.

The school and the governing body 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 has provided additional support to schools, via a bursar service to review and support the school in its recommendations with additional signposting them to the guidance procedures to follow.

Additionally further action included:


- News bulletins are used to encourage good practices in schools to support operational procedures
- Termly director's Report to Governors includes good financial management practices to follow.
- Schools business managers forum included actions to improve their Audits through more self-assessment.
- Audit check list was circulated to primary's (keys areas to focus on)


It's proposed 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

## Substantial Assurance


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	April 2017	<p>This audit was undertaken as part of the 2016/17 agreed internal audit plan.</p> <p>The Income and Debtors function is responsible for the invoicing, collection and recording of income received. A debtor is a person or organisation with an obligation to pay a debt to the Authority. The London Borough of Tower Hamlets implemented its general ledger system, Agresso, during the 2013/14 financial year. Agresso's accounts receivable function is fully integrated with the general ledger.</p> <p>As at 21/02/2017, the value of invoices raised since April 2016 was £98.2 million with £18 million outstanding (a collections rate of 82%).</p> <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>• The Sundry Debt Policy did not have a version control history stated. This was previously raised in the 2015/16 Debtors audit.</li> <li>• A decision had not yet been made on how to manage debt recovery in respect of 'Meals in the Homes'.</li> <li>• For 4 out of 20 credit notes tested, the credit notes had been checked and approved by the same officer within the Account Receivables Team, although it should be noted that a separate individual had requested the credit note to be raised. Although this helped to demonstrate a partial segregation of duties, the expectation was for three individuals to be involved within this process (Requester, Budget Holder approval and Accounts Receivables approval).</li> <li>• Examination of 20 write-offs identified two instances (Invoice numbers: 40526623 and 3021897) where no evidence of reminder letters being sent could be provided.</li> <li>• Examination of 20 debtor invoices identified eight cases where there was a delay of over three months in respect of the Recovery Team taking the</li> </ul>	Extensive	Substantial 

		<p>expected recovery action.</p> <ul style="list-style-type: none"><li>• All invoices tested were found not to state the due date for the expected payment.</li><li>• It could not be verified that the quarterly Sundry Debtors Forum had been attended by all expected members.</li><li>• The date that both the preparer and the officer responsible for reviewing the reconciliations between the accounts receivables control account, the debtors control account and the suspense account with the general ledger are not included on the reconciliations (there is only one date present). It is therefore not possible to verify that reconciliations were reviewed in a timely manner by the second officer.</li></ul> <p>All findings and recommendations were agreed with the Financial Systems Manager and reported to the Head of Revenue Services and Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Revenue and Capital Budgetary Control	March 2017	<p>This audit was undertaken as part of the 2016/17 agreed internal audit plan and reviewed corporate systems for exercising sound Budgetary Control across the Council.</p> <p>At their meeting on 24 February 2016, the Council considered and agreed a Revenue Budget and Council Tax for 2016/17, a three-year Capital Programme from 2016/17 and the Housing Revenue Account (HRA) Budget for 2016/17 including setting rents and other charges. The net budget requirement for 2015-16 was restated to £350.3m; the 2016/17 budget has been set at £360.2m.</p> <p>The economic climate remains extremely challenging with the Government's austerity programme continuing until the end of the decade. The Medium Term Financial Plan (MTFP) indicates a balanced budget for 2016/17, but savings of £30m are still required to balance the budget in 2017/18.</p> <p>The audit was designed to provide assurance to management that 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>• Request forms for budgetary adjustments are not always being appropriately completed and retained.</li> <li>• Budget sign-off forms are not being completed for all directorates.</li> <li>• Budget holders were found not to be reviewing their budget forecasts to the expected monthly frequency.</li> <li>• Documented minutes/actions were not produced for Corporate Transformation Delivery Group (CTDG) meetings.</li> </ul> <p>All findings and recommendations were agreed with the Head of Financial Planning &amp; Corporate Finance Partner and reported to the Corporate Director of Resources.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
General Ledger	April 2017	<p>This audit was undertaken as part of the 2016/17 agreed internal audit plan.</p> <p>The Council continues to use the Agresso general ledger system which was installed at the beginning of the 2013/14 financial year.</p> <p>The general ledger records all transactions that take place at LBTH, is updated on a daily basis and is also routinely backed up (stored remotely by IT). Access to the general ledger in the form of 'view only' is available to those staff with Agresso access, with only a limited number of staff having the ability to make uploads to the system.</p> <p>On a regular basis, a number of interfaces (information from the different departments, for example payroll figures) are uploaded onto the general ledger (with there being a total of 20 interfaces altogether). Interfaces that show any type of errors will be rejected and are not uploaded. The department responsible for that interface is then required to make the required changes before the interface can be attempted to be uploaded again.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around the general ledger 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 version control or supporting evidence which confirms approval of the Council's Financial Regulations and Closure of Accounts Guidance.</li> <li>• No evidence is retained to verify that the individual responsible for checking and confirming the full and appropriate upload of feeder systems onto the General Ledger has undertaken such reconciliation (although verbal assurance was obtained that this process takes place and is embedded as a standard operating practice).</li> <li>• There is no automated checking process in place in terms of the upload of data from the feeder systems to the Agresso system. A manual checking process is in place to help ensure the integrity of data uploads from the</li> </ul>	Extensive	Substantial 


		<p>feeder systems. It was advised that the development of an automated system is on the Agilisys work plan to be delivered, but the timescale for the delivery of this functionality is not known. This was identified as part of the 2015/16 audit and progress has been made to implement an automated checking of the interfaces by Agilisys but is still in the 'proof of concept stage'.</p> <p>All findings and recommendations were agreed with the Financial Systems Manager and reported to the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Back Office Revenue Collection and Processing Follow-Up  Page 196	Feb 2017	<p>Although the ex-Cashier's office (now the Revenues Processing and Reconciliation Office) is formally shut to the public, the existing system still allows for members of public to physically attend Albert Jacob House to collect emergency grants (such as for living expenses) which are paid in cash.</p> <p>A full systems audit on Back Office Revenue and Collection Processing was finalised in July 2016. This audit was assigned Substantial 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 identified that the one high priority recommendation made in the original audit report had been fully implemented. Five of the seven medium priority recommendations had also been implemented. Of the remaining two medium priority recommendations, one had been partly implemented and one was not yet implemented.</p> <p>Following our testing, we have made a further two recommendations. The areas of weakness are as follows;</p> <ul style="list-style-type: none"> <li>• There is no second check/review of the weekly cash reconciliations.</li> <li>• There was an instance where there the expected initials were not evident in the postal order book (22/08/2016). Post audit this has been amended.</li> </ul> <p>All findings and recommendations were agreed with the Processing and Reconciliation Manager, and reported to the Service Head, Revenue Services and the Corporate Director of Resources.</p>	Extensive	Substantial  




Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Unauthorised Occupancy Follow-Up	April 2017	<p>Tower Hamlets Homes (THH) is responsible for the provision of 22,000 rented and leasehold homes on behalf of London Borough of Tower Hamlets (LBTH), with 50% of the stock relating to rented properties. The provision of tenancies for social housing and the methods used for recovering unlawfully sublet properties are under increased scrutiny as the demand for social housing far outweighs the supply. Under the Prevention of Social Housing Fraud Act 2013, the sub-letting of Council housing is now a criminal offence with the guilty facing criminal records, fines and prison sentences.</p> <p>Various methods or triggers are utilised by THH in order to detect suspicious cases of illegally occupied properties and tenancy fraud. Suspicious cases are referred to the Fraud Investigation Team based at LBTH with Legal Services providing assistance where necessary and undertaking prosecutions. Increasing prevention and the recovery of illegally occupied properties will help to ensure that social housing is only allocated to the residents of the borough most in need.</p> <p>A full systems audit on Unauthorised Occupancy was finalised in April 2016. This audit was assigned Substantial 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 identified that, of the five medium priority recommendations made in the original audit report, two have been fully implemented. The remaining three recommendations were partly implemented (and have been re-raised). The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• Policies and procedures did not clearly confirm who had produced, reviewed and approved them, when they were produced or a date for future review. A version control history was therefore not evident.</li> <li>• It could not be verified whether a strategy was in place to identify and tackle instances of unauthorised occupancy by THH staff.</li> <li>• From a sample of five ongoing potential unauthorised fraud cases being investigated, one case had been ongoing since 2014. In one further case, there were gaps in respect of the expected review being pursued</li> </ul>	Extensive	Substantial 

		<p>in a timely manner.</p> <p>All findings and recommendations were agreed with the Area Manager Neighbourhoods South (THH) and reported to the Director of Neighbourhoods (THH), Director of Finance (THH) and Chief Executive (THH).</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Programme and Project Management Follow-Up	April 2017	<p>To ensure that its service improvement projects are properly managed and monitored, Tower Hamlets Homes (THH) had implemented a new delivery framework for 2016/17. The framework consisted of three work streams; Customers, Homes and Neighbourhoods, and Organisation, all of which support an overarching Programme Board.</p> <p>A final audit report was issued in July 2016, as a part of the 2016/17 agreed Internal Audit Plan, and focused on the three work streams. This audit was assigned Substantial Assurance with one medium recommendation being raised. This follow up audit was to show how far the team had come in implementing the medium priority recommendation that had been raised in the original full final audit report issued in July 2016.</p> <p>Our follow up review showed that the one medium priority recommendation made at the conclusion of the original audit (July 2016), had been implemented. Following our testing, we have not made any further recommendations to enhance the control environment within this area. A Full Assurance opinion could not be provided purely due to there being no new projects to test, however, the Head of Business Development (THH) reaffirmed that project initiation documents will be quality assured to ensue completeness as and when new projects are initiated.</p> <p>All findings and recommendations were agreed with the Head of Business Development (THH) and reported to the Director of Finance (THH) and Chief Executive (THH).</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Adoption and Fostering Panel  Follow Up Audit	March 2017	<p>This audit assessed the progress made in implementing the recommendations made at the conclusion of the original audit in November 2015. Out of 10 high priority recommendations tested, four had been fully implemented, three partly implemented and two recommendations had not been implemented.</p> <p>Our review found that a Constitution of Terms of Reference had been put in place for the Adoptions and Fostering Panels. We confirmed that all Panel members now have DBS checks; Panel member's forms were kept on file; Panel members identified not to have signed the Terms of Engagement from the original audit have now signed the Terms of Engagement; that a six monthly meeting took place with Panel members and the Agency Decision Maker to discuss what was working well and any issues with the effectiveness of the Panel; and that two separate rooms were being booked to cater for the sensitive needs of parents and other stakeholders.</p> <p>However, there were still areas where internal controls needed to be improved. A six monthly report on quality assurance needed to be produced; all application forms for Fostering needed to be checked for completion; clear recording of the timeframe for matching the child with suitable adopters to show why it took longer than expected.; and timely confirmation to Birth parents &amp; prospective adopters within the required time period of 5 working days of the outcome of the decision made.</p> <p>All findings and recommendations were agreed with the Divisional Director, Children's Social Care and final report was issued to the Corporate Director, Children's Services.</p>	Extensive	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Penalty Charge Notices	March 2017	<p>A Penalty Charge Notice (PCN) can be issued, by London Borough of Tower Hamlets (LBTH) employed Civil Enforcement Officers, for parking offences or for breaking traffic rules. The issue of PCNs is considered to be a legal case and can be subject to challenge at various stages by the recipient of the PCN. The PCN formally becomes a debt once a warrant is issued. LBTH works alongside contracted bailiffs to recover any monies that are due as a result of the issue of PCNs.</p> <p>The total number of PCNs issued in 2015/16 was 104,000, and year-to-date for 2016/17 is 78,000 (as at December 2016). The Council has a recovery rate of circa 70% on the total value of all PCNs issued. Annual gross income is between £8-9 million. £6 million was collected for the 2015/16 financial year in total.</p> <p>This audit was undertaken as part of the 2016/17 agreed internal audit plan and reviewed LBTH's systems and procedures for the processing and management of PCNs, including the effectiveness of debt recovery through the existing bailiff contract.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Examination of 20 PCN monitoring sheets issued in the last 12 months, identified that for the PCNs issued on the 25/02/2016 for officer TH207, the supervisor had not signed to verify that they had checked the monitoring sheets and handheld machine matched.</li> <li>• Examination of 20 cases where PCNs had been either appealed or cancelled identified two cases where no information could be gained from the DVLA which, after six months, should have resulted in the PCN subsequently being cancelled. However, for PCN number TT23397901, no information could be found since 25/12/2015 but the case was still open. PCN number TT22204966 should have been closed six months after 23/12/2015 but was not cancelled until 22/07/2016.</li> <li>• Examination of 20 write offs (relating to the period 2012/13) which had been statute barred (meaning that is no longer viable for recovery action)</li> </ul>	Extensive	Substantial 

identified one instance (PCN number TT10461258) where the debt had been written-off to a sum of £202. However, this had been paid between 28/09/2015 to 08/01/2016 in four instalments. This PCN had also been recorded as being written-off.

- Examination of a random sample of 20 days from the past 12 months identified one instance where it could not be verified that two officers were present when they opened the cheques. This was for 27/06/2016 with seven cheque payments totalling a value of £592.
- Examination of the suspense account identified that, in the 'Live' account, there were 40 PCNs and, for 30 of these, they were unable to be allocated to a correct account (identified by a 'TH' in front of the number). The PCN numbers recorded were in relation to when the Council used to use the 'Civica' system to record their PCNs whereas now Chipside is used. The information had been transferred from Civica onto Chipside but was now unable to be appropriately allocated and required removal from the account.


All findings and recommendations were agreed with the Parking Appeals and Permits Manager and reported to the Operations Manager, Service Head Public Realm and Chief Executive.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Compliance Audit of Asset Disposal	May 2017	<p>The Secretary of State issued Directions to the Council on 17<sup>th</sup> December 2014, which required drawing up a strategy and an action plan for securing the Authority's compliance with its best value duty in relation to Property. A Property and Disposal Action Plan was drawn up. One of the action points was to test compliance with revised procedures for the disposal of properties and this audit sought to undertake such tests for a sample of five recent disposals.</p> <p>Our testing found that the asset disposal procedures had been revised and approved by the Cabinet in April 2015 subject to amendments. Once received, the postal bids were kept securely in the safe and access was restricted to designated staff only. A log for opening the bids was in place. We also confirmed that the proceeds from the completed sales were found to be credited to the Authority's bank account on a timely basis.</p> <p>We were told that officers had been successful in obtaining the best consideration possible in disposing of the assets under S123 of the Local Government Act 1972. This was confirmed by Legal Services concluding the overriding duty for officers to secure best consideration reasonably obtainable has been achieved. However, during the compliance testing we noted that bidders did not always follow instructions provided to them when submitting their offers. Where this happened, Officers sought advice from Legal Services. For example, we noted that the disposal procedures approved by Cabinet have no provisions and controls around receipt of bids via emails. Disposal Procedures at para. 4.1, Step 6 (e) specifically state that 'offers must be returned to the Council's Service Head, Corporate Property and Capital Delivery in a plain sealed envelope marked 'OFFER' and identifying the property but not the name of the bidder'. Two bids were emailed directly to the Agent and two bids were emailed directly to the Service Head - Corporate Property and Capital Delivery. These bids were printed and brought to</p>	Extensive	Substantial 

		the bid opening meeting. At this meeting, legal advice was received from the		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Page 204		<p>Interim Head of Legal Services &amp; Deputy Monitoring Officer. Based on that advice, it was determined that the bids that had been received via email should be considered.</p> <p>All findings were agreed with the Divisional Director, Corporate Property and Capital Delivery and Major Programmes. Final report was issued to the Corporate Director, Place.</p>		



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Idea Store Watney Follow-Up	April 2017	<p>This follow-up audit has been undertaken as part of the 2016/17 agreed Internal Audit Plan.</p> <p>A full systems audit of the Idea Store Watney Market was finalised in October 2016. This follow-up audit was undertaken to provide assurance as to whether the two high and two medium priority recommendations raised at the time of the full audit have been subsequently implemented.</p> <p>The £4.5m Idea Store Watney Market opened on the 14 May 2013 and was jointly funded by the Big Lottery Fund and Tower Hamlets. It offers a wide range of services to the public over its three storey building including adults, youth and children's library facilities. The Idea Store Watney Market includes an integrated One Stop Shop and is open six days a week; Monday – Saturday.</p> <p>Our follow up review identified that the two high priority recommendations made in the original audit report had been partly implemented. One of the two medium priority recommendations had been partly implemented and one had not been implemented.</p> <p>Following our testing, we have made a further four recommendations. The areas of weakness are as follows;</p> <ul style="list-style-type: none"> <li>• Examination of five purchase orders, from a total of 43 (Since November 2016), identified that in one instance (PO 8090321) the delivery note was not signed and dated by the Idea Store Team Leader. In addition it was identified that, in one case (PO 8086114), a record of the delivery check was not maintained.</li> <li>• Watney Market Building User Group Meetings between Facilities Management (FM) and the Idea Store Manager were not held on a monthly basis. Only one meeting has taken place since the original audit (held on 1 March 2017).</li> </ul>	Moderate	Substantial 

The Open Help Calls spreadsheet (which shows all outstanding and unresolved calls) was not produced on a monthly basis. The Auditor was only provided with the October and November 2016 spreadsheets. The November 2016 spreadsheet was not updated with to confirm progress and action taken against the outstanding items.

- The Auditor conducted a physical check to verify whether five randomly selected Watney Market Idea Store assets were recorded in the Inventory Register. Testing identified, in three cases (Catalogue PC 6, Water Fountain 1st Floor and Staff PC-2), that the items were not recorded in the Inventory Register.
- Inventory checks are not yet being performed (due to the recent implementation of the Inventory Register).


All findings and recommendations were agreed with the Idea Store Manager, and reported to the Divisional Director Customer Services and the Corporate Director of Resources.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bonner Primary School	March 2017	<p>A full systems audit of Bonner Primary School was concluded, and a final audit report issued, in December 2015. This audit was assigned Limited Assurance.</p> <p>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 identified that of the six high priority recommendations, seven medium priority recommendations and three low priority recommendations made in the original audit report dated December 2015 (16 in total), 13 of these have been fully implemented and three recommendations remain outstanding (made up of one High, one Medium and one Low priority recommendation). A follow up recommendation has been raised against each the three outstanding issues.</p> <p>The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• Where the lowest quote is not accepted, formal approval should be obtained from the governors and formally minuted.</li> <li>• The School should ensure that all income is collected promptly and an End of Journey Statement is produced within four weeks of the trip (also being presented to the Full Governing Body for review and sign-off).</li> <li>• The School should update its Debt Management Policy to include procedures for long standing debt recovery.</li> </ul> <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial ⇒

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stephen Hawking Primary School	March 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• Minutes of the Full Governing Body and sub-committee meetings should be sufficiently comprehensive, to reflect the detailed discussions and decisions made at the meetings.</li> <li>• The School's Financial Procedures and Scheme of Delegation should be consistent with the Financial Procedures Manual. Where the School requires different limits and/or requirements, guidance / approval should be sought from the Local Authority which should then be formally minuted at the Full Governing Body.</li> <li>• The Financial Procedures Manual should be approved and reviewed on an annual basis with the decision clearly minuted.</li> <li>• To enable the budget setting process and ongoing budget monitoring, the SDP should be updated to include financial costs.</li> <li>• Bank reconciliations should be undertaken on a monthly basis, as part of the month end financial processes. The reconciliations should be signed-off by the Head Teacher to evidence the independent review.</li> <li>• Authorisation should be obtained from the Full Governing Body for higher value purchases of goods and services before the commitment is made, in accordance with the Financial Procedures Manual.</li> <li>• Purchase orders should be raised and authorised, prior to a purchase being made.</li> <li>• The SFVS should be formally agreed and the decision minuted. The School should retain a signed copy of the SFVS to help ensure that they are measuring performance / targets against the final version of the document.</li> <li>• Policies should be implemented in relation to the safeguarding of students while accessing the internet.</li> <li>• Sub-Committee Terms of Reference should be updated to include the frequency of meetings. In addition, they should be reviewed on an annual</li> </ul>	Moderate	Substantial ⇒

		<p>basis, formally approved, and minuted by the Full Governing Body.</p> <ul style="list-style-type: none"> <li>• The Full Governing Body should formally approve and minute the disposal of assets.</li> <li>• The School should ensure the results of the annual inventory check is presented to the Full Governing Body for review and sign-off once the check is completed. This should be formally minuted in the meeting. The Full Governing Body should also approve and minute the disposal of assets.</li> </ul> <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Kobi Nazrul Primary School	March 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• Budget allocations should be accurately uploaded to the financial system following approval of the budget by Governors. The Head Teacher should review and sign a record of this being performed. Where subsequent amendments are required, approval from Governors/IEB should be sought and documented.</li> <li>• Payroll checks should be undertaken on a monthly basis. Once completed, the reconciliation should be independently reviewed and signed-off by the Head Teacher and documentation retained to evidence the process has taken place.</li> <li>• All un-presented cheques should be reviewed and followed up with the supplier after three months of issue, to ascertain the reason for non-presentation. All un-presented cheques over six months old should be cancelled where no response has been received and be removed / written back on the RM Finance system.</li> <li>• The Terms of Reference (ToR) for the Governing Body and Sub Committees should include the quorum requirements.</li> <li>• Purchase order forms should be raised for all purchases, where appropriate before an order is placed. In exceptional cases where verbal authorisation is sought, a retrospective purchase order should be raised and clearly noted and retained on file.</li> <li>• All Invoices should be paid in a timely manner (within 30 days).</li> </ul> <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial ⇒

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Wellington Primary School	Feb 2017	<p>The audit was designed to ensure that the Head Teacher and the Governing Body have implemented adequate and effective controls over the administration and financial monitoring affairs of the school and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures, including value for money issues and any equality issues. The key recommendations were as follows:-</p> <ul style="list-style-type: none"> <li>• Where required, specific reviews, sign-offs, approvals and decisions made by the Full Governing Body should be clearly minuted</li> <li>• Purchases should only be made once the Purchase Order has been raised and approved by the Head Teacher or a delegated officer as per the Scheme of Delegation.</li> <li>• The School Funds Account reconciliations should be reviewed and signed-off by the Head Teacher.</li> <li>• The audited School Funds Account should be presented for review and sign-off by the Full Governing Body, or the delegated committee and this should be clearly minuted.</li> <li>• The School should ensure that information is retained to support the full costing of the residential trips. The School should ensure an End of Journey Statement is produced and presented to the Full Governing Body for review and sign-off.</li> <li>• The School should ensure the results of the Annual Inventory Check are presented to the Full Governing Body for review once the check is completed. This should be formally minuted.</li> <li>• The School should renew and retain a copy of the current insurance policy and ensure the safe limit is not exceeded at any time.</li> <li>• The Full Governing Body meeting minutes should have Declarations of Pecuniary Interests as a standing item.</li> </ul> <p>All findings and recommendations were agreed with the School Business Manager and Head Teacher and reported to the Chair of Governors.</p>	Moderate	Substantial 

## Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Poplar Mortuary Follow-Up</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 212</p>	<p>Feb 2017</p>	<p>A full systems audit on Popular Mortuary was undertaken as a part of the 2015/16 agreed Internal Audit Plan and the final audit report was issued in July 2016. This audit was assigned Substantial Assurance and two recommendations were raised (one medium priority recommendation and one low priority recommendation).</p> <p>A follow up audit was completed within the objective was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. This follow up audit was undertaken as part of the 2016/17 agreed Internal Audit Plan.</p> <p>Our follow up review showed that the medium priority recommendation made at the conclusion of the original 2015/16 audit had been fully implemented. Following our testing, we have not made any further recommendations to enhance the control environment within this area.</p> <p>All findings and recommendations were agreed with the Head of Environmental Health and Trading Standards and reported to the Chief Executive (Interim Corporate Director CLC).</p>	<p>Extensive</p>	<p>Full</p> <p>⇒</p>



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Transparency Code 2015 Compliance	March 2017	<p>This follow up audit assessed the progress made in implementing agreed recommendations at the conclusion of the original audit in June 2016. Our testing showed that out of three high priority recommendations made in the original report, all three had been progressed and implemented. One medium priority recommendation was also implemented. The main issues covered in the report are as follows:</p> <ul style="list-style-type: none"> <li>• The Terms of Reference for the FOI Board were revised and taken to the FOI Board Meeting on 1<sup>st</sup> July 2016 for approval. However, we have noted that functions of the FOI Board have now transferred to the Corporate Strategic Information Governance Board.</li> <li>• In order to ensure that relevant data has been received for publication by the Information Governance Manager by set deadlines, a Transparency Programme Timetable for 2016/17 was developed and distributed to the FOI Board meeting on 1<sup>st</sup> July 2016.</li> <li>• Testing of local procedures showed that internal procedures for checking and redacting sensitive data have been developed to ensure that data sent to individual Finance Business Partners by Financial Systems manager are checked and submitted by specified deadlines.</li> <li>• The CMT meeting on 17 August 2016, considered the issue of publication of creditors spend data over £250. The CMT decided that the publication of data over £250 for general spend be implemented when the required software has been procured and installed.</li> <li>• Our review found that all procurement card spend is published separately from information on creditors payments over £500. Testing showed that information for spend over £500 is being published every month.</li> </ul> <p>All findings and recommendations were agreed with the Interim Divisional Director, Governance and final report was issued to all Corporate Directors.</p>	Extensive	Full 

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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Independent Review of Pensions Statements  Page 214	Nov. 2016	<p>On 12<sup>th</sup> September 2016, it was brought to the attention of the Council that some employees had received the Annual Pension Statements of other active members of the Local Government Pension Scheme. As this event potentially represented a breach of the Data Protection Act, the incident was reported to the Information Commissioner's Office (ICO) on the 15<sup>th</sup> September 2016. The Council then liaised with the ICO to ensure that lessons were learnt and a repeat of the error is avoided in future. As part of this learning, an independent audit by Internal Audit was commissioned by the Interim Service Head, HR Transformation.</p> <p>From detailed audit testing and analysis, it was concluded that in order to produce annual statements, manipulation of sensitive data from two different data bases containing huge volume of personal data was required, which increased the risk of human error occurring. This together with other factors such as working against tight deadlines, an absence of internal checks, lack of control total reconciliations and possible lack of skills in spreadsheet use and analysis, may have contributed to the eventual data security breach.</p> <p>On the basis of our analysis, we alerted Management to re-consider immediately the extent of the security breach initially reported to the ICO. The Pensions Team sent Apology letters to 339 employees. However, audit analysis showed a number of cases where multiple employees' statements had been posted to a single address. It was of concern that these cases had not been identified and supervised correctly by the Pensions Team at the time when address mismatches were being investigated upon notification of the data security breach. For example, seventeen different employees' statements were sent to one address. In another case, nine employees' statements had been posted to a single address. These two addresses belonged to employees who were not in the Pensions Scheme. There were some twenty eight employees in our sample who appeared not to be on the Apology letter list. Therefore, it was important that the full extent of mismatched addresses was identified without further delay and Apology letters sent to those employees.</p>	Extensive	N/A

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Independent Review of Pensions Statements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 215</p>		<p>Another issue highlighted for remedial action was the methodology for preparing the annual pensions statements. This process was not automated on the pensions IT system, Altair (also known as ABS), although we understand that Altair has the facility to do so. Instead, the statements were prepared by using a number of manual intervention routines which required data to be exported on a spread sheet from Altair system and from Resource Link system which held HR data and then running VLOOKUP formulae to bulk match addresses and other details on the two data bases. To do this, 7 different versions of the spreadsheet were produced, each containing a huge volume of personal data from Altair and from Resource Link. From audit point of view, this is inefficient use of resources which increased the risk of errors, omissions, poor data quality and the resultant data security breach.</p> <p>We also highlighted from our testing that Altair was not regularly being updated with the most recent addresses of employees on pensions scheme. The address data on Altair was at least two years out of date. This, therefore, necessitated the bulk matching of addresses on Altair with those on Resource Link during the production of annual statements with unnecessary increased risk exposure to the Council.</p> <p>We made 11 recommendations within the audit report, all of which were agreed by the Interim Service Head, HR and WD and the Corporate Director, Resources.</p> <p>The audit report was provided to the ICO, who then determined not to levy any fines to the Council.</p>		

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

Audit Subject	Recommendation	Service Head	Officer Name
Market Vouchers	The Street Markets and Enforcement Team should aim to implement the handheld loggers system for market vouchers as soon as practicable to assist in ensuring that the THEOs are undertaking their roles in line with policies and procedures. In addition, the attendance sheets should be more transparent and include tick boxes and/or narrative boxes to allow THEOs to indicate how they have verified all required information (including licence checks, identification checks of market traders as well as confirmation that market traders hold the required insurance). Management should aim to meet the target of 10 spot checks per month in respect of THEO attendance sheets.	Roy Ormsby, Divisional Director, Place	Roy Wayre – Markets Development Manager
Market Vouchers	When formal training begins in March 2017, a log/attendance sheet should be retained to detail all those officers who have attended, and to help identify any individuals who are yet to receive training.	Roy Ormsby, Divisional Director, Place	Roy Wayre – Markets Development Manager
Idea Store Watney Market	Once goods are received, delivery checks should be undertaken by the Idea Store Team Leader. When checks have been completed, the required form or delivery note should be signed, dated by the responsible officer and filed into the delivery folder.	Judith St John- Head of Idea Stores	Shaw Rahman Khan – Idea Store Manager

Audit Subject	Recommendation	Service Head	Officer Name
Idea Store Watney Market	Watney Market Building User Group Meetings between the Idea Store Manager and Facilities Management should be held on a monthly basis to discuss Health & Safety and all buildings related issues.	Judith St John-Head of Idea Stores	Ayo Alegbeleye –Senior Facilities Manager
THH Housing Insurance Claims	<p>Insurance claims received by THH should be investigated by staff, CF2 forms completed and returned to the THH Contact Centre team, and passed to the LBTH Insurance team in a timely manner for processing.</p> <p>A timeframe should be established to be met for the investigation and CF2 report stages of the claims process to be completed, and performance against this target should be monitored on a monthly basis. A timeframe of 10-days is suggested, following discussion with the Head of Customer Access and Facilities.</p>	Neil Isaac – Director of Finance	THH Senior Housing Advisor
Highways Repairs and Maintenance	It should be ensured that procedures for monitoring of overdue jobs, selection criteria for post – inspections, and managing and monitoring of variations are captured in the process maps. The process maps should be dated and version controlled with the name of the author and the date of next review to ensure procedures are being applied consistently.	Roy Ormsby Divisional Director, Public Realm	Liz Nelson Interim Head of Clean and Green
Highways Repairs and Maintenance	It should be ensured that written procedures for effective monitoring of various aspects of the contract are drawn up and distributed to staff. The Council's procedures and toolkits for contract monitoring should be used for this purpose.	Roy Ormsby Divisional Director, Public Realm	Liz Nelson Interim Head of Clean and Green
Highways Repairs and Maintenance	A list of jobs not completed should be produced from the source system (Mayrise). This list should be printed off and taken to the weekly meetings with the contractor for discussion as to why these jobs have not been completed in time. This list should be attached to the minutes of the meeting so that a complete audit trail is preserved. The minutes should clearly record key decisions and any penalties that should be raised for jobs not completed within the required time period.	Roy Ormsby Divisional Director, Public Realm	Liz Nelson Interim Head of Clean and Green

	The cumulative effect of any repeated non-performance incidences should be clearly recorded, discussed, escalated and reported to the contractor in accordance with LBTH Contract Monitoring toolkit and guidelines published in April 2016.		
Highways Repairs and Maintenance Page 21	In order to make the practice of approving payments on the basis of desk-top post inspections more effective, it should be ensured that standard procedures are drawn up for the contractor to follow when taking photographs. For example, each photograph should have location, date and time embedded; angle and distance for each pre and post completed jobs should be similar; each photograph should be clear; and each photograph should be such that it can be used as evidence in the event of dispute or insurance claim.	Roy Ormsby Divisional Director, Public Realm	Liz Nelson Interim Head of Clean and Green
Adoption and Fostering Panel	It should be ensured that applications which have been received without the essential sections being completed or other key details being deleted from the electronic documents should be sent back to the applicant for full completion.	Nasima Patel - Divisional Director, Children's Social Care	Tina Coburn Team Manager
Adoption and Fostering Panel	In order to ensure transparency the Service Manager Children's Social Care should record the reason why the timeframe for matching the child with suitable adopters took longer than expected.	Nasima Patel - Divisional Director, Children's Social Care	Tina Coburn Team Manager

**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>
Market Vouchers	Once all policies, procedures and SOPs have been updated, version history details should be formally included.	Roy Ormsby, Divisional Director, Place	Roy Wayre – Markets Development Manager
Idea Store Watney Market	All assets within the Idea Store Watney Market should be included on the Inventory Register (whether electrical or non-electrical).	Judith St John- Head of Idea Stores	Shaw Rahman Khan – Idea Store Manager
Idea Store Watney Market	Inventory checks should be performed by an independent officer before December 2017.	Judith St John- Head of Idea Stores	Shaw Rahman Khan – Idea Store Manager
THH Unauthorised Occupancy	All policies and procedures should state a clear version history, to include information regarding:- - date when the document was last reviewed; - details of who reviewed and approved the document; and - confirmation of the next planned review date.	Neil Isaac – Interim Director of Finance,	Area Manager (Fraud lead) NHD South.
THH Unauthorised Occupancy	An unauthorised occupancy strategy should be implemented. The strategy should be presented for approval and agreed between LBTH and THH and cover both the identification and processes to tackle instances of unauthorised occupancy (whether this be by fraud or otherwise).	Neil Isaac – Interim Director of Finance,	Area Manager (Fraud lead) NHD South, input from LBTH Fraud Team.
THH Unauthorised Occupancy	Cases should be routinely reviewed on a monthly basis, with no gaps in action being taken wherever possible.	Neil Isaac – Interim Director of Finance,	Area Manager (Fraud lead) NHD South and LBTH Tenancy Fraud Team Leader.

Audit Subject	Recommendation	Service Head	Officer Name
THH Housing Insurance Claims	<p>The online and physical copies of the leaseholder and tenants handbooks should be updated with dedicated headings and details on the different claims processes in place for both, so that claimants are informed of the process before making a claim and so leaseholders are aware of the need to contact Ocaso directly. The process involved in making a claim should be detailed, without providing information which might encourage or facilitate dishonest or unfounded claims.</p> <p>The flowchart that has been produced should be made available on the website in order to help tenants and leaseholders determine the course of action that they need to take, depending on their personal circumstances. Further to this; in all sources of information available to the public, it should be noted that any claims for damages caused by contractors should be made directly to the responsible party, not to the Council or to THH.</p>	Neil Isaac – of Director Finance	Senior Housing Advisor
THH Housing Insurance Claims	<p>The CF1 form should be amended to improve the clarity and ease of use, by including an explanatory front page, and a process flowchart to explain the different courses of action they should take, the processes which THH and LBTH follow, and the timeframe in which they should receive responses.</p> <p>The CF2 form should be updated with detailed guidance for the inspectors, whether from housing or repairs teams, as per the expectations of the Insurance team. The completed CF2 forms should include a detailed inventory of the items damaged, corroborated against the details of the claim as per the CF1, with officers challenging or confirming the claims made, and ensuring that photographic evidence is obtained where required.</p> <p>Both forms should also include details to make clear that if a contractor is responsible for the damage, the claimant should contact them directly and that THH and LBTH should not progress the claim further.</p> <p>Distributing claims forms should be restricted to the Contact Centre staff, as they are trained in the insurance claims process.</p> <p>Management should consider providing training in the new process and forms to be implemented, in order to embed the changes.</p>	Neil Isaac – of Director Finance	Senior Housing Advisor



Audit Subject	Recommendation	Service Head	Officer Name
THH Housing Insurance Claims	<p>The LBTH Insurance Team and THH should formally agree and confirm the new insurance claim handling process to be put in place, and update and finalise the new procedure documents to support the process. These should be made available to all relevant officers at THH and LBTH, and briefings should be held to update staff on the changes to the process. The template letters in place for housing insurance claims should also be updated to match the new procedure, and the date and time of the appointment booked should be confirmed via letter.</p> <p>The procedure should be reviewed following a trial period in order to establish the performance of the new process, and to determine whether any further changes are required. The information available to tenants and leaseholders should be updated to reflect the changes, in order to help prevent claimants coming to contact points without bringing the required information with them.</p>	Neil Isaac – of Finance	LBTH Insurance Services THH – Repairs Inspector and Senior Housing Advisor
THH Housing Insurance Claims	<p>Acknowledgement letters should be sent within two working days to claimants by THH once a completed CF1 form has been received. Claimants should be informed of the relevant contacts for their case at both THH and LBTH. Telephone calls should be used in the first instance in order to allow for timely and effective communications, with letters being sent following the calls, in order to confirm key information where necessary.</p> <p>The Northgate system should be updated by THH staff and contractors with all information as it is obtained, such that the claims process is not delayed by ambiguity (especially with regards to Decent Homes contractor work).</p> <p>The involvement of contractors should be established in the initial investigations, to prevent claims being progressed which should be directed to the responsible parties.</p> <p>Where claims are delayed beyond the LBTH Insurance team's internal target of 90 days, the claimant should be contacted to update them on the progress of their claim, and any reasons for the delay should be recorded.</p>	Neil Isaac – of Finance	Senior Housing Advisor

Audit Subject	Recommendation	Service Head	Officer Name
THH Housing Insurance Claims	<p>Performance reports should be produced by the LBTH Insurance Team and sent to the Head of ICT, Risk, and Contract Governance and the Customer Services Manager at THH, on a quarterly basis, to allow discussion and review of the performance. Regular meetings should be held to discuss the performance of the THH acknowledgement and investigation process, the LBTH claims process, and any issues identified.</p> <p>LBTH and THH management should establish what information is useful and relevant in order to facilitate this. It is recommended that the performance reports initially include details of new claims received, claims still open, and claims resolved in the recent period, the time taken to resolve claims, ratio of claims settled to those repudiated, reductions in pay-outs achieved, and details and analyses of customer complaints received, in addition to the information previously provided. Details of claims received relating to contractors should also be included, for discussion at the contractors meetings held by THH.</p>	Neil Isaac – Director of Finance	LBTH Insurance Services THH Senior Housing Advisor and repairs Inspector
THH Housing Insurance Claims	<p>A protocol should be evidenced, determining which parties are responsible for managing and coordinating claims relating to contractors, in order to prevent claimants being left without support by the Council and THH in dealing with any issues arising.</p> <p>Representatives of the LBTH Insurance Team should attend THH contractor meetings in order to address insurance claims, and provide performance information on contractor claims in order to identify any trends.</p>	Neil Isaac – Director of Finance	LBTH Insurance Services THH Senior Housing Advisor
Back Office Revenue, collection and Processing	On a weekly basis a second officer should review the weekly cash balances in a timely manner.	Roger Jones – Service Head, Revenue Services	M COULTER - Processing and Reconciliation Manager
Back Office Revenue, collection and Processing	It should be reminded that officers should always sign the postal order book at the time of inputting the information.	Roger Jones – Service Head, Revenue Services	M INMAN / M COULTER - Processing and Reconciliation Manager

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Audit Subject	Recommendation	Service Head	Officer Name
THH Management of Asbestos	THH should ensure that data is fully uploaded to Keystone, such that contractors can be encouraged to rely on the database without risk of false impression. Keystone log-in records should be used/reviewed to provide assurance that access is being made on a regular basis.	Neil Isaac – Interim Director of Finance	Head of Health and Safety Director of Asset Management is the main Duty Holder.
THH Management of Asbestos	A monthly report of all works orders and inspections should be developed and scheduled, with statuses and reasons cited, that will be sent to the Health & Safety Co-ordinating Group for follow up. This should be used to mitigate the risk of both work orders and post inspections being amended/cancelled and going unnoticed. Northgate security configuration should be reviewed and options provided to control access to asbestos post-inspections.	Neil Isaac – Interim Director of Finance	Systems & Data Manager
THH Management of Asbestos	The Asbestos Policy and Management Plan (including the planned inspections programme) should be completed in a timely manner and presented at the first available opportunity to the H&S Forum for approval. Reporting on the progress made against the agreed inspection programme should subsequently be communicated to senior management on a regular basis.	Neil Isaac – Director of Finance	Head of Health and Safety for Policy. Director of Asset Management as Duty Holder.
THH Management of Asbestos	As noted in Follow-Up Recommendation 3, the Asbestos Policy and Management Plan should be completed and presented to the H&S Forum at the first available opportunity for approval. On completion, the planned steps above should be taken to ensure that this document is adequately distributed and made available to staff.	Neil Isaac – Director of Finance	Head of Health and Safety responsible for Policy. Director Asset Management as Duty Holder.
THH Management of Asbestos	Each month, a team member should undertake an independent 10% sample check in respect of entries made to the Keystone System, to help ensure that input errors are corrected. Evidence of these checks should be maintained. The findings should be reported to the Head of Service as part of the Performance Management Framework.	Neil Isaac – Director of Finance	Health and Safety Team member.

Audit Subject	Recommendation	Service Head	Officer Name
Highways Repairs and Maintenance	It should be ensured that in accordance with the LBTH contract monitoring procedures and toolkits a set of clear KPIs and performance targets are developed	Roy Ormsby  Divisional Director, Public Realm	Liz Nelson  Interim Head of Clean and Green
Highways Repairs and Maintenance	Management reports should be produced on a periodic basis for senior management to enable them to make informed decisions.	Roy Ormsby  Divisional Director, Public Realm	Liz Nelson  Interim Head of Clean and Green

## List of Planned Audits Undertaken in 2016/17

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Law, Probity and Governance</b>		
Registrars Office Follow-Up	Extensive	TBC
<b>Corporate</b>		
Systems Review Compliance Function	Extensive	N/A
Business Continuity Planning and Disaster Recovery	Extensive	Substantial (Draft)
Acting Up and Honoraria Payments	Extensive	Limited
Staff Hospitality and Gifts	Extensive	Substantial
Control and Monitoring of DBS checks	Extensive	Limited
Control and Monitoring of Declaration of Interests	Extensive	
Transparency Code Compliance Follow Up	Extensive	Full
Declarations of Interests	Extensive	Substantial
Management of Efficiency Programme	Extensive	Substantial
<b>Adults Services</b>		
ESW Petty Cash Follow Up	Extensive	Limited
Public Health Contract Monitoring F/Up - Smoking Cessation	Extensive	Substantial
Public Health Contract Monitoring F/Up - Health Promotion Sex Workers	Extensive	Full
Public Health Contract Monitoring F/Up - Healthy Start Vitamins	Extensive	Full
Public Health Contract Monitoring F/Up - Health Trainers NW	Extensive	Substantial
Troubled Families Compliance Testing	N/A	N/A
Domiciliary Care Procurement	Extensive	TBC
<b>Children's Services</b>		
Adopting and Fostering Panels	Extensive	Substantial
Missing Children – Follow Up	Extensive	Substantial
ESW Petty Cash Follow Up	Extensive	Limited
Norman Grove Children's Home	Extensive	Limited
Norman Grove Follow-Up	Extensive	TBC
Youth Offending Service	Extensive	Substantial
Quality Assurance Systems for Child Protection	Extensive	N/A
Commissioning of Special Education Placements	Extensive	Limited
Watney Market Idea Store Follow-Up	Extensive	Substantial

<b>Schools</b>		
Arnhem Wharf Primary School	Moderate	Substantial
Bonner School - Bethnal Green	Moderate	Substantial
Globe Primary School	Moderate	Substantial
Guardian Angels Primary School	Moderate	Substantial (Draft)
Kobi Nazrul Primary School	Moderate	Substantial
Marion Richardson Primary School	Moderate	Substantial
Old Palace Primary School	Moderate	Substantial
Olga Primary School	Moderate	Substantial
Redlands Primary School	Moderate	Substantial
St Agnes Primary School	Moderate	Substantial
St Anne's Primary School	Moderate	Substantial
St Elizabeth Primary School	Moderate	Substantial
St Luke's Primary School	Moderate	Limited
St Mary and St Michael Primary School	Moderate	Substantial
St Matthias Primary School	Moderate	Substantial
St Peter's London Docks Primary School	Moderate	Substantial
St Saviour's Primary School	Moderate	Substantial
Stewart Headlam Primary School	Moderate	Limited
Thomas Buxton Primary School	Moderate	Substantial
Wellington Primary School	Moderate	Substantial
William Davis Primary School	Moderate	Substantial
Woolmore Primary School	Moderate	Substantial
Harpley Inclusion Support Centre	Moderate	Substantial
Beatrice Tate Special School	Moderate	Substantial
Phoenix Special School	Moderate	Substantial
Cherry Trees Special School	Moderate	Substantial
Stephen Hawking Special School	Moderate	Substantial
<b>Communities, Localities and Culture</b>		
King George's Trust – Mile End Park	Extensive	Limited (Draft)
Street Lighting	Extensive	Limited (Draft)
Penalty Charge Notices	Extensive	Substantial
CCTV Control Room	Extensive	Limited (Draft)
Watney Market Idea Store	Extensive	Substantial
Brady Arts Centre and Kobi Nazrul Centre	Extensive	Limited
Market Vouchers Follow-Up	Extensive	Limited
Licence Applications Follow-Up	Extensive	TBC
Poplar Mortuary Follow-Up	Extensive	Full
Trading Standards Follow-Up	Extensive	Substantial
Bancroft Library Archiving	Extensive	Limited
Parking Permits	Extensive	Limited

Waste Contracts – Procurement	Extensive	Substantial
Repairs and Maintenance of Highways – Follow Up	Extensive	Limited
Risk Management Follow Up	Extensive	Limited
Pay by Phone Follow Up	Extensive	Substantial
Mayrol Community Infrastructure Levy - FU	Extensive	Substantial
<b>Tower Hamlets Homes</b>		
THH Estate and Caretaking Management	Extensive	Substantial
THH Housing Insurance Claims Follow Up	Extensive	Limited
THH Leaseholder Service Charges Follow Up	Extensive	Substantial
THH Management of SLAs Follow Up	Extensive	Full
THH Programme and Project Management	Extensive	Substantial
THH Estate Parking, Sheds and Garages	Extensive	Limited (Draft)
THH Management and Control of Voids	Extensive	Substantial
THH Financial Systems	Extensive	Substantial
	Extensive	Substantial (Draft)
THH Housing Rents		
THH Sickness Management	Extensive	TBC
THH Risk Management	Extensive	Substantial
THH Bancroft TMO Follow-Up	Extensive	Substantial
THH Programme and Project Management Follow-Up	Extensive	Substantial
THH Unauthorised Occupancy Follow-Up	Extensive	Substantial
THH Specialist Repairs Contracts Follow-Up	Extensive	TBC
THH Corporate H&S Follow-Up	Extensive	TBC
<b>Development and Renewal</b>		
Economic Benefits	Extensive	Limited (Draft)
Property Buy Back Programme	Extensive	TBC
Planning Permissions and Approvals	Extensive	Substantial
Asset Disposal – Compliance Audit	Extensive	Substantial
Lettings	Extensive	Limited
Right to Buy Valuations	Extensive	Limited
Risk Management – Follow Up	Extensive	Substantial
<b>Resources</b>		
Back Office Revenue Collection and Processing	Extensive	Substantial
VAT Follow Up	Extensive	Substantial
Council Tax	Extensive	Substantial
NNDR	Extensive	Substantial
Creditors	Extensive	Substantial

Debtors	Extensive	Substantial
General Ledger	Extensive	Substantial
Pensions	Extensive	Limited
Staff Recruitment	Extensive	Substantial
HR/Payroll	Extensive	Substantial
Back Office Revenue Follow-Up	Extensive	Substantial
Emergency Grant Funding Follow-Up	Extensive	Limited
Revenue and Capital Budgetary Control	Extensive	Substantial
Payroll Account Reconciliations Follow-Up	Extensive	Substantial
Housing and Council Tax Benefit	Extensive	TBC
Procurement Category Management	Extensive	N/A
Pensions Statement Review	Extensive	N/A
Tracing and Enforcement Agencies – Follow Up	Extensive	TBC
Treasury Management	Extensive	Substantial
Control of C&D Income – Follow Up	Extensive	Substantial
Control of Photocopying and Printing Contract	Extensive	Substantial
Management of Procurement Waivers	Extensive	Substantial
Risk Management Follow Up	Extensive	Limited
Financial Assessments	Extensive	Limited



## **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 2016/17**

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 2017.

## **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 2016/17, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2016/17 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

### **Basis of Assurance**

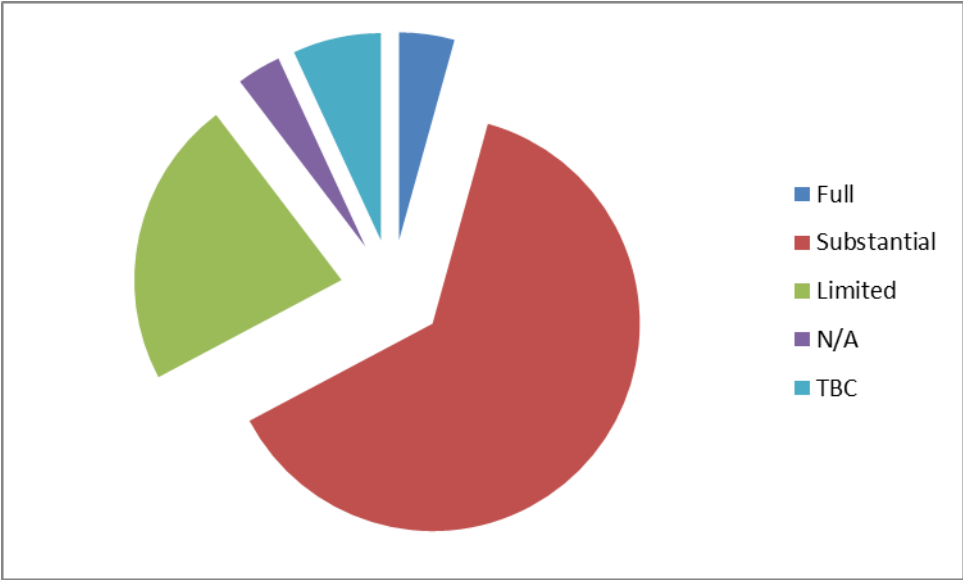
Audits have been conducted in accordance with the Public Sector Internal Audit Standards. The programme of work carried out during 2016/17 is at [Appendix 5](#).

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 2017 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted in 2016/17 are depicted in Graph 1 below. This shows that 67% of the systems audited achieved an assurance level of full or substantial assurance, whereas 22% of systems audited achieved limited or nil assurance. This is an adequate performance by the council. There are currently 8 audits (7%) in progress which have assurance levels yet to be confirmed.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. Given that 69% of priority 1 and 53% 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.

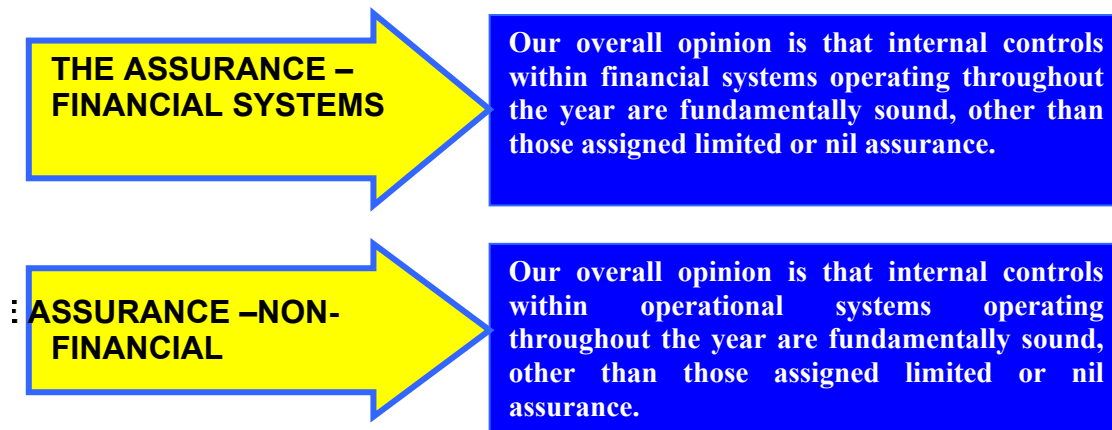
**Graph 1 – Levels of Assurance for 2016/17**



**2016/17 Year Opinion**

**Internal Control**

From the Internal Audit work undertaken in 2016/17, 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 2017 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 82-93**. 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 2017.

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 2017**

**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 2016/17 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 2016/17. Key issues included the following which had all been responded by management:-

**Control and Monitoring of Major Works**

Major works are large 'one-off' projects. Where works are carried out on buildings in which leaseholder properties are located, the leaseholders are liable for a proportion of the costs incurred. The objective of this audit was to provide assurance on the effectiveness and adequacy of the systems and controls THH has put in place for the management and control of Major Works.

Audit testing found a number of key weaknesses in the systems of control for management and administration of Major Works. Key weaknesses included the timely issue of statutory S20 notices; independent review of S20 notices before being sent to the leaseholders; consultation meetings not always being held in a timely manner; key policies and procedures not up to date and not reviewed; lack of co-ordination and information sharing between teams creating inefficiencies to achieve targets; Resident Liaison Teams not being aware of which flats in the blocks have not yet been surveyed by the contractor; and reports produced by the contractors did not indicate whether residents require additional support, due to any disabilities or other needs. In addition, issues such as target timeframe not being set for reviewing the leaseholder accounts regularly in order to identify the status of arrears; leaseholder arrears for major works

not being appropriately actioned for recovery on a regular basis; weaknesses in procedures by the contractor responsible for visiting the property to identify any vulnerable residents; severe delays were found in the implementation of the 2014/15 Major Works Programme such that, in all cases tested, the works were still not 100% complete and a practical completion certificate was yet to be issued. Finally, due to the delays in the practical completion of the 2014/15 Major Works Programme, final accounts could not be sent to the Quantity Surveyors for checking. We were also informed that none of the blocks under the Major Works Programme 2014/15 had been audited as the breakdown of the final accounts had not been received from various contractors.

### **Management Comments from THH Director**

*Revised consultation procedures are now in place. Closer working with the leasehold teams and joint meetings occur each week to ensure information is shared and up to date. Meeting with both teams take place every Wednesday.*

*The internal program is now completed. Block surveys are now undertaken for external major works only and these are now achieved via consultant surveyors.*

*The process for identifying vulnerable residents for major works has been reviewed. We have identified the need to include housing staff to provide the information before surveys. Those residents identified as vulnerable and requiring works will be individually assessed by THH staff using the MOLESD form which is/will be signed and dated in line with the procedure. Contractors will not be required to undertake this task.*

*Final accounts are being actively managed through to completion. Future programs will be smaller in scale and will be more closely managed. Consultants have been instructed to ensure paperwork is properly signed and action reports on contractor progress are provided every month.*

### **THH Corporate Health and Safety**

Tower Hamlets Homes (THH) is responsible for ensuring a safe and healthy workplace in accordance with the Health and Safety at Work Act 1974. A new accident reporting system has recently been introduced, supplied by the firm Santia. Health and safety compliance is monitored via dashboard reporting and meetings of the bi-monthly Health and Safety Forum which is used to discuss and monitor actions from previous meetings, recent issues, and forward planning. This audit covered the administrative buildings and facilities, but did not cover the inspections or reviews of rented and leased streets, grounds or properties for which THH is responsible (as these are covered by other audits previously undertaken or planned for the future, in dedicated audits such as Gas Installation, Water Tests, Highways, and Grounds Maintenance).

The main points reported by this audit were as follows:-

- A tracker spreadsheet is maintained to monitor the training courses that have been attended by all staff. However, the log is incomplete and it is therefore not possible to know whether all staff have attended the necessary training for their roles. In addition, it was not possible to ascertain whether the appropriate training has been undertaken by the appointed fire marshals and first aiders.

- There is currently no schedule of inspections in place and therefore inspections may not be carried out at the required regular intervals which may lead to failure to identify and prevent incidents. In addition, there is not currently any formal procedure for raising healthy and safety issues and no log is currently kept of all issues that have been raised, thus providing no means of tracking progress or following up these issues.
- It was seen that investigation forms had only been completed by managers for five of the 20 cases that were tested. It was confirmed that an accident log is currently kept. However, this is incomplete and is not up to date.
- It was confirmed that health and safety reports are only sent to the Board on an annual basis.

### **Management Comments from THH Director**

*Work is ongoing to develop the incident reporting system. A meeting has been held with Santia, the organisation collecting incident information and compiling reports to ensure a full understanding of contract agreement and service delivery.*

*Incident investigations have been included in the dashboard presented to the Health and Safety Forum and EMT. Entries have been made on News & Views to raise awareness to the important of incident reporting.*

*A paper was presented to the Executive Management Team in July 2016 outlining a new governance structure and work is ongoing to develop the structure. The Health and Safety Forum will remain the strategic lead for THH and risk-based directorate meetings will be set up, commencing October 2016 to manage health and safety at a local level. Thereafter, the Health and Safety Forum will meet three monthly and all meetings will be co-ordinated to allow Directorates to report upwards.*

*Special groups are being set up to ensure high risk areas such as Fire Risk Assessment and Asbestos are managed effectively.*

*The new style dashboard has been drafted and presented to the August Health and Safety Forum and will, subsequently, be presented to the EMT. This provides a higher level report.*

*An Improvement Plan for THH Health and Safety will be developed in time for the October Forum*

### **Establishment Control**

This audit was designed to review the systems and processes in place, in order to provide assurance around the effective management of the Council's establishment levels and to evaluate the potential consequences which could result from any weaknesses in internal control procedures.

The following key issues were highlighted by this audit:-

- There is no requirement for service managers to review their establishment lists on a monthly basis and notify HR of any amendments required.
- A review of the establishment list obtained for March 2016 confirmed the concerns raised over the usefulness and completeness of the data including the fact that there are 102 posts that are detailed as being vacant for four or more years but there are no further details as to why they have been long-term vacant.
- The data held on both the Council's establishment list and the Agresso system is not reconciled on a consistent and timely basis, and we identified a number of variances between the two systems, including unfunded posts being present on the establishment list which is contrary to the Council's Financial Regulations.



- There is a need for the data held on the Comensura system to be reviewed against the establishment list and for the Council to re-classify people who are paid through the Comensura system but should not be included within the establishment list.
- From a sample of 20 employees tested, we were unable to obtain evidence that access approval forms in respect of the ResourceLink system had been completed in five cases.

**Management Comments from Interim Service Head, HR and WD**

*A Project Officer has been commissioned to lead on the resourcing, establishment validation and data cleanse project as part of the One HR programme of service improvements. Work has already commenced on establishment cleansing and reconciliation of the data held by both HR and Finance within the respective Resourcelink and Agresso systems with the involvement of managers to ensure accuracy of data. Additionally, the project includes reconciliation between the Comensura system and establishment lists. The project is a standard agenda item at the monthly One HR Programme Board where its progress is monitored. This project will be completed by 31<sup>st</sup> March 2017.*

*Concurrently, there is a review of employees within the HR Service who have approval to access and update Resource link and for whom the relevant approval forms will be completed.*

**Control and Monitoring of Lettings**

This audit was requested by the Chair of the Audit Committee. The audit involved an examination of the systems and controls in place for assessing, prioritising and approving applications to the Housing Register and the resulting lettings in order to ensure that decisions taken were in accordance with Council policy and statutory guidance. The Council's Housing Allocations Scheme and Lettings Policy were approved by the Cabinet on 10/04/2013 and progress against the Plan was subsequently reported to Cabinet in March 2015. Currently some 19,120 people were on the housing waiting list and for 2015/16, approximately 2,091 lettings had been made. A sample of 20 out of 121 lettings relating to LBTH during October to December 2015 was tested by Audit. The following issues were highlighted:-

- In determining the applicant's eligibility, only one proof of applicant's Identity was being accepted. This is not in compliance with the Council's lettings policy and procedures, which require two forms of identity proof.
- In 2 cases tested by Audit, management confirmed that these lettings did not meet the required standards and procedures as the applicants' eligibility and assessment could be open to challenge. Other case by case concerns identified by Audit were also referred to management for review.
- In 14 cases it was unclear what verification checks were being done on matters concerning overcrowding, home ownership, ASB and income over £85,000. Standard checklists were held on the system, but these were not adequate. There was no written guidance over verification checks to be made on the information given in the application form. Therefore, we could not provide assurance over the soundness of decisions reached.
- We could not establish complete audit trail in a number of cases. Therefore, decisions around determination of the applicant's eligibility, assessment and determination of priority groups were found to be not fully supported by valid evidence.
- There were no systematic management checks, reviews and monitoring, to provide assurance that policy and procedures were complied with by staff.
- We noted that the risk of fraud, irregularity and corruption in the lettings process had not been identified and assessed within the Team Plan. Consequently, controls to mitigate

these risks have not fully documented and it is possible, that fraudulent and irregular applications are processed and made eligible.

### **Management Comments from the Interim Service Head, Housing Strategy, Regeneration and Housing Options**

*Housing Options (Lettings) management have taken on board the findings of the Audit Report which has identified some good practices, and weaknesses which are being addressed. Most of those recommendations have either been implemented or are in the process of being implemented, including the following:*

*Detailed comments were provided to Audit on the specific cases and issues identified as part of this audit; also procedures and processes including standard letters which have been updated. Letters to housing applicants now require two forms of ID to be provided, one of which must be a photo ID.*

*Application checklist on Comino which has to be completed each time an application is made active has been updated. Staff have to now also confirm that they have checked whether an applicant is a homeowner, earns an income of more than £85K, and is guilty of bad behavior. Proof of ID and other important documents from One Stop Shop are being checked to make sure they have been duly certified by OSS staff. One Stop Shop manager has been reminded of this requirement. The revised housing application form is with Reprographics and incorporates recommendations made by Audit relating data sharing and other comments received from staff and housing association partners. Information has also been uploaded on the Homeseekers website reminding applicants of their obligations to be truthful.*

*The first round of spot checks, for cases offered and are active, will be started first week in December. A meeting has been set up for 11 January 2017 to discuss the findings with a view to improving processes and procedures further, as may be necessary. The draft procedure guide to complement the checklist staff have to complete has been circulated to Attainment & Assessment team and Applications & Admin team. The guide will be updated further if necessary, especially to address any issues identified from regular spot checks that will be carried out.*

*Staff have all completed their declaration of interest, and will form part of the induction for any new starters. The Lettings Team Plan has been updated and incorporates action to detect and prevent fraud.*

*The Council's Lettings Service will ensure all the recommendations are fully implemented and will look to continuously improve its policies and procedures and processes to make sure it provides full assurance by audit standard.*

### **Management of Market Vouchers**

The Council operates 11 markets across the area, which is cumulatively open for 364 days each year. A separate trading account is maintained for the management of markets, and the Council does not contribute to the costs of the markets from central funding. Total income generated from markets fees and charges in the 2014/15 financial year was £2,487,878 achieving an overall net budgetary surplus of £5,547. A balanced gross budget of £2,314,000 was set for 2015/16.

The following main issues were reported to management:-

- Reconciliations are not signed and dated following completion and to evidence independent peer review. In addition, any differences identified are not always investigated by the

responsible officers and therefore lost income may not be identified and allocated appropriately.

- THEOs are required, during their daily enforcement visits to verify the identification of the traders and ensure Public Liability Insurance has been renewed (where previous cover has expired). Exceptions were identified in the operation of this process.
- Spot checks are not being undertaken to supervise the work of the THEOs.
- Policy and procedure documents in respect of the administration of market vouchers are either not signed or not dated by the reviewing officer; there is no version history control used. Future review dates/responsible officers are also not identified.
- The Controlled Stationery Sheet, which is required to be completed as and when a new box of vouchers is commenced and completed, is facing delays in its completion due to resourcing constraints.
- Vouchers sold in 2014/15 are still located at the Market Services Office and are yet to be archived. These should have been archived in April 2015.

### ***Management Comments from Service Head, Public Realm***

Following a number of staff being absent from the workplace for a considerable time, staff have now returned and the markets structure in a more sustainably working position. The service is also under review looking at operational practices and procedures which will result in restructuring of the service.

Therefore with the increase of staffing level, the appointment of an interim manager and deployment of a team leader, THEO supervision is taking place on a more regular basis identifying poor working practices and placing in corrective measures.

### **Troubled Families Grant Verification**

In April 2012, the Government launched the Troubled Families Programme: a £448m scheme to incentivise local authorities and their partners to turn around the lives of 120,000 troubled families by May 2015. The first programme worked with families where children were not attending school, young people were committing crime, families were involved in anti-social behaviour and adults were out of work. In June 2013, the Government announced plans to extend the Troubled Families Programme for a further five years from 2015/16 and to reach up to an additional 400,000 families across England. Aiming to target nearly 4,000 families in Tower Hamlets, the borough has been provided with a budget of £2,072,145.

The main issues identified by this review were as follows:-

- Key Performance Indicators (KPIs) have not been produced since November 2014 and comparisons have not been made against the expected targets.
- When PBR claims have been independently checked they are not signed-off to evidence that this check is conducted by the said officer.
- Criteria six, 'Health' is currently not being used by the Troubled Families Team to make PbR claims.
- Terms of Reference (ToR) for the Operational Steering Group and the Strategic Programme Board were not fit for purpose.
- During testing, it was identified that two claims had been put through for assurance, however, due to lack of supporting evidence, this should not have been the case.
- There was insufficient evidence maintained of training undertaken by staff.
- Information from third parties is not screened for accuracy.
- There is no evidence to support that budget monitoring is undertaken by the Children's and Families Board.

### **Management Comments from the Service Manager, Youth Justice and Family Interventions.**

*This audit was conducted at the request of the Troubled Families Coordinator to test the manual data collection and evidence collection that the programme is still having to use in Tower Hamlets. This is due to significant delays in the development of an electronic data system. It is a condition of the national programme that any payment by results claims are audited on a regular basis. The programme team were under pressure to submit a PBR return and therefore the TF co-ordinator decided to test a small claim.*

*The audit process was very helpful in enabling the programme team to understand the breadth and depth of the programme demands. The process was very demanding because the programme team were working from static manual data rather than a live electronic system the two rejected claims were as a result of the fact that a time limited snapshot of data was accurate on the day of checking, but subsequent changes in the evidence ( over a matter of days) had been missed.*

*Trying to run the TF programme on a manual system is almost impossible without a significant increase of resources. The programme is at significant risk as result of a historical lack of vision and strategic vision and leadership at a corporate level.*

*There is a WPA in place that reflects the work currently focussed on procuring and developing an electronic data system. It is a very late development in year five of an eight year programme. The programme is at a critical stage and at high risk of failure.*

*The learning from this audit has been incorporated in the development of the data system. It is unlikely that the programme will be ready to submit another PBR claim for approximately 6 months other than employment claims that demand a lower level of evidence of family 'turn around'. The new data system will contribute to the evidence needed in approximately 6 months. An external facing expert has been involved in the programme to advise and support the data system development on a pro bono basis. His expertise and advice has been invaluable to enable accurate planning and attention to risk.*

*The CEO will be receiving regular updates on the programme progress to enable to maintain sight of the programme risks.*

### **Management and Control of No Recourse to Public Funds - Children's Services and Adults Services**

No recourse to public funds' (NRPF) applies to migrants who are 'subject to immigration control', and as a result of this have no entitlement to certain welfare benefits, local authority housing, and homelessness assistance. 'No recourse to public funds' may be stamped on the visa of a foreign national living in the UK. Other groups of migrants who have NRPF include asylum seekers, refused asylum seekers, and migrants whose visas have expired.

The Council has a duty to provide support to those individuals who have No Recourse to Public Funds (NRPF) including providing accommodation to destitute adults and to safeguard and promote the welfare of children. The main concerns reported to Management were :-

1. Regular management information concerning NRPF such as caseloads and cases due for review is not regularly produced and escalated to management.
2. Of the 20 NRPF cases (both ASC and CSC) selected for testing, documentation was only provided in respect of the nine ASC cases. Consequently we are unable to provide assurance in respect of the CSC cases. For the ASC cases tested, a delay in the assessment was recorded

for four out of the nine cases. In addition, for all nine cases in which documentation was provided, none of the cases had been reviewed during the 2015/16 financial year.

3. The Council has not reviewed its NRPF subsistence rates to ensure they are appropriate and reflect current guidance.

The Council's NRPF policy and procedure documentation is not up to date and was last revised prior to the implementation of the Care Act 2014.

5. The cash office used for issuing NRPF subsistence payments has closed. A long term alternative method for issuing the payments had not yet been identified.

6. There are very few NRPF cases currently being administered by the ASC teams. As per current arrangements the Council's NRPF Panel only review the cases concerning the CSC Team but could look to include the NRPF cases assessed by the ASC teams to help ensure a more robust and consistent approach.

7. Delays have occurred with NRPF queries being communicated between the Council and the UKBA. A member of staff who would previously facilitate communication with the UKBA is no longer in post at the Council.

8. The Council has recently gained access to a portal through membership of the NRPF Network, but is not yet making effective use of the facility.

9. During the audit although budget information was provided by ASC, there was no indication that budget and performance monitoring information concerning NRPF for both ASC and CSC was being escalated through the appropriate reporting or governance structure.

10. No performance management information, such as caseload, is produced on a regular basis and reported through the governance structure.

***Management Comments from the: Service Manager for Adults Social Care and Service Head, Children's Social Care***

- 1- *Management information is available on a team basis and service areas are able to identify cases due for review. It is noted that there is a delay in conducting annual reviews across Adult Social Care. From a CSC perspective, Management Information is also available via monthly management information reports as well as from review on fwi (see comments below in relation to caseloads). As part of wider Quality assurance work that is being undertaken, a "Management Dashboard" is also being created for front line managers which will provide access to a suite of reports to facilitate review of team activities.*
- 2- *There is a delay in completing the annual reviews of all ASC cases which will include NRPF cases. Actions are currently being undertaken to reduce the period of delay. However, checks are in place to determine whether eligibility status has changed on a monthly basis when payments are collected by the Service User.*
- 3- *It is proposed that ASC adopts the No Recourse to Public Funds (NRPf) subsistence rates available through the NRPf portal which is managed by the LB of Islington. The rates are adopted across the majority of London Boroughs. Current subsistence rates vary across teams but the current recommended adult rate is £44pw.*

*A joint meeting has also taken place between CSC and ASC to review subsistence rates. It is proposed that a joint paper is prepared by Case Officer and Project Manager to present to DMT for agreement. The most recent guidance is dated 2011.*

*[http://towernet/staff\\_services/OneTH/services/20016/no\\_recourse/?view=Standard](http://towernet/staff_services/OneTH/services/20016/no_recourse/?view=Standard)*

*An updated version has been requested and colleagues in Legal Services will undertake this piece of work. This has been taken forward by the Community Engagement, Quality and Policy Manager, Policy, Programmes and Community Insight Service.*

4. *- Although the public facing cash office has closed, a back office function is still available to ASC and facilitates the cash provision. The Finance team is considering the options relating to a prepaid card solution. From a CSC perspective, payments continue on a business as usual basis.*
5. *It is recommended that both DMTs consider the potential benefits identified by the audit of having a joint panel. An ASC Service Manager will attend a panel to observe. CSC concur with this approach.*
6. *The volume of NRPF cases in ASC is low in comparison with CSC. Minimal delays are currently experienced by officers in ASC but officers in CSC are prepared to offer support to their colleagues in ASC if required in these instances.*
7. *Staff in ASC are encouraged to utilise access to the portal and it is recommended that the Council apply the subsistence rates as set out. From a CSC perspective, now that the IT issues are resolved and access for staff has been widened effective use is being made of NRPF Connect to expedite information re Service Users status and to increase the timeliness of completing assessments.*
9. *It is recommended to DMT that the monthly performance reports provided are commissioned to include activity and spend relating to NRPF. CSC concur with this.*
10. *From a CSC perspective, caseload activity is extrapolated from fwi. A Workload Weighting Matrix is also in place for the Assessment and intervention team where individual workload of team members (including the S/W for NRPF). All allocated Assessments are also regularly reviewed using the LBTH Assessment tracking tool that is sent to managers on a daily basis. All allocated cases (NRPF) are subject to regular review mechanisms with line management.*

## **Control and Monitoring of Disclosure and Barring Service (DBS) Checks**

The objective of this audit was to provide assurance that there were sound systems in place within the Council for controlling, monitoring and managing DBS checks on employees who are required to have this clearance.

The Council's policy and guidance for managers of posts requiring DBS disclosure has been publicised on the Intranet. Through E-Bulk system, real time information is available to Human Resources (HR) Advisors for checking every employee requiring DBS and the status of the DBS check. The Human Resources and Workforce Development (HR and WD) Service provides monthly reports to Service Heads setting out the status of DBS checks for each employee that requires one. We highlighted a number of control weaknesses including the following issues:-

- Our review showed that a comprehensive database of all posts requiring DBS Checks was held within HR Resource Link system. However, a number of inconsistencies were reported, which needed to be addressed when the Establishment List is programmed for a review.
- The carrying out of risk assessments when disclosures are made is the responsibility of the line manager. From testing of 23 DBS certificates with disclosures, we identified delays of up to twelve months from the date the DBS Disclosure was received by HR to

the date HR notified the line manager to review the employee's DBS Disclosure to determine whether a risk assessment was required.

- The processes and controls for undertaking, recording and approving risk assessments by Directorate officers and notifying the results to HR promptly needed to be improved and strengthened to ensure that service users are adequately safeguarded under all circumstances. The quality of risk assessments required improvement and appropriate checks needed to be carried out by HR.

### **Management Comments from Interim Service Head, HR and WD**

*The HR Service maintains a comprehensive database of all posts that require DBS checks including the level and type of check. This database is held within HR Resourcelink (the HR and Payroll System) and details DBS information for every employee whose post has been deemed to require a DBS check by the relevant Divisional Director. The HR Service notifies the employee when their three-yearly DBS check is required in accordance with Council policy and records the results of the DBS check on receipt within Resourcelink.*

*Monthly management information reports are produced by the HR Service for Divisional Directors detailing those DBS checks in date, DBS applications undertaken, DBS checks approaching expiry (within 4 months) and those where employees have not arranged to visit the HR Service, on notification, for their ID verification and for the eBulk process to be progressed to obtain an up-to-date DBS check. If an employee who is required to renew their DBS check does not engage in the process they may be subject to disciplinary action which could include suspension from work.*

*DBS certificates are provided directly by the DBS to the applicant with the council receiving reports from the DBS notifying as to when a DBS check includes disclosure information which needs reviewing by the Line Manager. Where there is notification that there is a disclosure, the HR Service emails the line manager and the HR Business Partner to advise them that a risk assessment must be carried out.*

*A new risk assessment process has been implemented whereby dates of receipt of a disclosure are logged on Resourcelink to enable the tracking of progress for a risk assessment to be completed and relevant documentation submitted for uploading onto the system. The risk assessment forms will be maintained centrally and securely by the HR Advisers Team Leader who will ensure that all risk assessments are completed within a four week period of notification of disclosure. If the completed risk assessment is not submitted to the HR Advisers Team Leader within the four week period, the HR Advisers Team Leader will escalate to the relevant Divisional Director for notification. If a risk assessment is not completed, the Corporate Director/Divisional Director will be notified of the non-compliance by the manager which may lead to disciplinary action.*

*Only in exceptional circumstances can an individual commence work/or continue in their role without the full results of the DBS Disclosure being known and this can only be authorised by the Divisional Director, in consultation with an HR Business Partner. This must only be in situations where there is an urgent need to maintain service delivery and all reasonable steps have been taken to protect the safety of service users. Reasonable steps to protect service users include;*

- *not allowing unsupervised access to children or vulnerable adults,*
- *allowing the applicant to start work in an alternative post or shadowing other employees.*

*A waiver form, available on the intranet must be completed in ALL situations where an employee is allowed to commence/continue to work without knowledge of the outcome of a DBS check. This must be reviewed by the Line Manager at least monthly until the outcome of the check is received.*

*Completed Risk Assessment Forms are held centrally and securely within the HR Service with access to the information being strictly restricted, controlled and limited to those who are entitled to see the information as part of their duties.*

*An establishment validation exercise is currently being undertaken in which managers will confirm whether a DBS check is required for every post in their team. If a DBS check is required managers will confirm the level of check. On completion of the review, the HR Service will verify the information on DBS eligibility submitted by directorates so that each post is consistent in terms of the same DBS check level.*

*DBS policy and guidance is available for managers on the council's Intranet. The existing guidance has been reviewed to ensure it is in line with the current DBS Code of Practice and takes into account the recommendations made in the Ian Mikardo report as well as including the eBulk (electronic) process. The DBS Risk assessment form has been amended and incorporates a risk assessment methodology.*

*The guidance for managers on DBS checks has been strengthened to provide advice to managers on making decisions using disclosure information. Additionally, a risk assessment process for dealing with disclosures has been produced which incorporates guidance on the following areas:*

- *Receipt of an unsatisfactory disclosure;*
- *Conducting a risk assessment meeting;*
- *Factors for management consideration when making a decision*
- *Risk assessment decision-making*
- *Roles and responsibilities of managers and HR within the risk assessment process*

*Two new DBS Risk Assessment forms have also been produced to accompany the guidance within which the determining manager will:*

- ✓ *Register details recorded on a DBS certificate if a risk assessment has previously been completed and is held on file;*
- ✓ *Record details if a new disclosure has been recorded on a DBS certificate for which there is no information held on file*

*This guidance will be published once the contents have been considered by the Corporate Safeguarding Board on the 16<sup>th</sup> March 2017.*

*Guidance has also been produced which sets out the roles and responsibilities within the HR Service on receipt of a disclosure. This guidance includes the recording of receipt of a disclosure, monitoring the progress of decision-making by managers and the recording of the final outcome on receipt of a completed risk assessment form which will be retained securely and confidentially by the HR Advisers Team.*

## **Management of Parking Permits**

This audit sought to provide assurance to management that the systems for controlling, monitoring and issuing of all types of parking permits were sound, secure and adequate.

From our testing of a sample of twenty parking permits for residents, business and contractors permits, we highlighted the following issues which weaken the control environment in this area and increases fraud risk.

- Our review showed that a clear policy framework and scheme of delegation for officers setting out authority parameters within which to administer and issue parking permits was not in place. Although required by procedures, the management checks and audits carried out on parking applications were not effective.
- Our review of the terms and conditions for parking permits showed that there was no proper structure and that these were lengthy and loaded to capture a number of different situations emerging over a period of time rather than meeting specific business



objectives. In addition, the eligibility criteria and the documentary evidence required to support permit applications were not stringent enough to manage the risk of fraud, error and abuse. Testing identified permits were issued to ineligible applicants.

- There was no verification of online permit renewals and reproofing of documents for longstanding permits, which increased the risk of permits issued to ineligible applicants.
- Testing showed that necessary checks were not undertaken to ensure the validity of the application and the supporting documents for multi-parking permits.

### **Management Comments from Service Head, Public Realm**

*There is currently a review taking place of all policies with parking, and they will be presented to the Mayor for discussion over the next few months. There is also a review of the structure within parking, which will take account of the comments made in the report.*

*All the findings will be taken into account as part of the reviews, but any processes that we feel need to be brought forward will be prioritised to ensure robust systems are in place.*

### **Financial Assessments**

Financial assessments are undertaken for all persons in placements where care is required. A Financial Assessment is required to take place when an individual first enters into a placement as well as on an annual basis thereafter, at the start of each new financial year, as obligations for charging may differ if circumstances change. The audit was designed to provide assurance to management as to whether the systems of control around the Financial Assessments system are sound, secure and adequate. The following key control issues were highlighted:-

- There was no clear directive from the Council about the course of action that will be taken when a client fails to disclose. Some assessments were therefore completed on previous declarations which did not account for any new changes in income because clients failed to submit revised benefit statements.
- The scope for conducting any reconciliation of the care placements awarded against evidence of the financial assessments completed is entirely limited to the local Private and Voluntary (P&V) database currently used by the Financial Assessment Team, but which was due to be disbanded following the introduction of the Framework Financial Assessment module (a corporate decision). Therefore, it has not been possible to provide assurance that the Council is in a position to transparently identify any instances where it may be losing income through an inability to confirm exceptions where social work practitioners do not request financial assessments to be performed.
- Policies and procedures did not state a date of creation or an expected review timeframe by way of version history. It could also not be confirmed that the policies and procedures had been formally approved.
- Formalised Key Performance Indicators (KPIs) were not produced and monitored in relation to financial assessments.

## **Procurement and Contract Management/Monitoring Compliance**

Audits on the Council's arrangements for procuring and monitoring of various contracts found that effective monitoring of compliance with procurement and contract monitoring procedures was required at Directorate and Corporate level to make the compliance and the category management functions more effective. During audits of various systems such as Right to Buy Valuations, Record of Corporate Director's Actions (RCDA), Treasury Management, Purchase Cards, Domiciliary Home Care and CCTV functions, it was found that various procurement non-compliance issues were not being identified promptly by either Management as first line of defence or various compliance functions as second line of defence. In addition, the procedures for tender evaluation and arrangements for managing, monitoring and reporting of the successful delivery of community and economic benefits needed to be improved.

The above matters have been raised in the Annual Governance Statement which includes an action plan to improve governance in this area.

## **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

## **Ofsted Inspection**

An inspection of services for children in need of help and protection, children looked after and care leavers and a review of the effectiveness of the Local Safeguarding Children Board was carried out in January and February 2017 and the final report issued in April 2017. The report rated Children's services in Tower Hamlets as inadequate. A copy of the report can be found at

[https://reports.ofsted.gov.uk/sites/default/files/documents/local\\_authority\\_reports/tower\\_hamlets/051\\_Single%20inspection%20of%20LA%20children%27s%20services%20and%20review%20of%20the%20LSCB%20as%20pdf.pdf](https://reports.ofsted.gov.uk/sites/default/files/documents/local_authority_reports/tower_hamlets/051_Single%20inspection%20of%20LA%20children%27s%20services%20and%20review%20of%20the%20LSCB%20as%20pdf.pdf)

## **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 2016/17 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 2016. 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 and 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 2015/16 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 £317 compared with the comparator group average of £390 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 £606 against LBTH cost of £520, showing that the LBTH Audit service is relatively low cost as a whole.



<p><i>Non-Executive Report of the:</i>  <b>Audit Committee</b>          28<sup>th</sup> June 2017</p>	 <b>TOWER HAMLETS</b>
<p><b>Report of:</b> Zena Cooke - Corporate Director, Resources</p>	<p><b>Classification:</b>          Unrestricted</p>
<p><b>Corporate Anti-Fraud Team Investigations Update.</b></p>	

<b>Originating Officer(s)</b>	<i>Tony Qayum/ Sue Oakley</i>
<b>Wards affected</b>	<i>All wards</i>

**1. INTRODUCTION**

1.1 This report provides an update of the Corporate Anti-Fraud Team’s investigation work.

**2. RECOMMENDATIONS**

2.1 The Audit Committee is asked to note the contents of the report.

**3. BACKGROUND**

3.1 The Corporate Anti-Fraud Team (CAFT) is based within the Risk Management Service, and is led by the Corporate Anti-Fraud Manager.

3.2 There are four teams that make up the unit and each is led by a designated team leader. The Corporate Anti-Fraud team considers allegations of fraud, corruption and impropriety and focus on internal matters, contractual relationships and service provision that may be the subject of financial abuse. The team via its Team Leader is also the Council’s key contact for the National Fraud Initiative.

3.3 There is also a Social Housing Fraud investigation team that considers abuse of housing tenancy in the form of subletting, abandonment and false entitlement to housing allocation and more recently the integrity of Right to Buy applications and disposals. The team is partly funded by THH and offers a service to all Registered Providers in the borough. There is also a small Blue Badge team that is managed on behalf of Parking Services via a Service Level Agreement that considers the investigation of misuse and abuse of Blue Badges and persistent evaders of parking fines and undertakes pro-active drives with the Police to clamp down on misuse and other public facing

initiatives to protect the public and make better use of public assets. This team reports directly to the Corporate Anti-Fraud Manager.

- 3.4 The last team is the Intelligence Team that takes an overview with the Corporate Anti-Fraud Manager of trends and linkages between enquiries in order to take a more holistic approach to the investigation of abuse and where possible assist in improvement of systems through robust evidenced based Intelligence.
- 3.5 Each referral is profiled through internal systems interrogation to establish the provenance of an allegation/ management referral and to assist the early data gathering for an investigator to undertake an enquiry. The ability to undertake both internal and external data vouching is considered particularly helpful as it enables investigators to make more informed case management decisions and reduces investigation time because much of the required intelligence has already been gathered for them.
- 3.6 The Intelligence Team also provides support to other elements of the wider Anti-Fraud Team and Internal Audit / Insurance services.
- 3.7 Where necessary and appropriate the CAFT can draw resources from the Internal Audit Section as mentioned in their annual Audit Plan.

#### **4. CORPORATE ANTI-FRAUD TEAM CASES INVESTIGATED**

##### **4.1 Summary of activity during the period**

The table below summarises the activity of the CAFT for the financial year 2016 to date and highlights a number of notional savings valued at over £9 million.

<b>Activity</b>	<b>Fraud Proven 2016/17</b>	<b>Fraud Identified 2016/17 (£'s)</b>	<b>Fraud Proven 2017/18</b>	<b>Fraud Identified 2017/18 (£'s)</b>
Social Housing (inc Subletting, abandonment and false applications)	44	3,300,000	10	750,000
RTB	12	1,246,800	3	311,700
Parking Blue Badges Recovered	149	1,192,000	24	192,000



Housing Benefit (Legacy) Prosecution and Administrative Penalty	4	<b>600,000</b>	-	-
Prosecutions Corporate * See case studies below	3	<b>64,080</b>		
National Fraud Initiative 2014/15	Creditors, Pensions, Housing and payroll	<b>1,045,069</b>	New exercise commenced	
Parking Control Notices	56	<b>3,360</b>	5	<b>300</b>
Permits Cancelled	34	<b>272,000</b>	15	<b>120,000</b>
Total	-	<b>7,723,309</b>	-	<b>1,374,000</b>

## 5. **CORPORATE ANTI-FRAUD TEAM CASES INVESTIGATED**

- Sixty-five cases were examined within this period for investigative purposes.
- Seventeen cases were closed as rejected as unsuitable for investigation following initial evaluation by the Intelligence Team.
- Twenty-eight progressed to an investigation.
- Twenty more progressed to a very detailed investigation with each generating a substantial investigative report with expectations of management improvement to address significant issues. Six cases were either matters that required assurance as requested by senior management or which required an audit consideration where the balance of issues found tended to require system improvements and did not establish fraud or corruption issues. Findings from ten cases from the work undertaken by the service are outlined in Appendix A for consideration as they either raise governance issues or have generated criminal prosecutions and financial settlements or Proceeds of Crime applications.

## **6. FRAUD PREVENTION ACTIVITIES**

### **6.1 E- Learning**

- 6.1.1 The Risk Management service introduced an E-Learning programme that sought to enhance existing arrangements around awareness of the risk of Fraud and provided all staff and members with a short but focused programme that demonstrated how to identify key fraud risks and awarded a certificate if the multiple choice questions were answered correctly.
- 6.1.2 The course reaches the whole organisation, individual directorates, management and individuals and creates an enhanced awareness of the Council's anti-fraud policies and culture.
- 6.1.3 CAFT has continued to promote an anti-fraud culture and have delivered training in various forms to local teams and the wider audience through risk talks and presentations as part of borough wide risk presentations.
- 6.1.4 For example CAFT presented to Adult Services in June 2016 and undertook a Risk Management talk to the Council on the July 2016 which sought to focus specifically on the risk of fraud and the responsibility placed on management to mitigate fraud risk in the systems and procedures under their stewardship.
- 6.1.5 CAFT has engaged with the authorities Risk Champions forum to maximise the fraud agenda which was delivered in January 2017 and attended the Financial Conduct Authority in March 2017 to help develop greater awareness and risk identification particularly in the area of Social Housing and Right to Buy cases.
- 6.1.6 CAFT is also active member of the London Boroughs Fraud Investigation Group on sits on its Executive Committee and has worked closely with CIPFA on the Anti-Fraud landscape and future consideration to achieving universal values for fraud types thus enabling consistency in output valuation.

### **6.2 Right to Buy**

- 6.2.1 The number of Right to Buy applications continue to increase with tenants benefitting from the scheme's discounts of up to a maximum of £103,900.
- 6.2.2 With such significant discounts available to prospective purchasers there is an increased risk of fraud. In order to minimise this risk the Corporate Anti-Fraud Team have applied enhanced fraud prevention processes to all new RTB applications, including anti-money laundering questionnaires as well as financial and residential verification. This has meant that many applications having been referred to the CAFT have been reviewed and assessed and those applications have been either rejected or the applicant has withdrawn their application following due diligence reviews.

- 6.2.3 In order to enhance the control environment we have worked very closely with the RTB team at THH and the Council's Legal Service which have adopted new practices and closer working. The resultant practices have encouraged THH to fund a post to be managed by the CAFT to act as a link between themselves, Legal Services and ourselves to embed improved procedures and undertake financial checks with our Intel team. The post is in the process of being recruited to currently.
- 6.2.4 CAFT has engaged with CASCADE the Mortgage lenders intelligence group and providers forum, following a presentation we delivered to the industry in October 2016 and played a key part in generating an SLA with the National Hunter mortgage vouching service.
- 6.2.5 CAFT has also engaged with the Solicitors Regulatory Authority to highlight poor practice with solicitors acting inappropriately and with Lloyds in mortgage lending review.

### **6.3 CORPORATE INVESTIGATIONS**

- 6.3.1 Corporate Investigations involve cases that affect the internal operations of the Council as mentioned in 3.2 above and relate to employee fraud or other third party fraud which does not necessarily fall within the other services the CAFT covers. Examples of the range and depth of these reviews are contained in the sample cases shown in Appendix A.
- 6.3.2 It is intended to provide regular updates on the team's activity several times during the municipal year.

## **7 COMMENTS OF THE CHIEF FINANCE OFFICER**

- 7.1.1 This report provides an update on the Corporate Anti-Fraud Team's investigation work for the financial year 2016/17 to date.
- 7.1.2 There are no specific financial implications emanating from this report. The report however highlights a number of notional savings valued at over £9 million as a result of successful investigations leading to prosecution in some instances, system improvements and facilitated future preventative measures that will be put in place.

## **8 LEGAL COMMENTS**

- 8.1 This report advises of the work of the Anti-Fraud Service undertaken between the financial year 2016/17 to date including enforcement Investigations.
- 8.2 Where the Council takes enforcement action as a result of an investigation then it does so in accordance with the Council's Enforcement Policy. The Enforcement Policy provides that the Council's approach to enforcement is founded on firm but fair regulation, around the principles of:

- **raising awareness** of the law and its requirements
- **proportionality** in applying the law and securing compliance
- **consistency** of approach
- **transparency** about the actions of the Council and its officers
- **targeting** of enforcement action

8.3 The Council is required when exercising its functions to comply with the duty set out in section 149 of the Equality Act 2010, namely to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity between those who share a protected characteristic and those who do not, and foster good relations between those who share a protected characteristic and those who do not. An equality analysis was conducted prior to approval of the Enforcement Policy by Cabinet on 3 October 2012. It is recognised that Enforcement action may lead to indirect discrimination in limited circumstances but prior to taking any proceedings, an assessment as to whether the case meets the two stages in the Code for Crown Prosecutors is undertaken so that there is both a realistic prospect of a conviction and that it is in the public interest to prosecute. Further, proceedings are kept under review once initiated.

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

9.1 This report highlights risks arising from exploitation of assets for personal gain. The ongoing management of risks through enhanced vouching and control will assist so that effective governance can be put in place to manage the authority's exposure to risk.

## **10. ANTI-POVERTY CONSIDERATIONS**

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

## **11. RISK MANAGEMENT IMPLICATIONS**

11.1 This report highlights risks relating to the coverage of Anti-Fraud within the Council and the arrangements to respond to allegations of Fraud and Corruption. It demonstrates how the Council is responding to potential risks to the control framework that may be exploited by fraudsters.

## **12. SAGE**

12.1 There are no specific SAGE implications.

### **13. CRIME AND DISORDER IMPLICATIONS**

13.1 By having sound systems of control, the Council can safeguard against fraud and abuse of financial resources and assets.

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

##### **Linked Report**

- NONE.

##### **Appendices**

- Appendix A – Findings from ten cases as they either raise governance issues or have generated criminal prosecutions and financial settlements or proceeds of Crime applications

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

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

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

- NONE

##### **Officer contact details for documents:**

N/A

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## Appendix A

	<b>Date of Report</b>	<b>Case Description</b>	<b>Work Undertaken / Findings</b>
<b>1</b>	May 2016	<p><b>Third Sector Grant Matter</b></p> <p>Commissioners requested funding be agreed subject to a satisfactory audit being carried out on a particular third sector organisation to provide assurance to the Authority and Commissioners that their funding was being properly utilised.</p>	<p>In order to evidence this, the review sought to provide assurance that the expenditure committed by the organisation was in keeping with the offer and agreed financial award.</p> <ul style="list-style-type: none"> <li>• Our examination included a site visit and examination of paperwork. We found that the paperwork supplied by the organisation did not sufficiently satisfy the requirements. Council officers claimed that they had seen further paperwork that had not been copied.</li> <li>• However prime documentation from the organisation supported that the payments made had been used for the intended purpose.</li> </ul>

### **Results/Outcome**

The award was agreed however, we recommended in the report issued that Mainstream Grant officers ensure an adequate audit trail of paperwork is retained which can be independently verified.

	<b>Date of Report</b>	<b>Case Description</b>	<b>Work Undertaken / Findings</b>
<b>2</b>	May 2016	<p><b>Third Sector Grant Matter</b></p> <p>The Service Head Community Services, commissioned an examination into Third Sector Organisations that were either commissioned by or funded by the Youth Service from award of grant or direct payments.</p>	<p>The review highlighted a number of corporate governance issues that required addressing in order that the Councils control environment around supplier adoption, parent companies and trusts have greater scrutiny through the monitoring process both by the Procurement team and grants officers.</p>

**Results/Outcome**

A briefing paper was issued recommending senior management take action to enhance monitoring arrangements over the grants process.



	Date of Report	Case Description	Work Undertaken / Findings
3	April 2017	Concerns were raised internally regarding the provision of family intervention services by a specific company (the company) and how the activity was procured.	<p>A detailed investigation was undertaken. The following was found:</p> <ul style="list-style-type: none"> <li>• Payments of £326,188.26 were made to the company over a 3 year period without any appropriate authority or mandate to do so</li> <li>• The company had been set up by a member of staff and a manager who viewed it as a 'sister company' and they considered it to be a social enterprise.</li> <li>• No procurement process was followed to award a contract and no contract was in place between LBTH and the company</li> <li>• No Record of Corporate Directors Approval (RCDA) was approved and no noting report taken to Cabinet.</li> <li>• There were no records of any formal decision made by LBTH to set up a Social Enterprise.</li> <li>• Poor communication between key departments was a significant contributor to this situation.</li> <li>• Lack of a clear, auditable document trail with regards to the RCDA application</li> <li>• There had been a clear breach of Financial Regulations, either by ignorance or design.</li> </ul>

#### Results/Outcome

The investigation identified that the payments were potentially 'ultra vires' as they were made without appropriate authority or mandate given the following factors:

A series of recommendations were issued and agreed by management to resolve the current situation and improve the control environment

A disciplinary investigation is underway to establish any staff responsibility.

	Date of Report	Case Description	Work Undertaken / Findings
4	July 2016	Allegations by an external Whistleblower that payments were being made to a 'charity' (the entity) that no longer exists. The payments were related to Adult Social Care provision.	<p>A detailed investigation was undertaken. The following was found:</p> <ul style="list-style-type: none"> <li>• The entity is not a registered charity. Neither was it a Limited Company registered with Companies House. It was originally established as a charity in 1990 but de-registered in 2000. However that did not mean that it could not legally trade or employ staff. The contract that Tower Hamlets has with the entity, originally set up in 1995, does not make it a requirement for it to be either and as such the entity cannot be in breach of contract by virtue of not being a charity.</li> <li>• The invoices provided by the entity still carried a charity registration number. This was reported to the Charity Commission to investigate. Notwithstanding this, had LBTH known that the entity was no longer a charity it is unlikely to have made any material difference to the care arrangements for the entities sole client, a severely disabled woman.</li> <li>• The contract between the entity and LBTH, sets out clearly the framework for payment and this has been adhered to during the life of the contract. There was only one area where potentially LBTH may have been minimally overcharged. It was recommended that Adult Services explore the possibility of recovering these funds.</li> <li>• Adult Services have carried out a review of the care arrangements of the entities sole client, a severely disabled woman, and are satisfied that the client receives adequate care.</li> <li>• Some evidence of poor financial management was established within the entity with taxation issues raised also. The nature of the contract gives LBTH no power to intervene in these matters. With limited power to investigate further we cannot determine whether the finances of the entity have been managed effectively or not. We have referred the tax matters to HMRC for further investigation.</li> <li>• There is no evidence of any fraud to which LBTH has been the victim. The client has received adequate care.</li> </ul>

			<ul style="list-style-type: none"> <li>• Adult Services have reviewed all other payments made in respect of care plans and they have found no other arrangements, across the borough, set up on the same basis as this entity.</li> </ul>
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**Results/Outcome**

A number of recommendations were made to resolve the current state of affairs and improve the control environment.

Adult Services terminated the legacy contract and put in place a Direct Payment to regularise the provision of care to the client and provide adequate monitoring arrangements.

Reports were made to HMRC and the Charity Commission for them to further explore the other matters.

All other care plans were checked to ensure that no other 'legacy' contracts exist.

	Date of Report	Case Description	Work Undertaken / Findings
5.	Dec 2016	Successful prosecution of a fraudulent social housing tenant who was also a public servant.*	<p>Following a referral from Newlon Housing Trust concerning a suspected was sub-letting and potentially doubts that this was not the tenant's main or principal home.</p> <p>In accordance with powers permitted by the Prevention of Social Housing Fraud Act 2013, we investigated the following areas-</p> <ul style="list-style-type: none"> <li>- Verification of ownership of properties through Land Registry documents</li> <li>- Investigated his bank statements to identify his employer</li> <li>- Checked which address they had on file for him. It was the property he owned not the one he was a tenant for.</li> <li>- Concluded his housing application was fraudulent.</li> <li>- His misrepresentation put him in a band that he was not entitled to – he would not have received a property if he had been honest.</li> </ul> <p>We established that he worked for another London Local Authority in the Housing service.</p> <p>We reviewed in detail his original circumstances upon which he sought to obtain Council Housing having made the application based on overcrowding. The Council sent him a housing review to ensure his circumstances had not changed.</p> <p>When asked if he had a legal interest in a property, he answered: Not Applicable. However since his original application for housing he had acquired beneficial interests in property which he kept concealed from the Council during his currency on the Housing Waiting List.</p> <p>Having gathered our evidence we worked jointly with Legal Services to establish the appropriate grounds to consider a prosecution.</p> <p>It was considered that he had committed a fraud against the Common Housing Register in that -</p> <ul style="list-style-type: none"> <li>• He didn't tell the council about the legal interests he held in property.</li> </ul>

			<ul style="list-style-type: none"> <li>• He jointly owned two properties by the time he was given a council flat.</li> </ul> <p>He was charged for failure to disclose his ownership of the property in Ilford, under the Fraud Act. Given the aggravating features of the offences the Council elected that the case be dealt with at the Crown Court. The case was sent up to the Crown Court where the tenant was arraigned. He pleaded not guilty to the charge. Following a number of hearings at Snaresbrook Crown Court he eventually changed his plea to guilty.</p>

### Results/Outcome

- On 13 February 2017, following legal arguments on the issue of the actual loss to the Council, and on hearing expert evidence from the author of "Protecting the Public Purse 2011", it was established that the figure of £18,000 as an annual cost to local authorities to house homeless families was a broad national average. The expert opined that in 2011, the rental for a 1 bedroom flat was £228 per week, and in 2016, the average rental for the same property was £287 per week.
- Also, on hearing evidence from the Council's Procurement Manager the learned Judge stated that he was satisfied that due to the tenants fraud a homeless family had to be housed by the Local Authority.
- The Judge stated that he had worked out the average rental at £260 per week over four years, the loss to the Council was £64,080.00.
- The tenant was sentenced to 16 months imprisonment. It was ordered that he serves 8 months in prison and be placed on licence for the remaining 8 months.
- On 17 March 2017, the tenant appealed against sentence to the Court of Appeal. Permission to appeal was granted on 11 April 2017.
- On 27 April 2017, the Court of Appeal, Criminal Division, considered the appeal and it was denied.
- In addition to the above he also left his employment at the other council with an unsatisfactory reference should one be requested from a future employer.
- This case was the subject of a recent BBC piece to be aired in the autumn.

	<b>Date of Report</b>	<b>Case Description</b>	<b>Work Undertaken / Findings</b>
6.	Dec 2016	Allegations of impropriety concerning Parking Services involving failure to maintain agreed working hours, purchases of equipment that may have been unnecessary, recruitment of resources that may have been historical links with management, inappropriate use of a Public Service permits and unnecessary use of consultants who hand links to management when opportunities were available for staff to be promoted to vacant posts.	<p>A detailed investigation was undertaken. The following was found:</p> <ul style="list-style-type: none"> <li>• The issue around transparency of hours worked and communication to the wider team were management issues and required addressing by the new Service Head.</li> <li>• .The acquisition of technology for the use of a senior officer fell within the remit of the new Service Head and therefore was referred as part of the reporting of this matter.</li> <li>• The recruitment of staff are governed by the councils HR procedures and while we found no evidence of abuse in the recruitment process itself for the posts filled, we did recommend that the Recruitment Standard and Guidance be revised to specifically require recruiting managers to disclose formally if any of the candidates are known to them in any context, including previous roles.</li> <li>• The allegation around the abuse of Public Service Parking Permits was considered and it was recommended that a full review be undertaken of all permits currently issued within the service to ensure appropriateness and compliance with the scheme of eligibility.</li> <li>• All permits needed to be properly controlled and monitored and allocated permits should be registration specific where appropriate.</li> <li>• A review of the arrangements in place for the management of agency and consultants was at draft stage at the time of our enquiries and much of what had been proposed picked up our concerns about these matters.</li> <li>• The arrangements for the recruitment of temporary staff and links to Council staff and assets was reviewed and found to be unsatisfactory.</li> <li>• The two staff involved in this matter left the Councils employ and in the case of the permanent staff member a disciplinary case was undertaken and the officer was dismissed formerly despite her resigning her post.</li> </ul>

**Results/Outcome**

A number of recommendations were made to resolve the issues raised by this examination all which were accepted by management.

	<b>Date of Report</b>	<b>Case Description</b>	<b>Work Undertaken / Findings</b>
7.	Apr 2016	Successful prosecution of an organised Benefit fraud involving DWP, LB Redbridge and LBTH. *	<p>We worked closely with the DWP Organised Fraud unit and London borough of Redbridge on an extensive fraud involving false pay details associated with EEA workers. The total value of the fraud was £1.6 million including £600k for LBTH, £578k for LB Redbridge and £420k in Tax Credits.</p> <p>For Tower Hamlets this meant 56 claimants for both Housing and Council Tax Benefit and the investigation identified three 'ringleaders' who were prosecuted at Snaresbrook Crown Court and sentenced in April 2016.</p> <p>We are continuing to work closely with the DWP Organised Fraud unit on other potentially concerning employers who may have falsified income records in the same way.</p>

### **Results/Outcome**

#### **Sentencing:**

The three accused were imprisoned for 5.5 years 3.3 years and 3 years respectively.

The resultant enquiries have been widely publicised and covered in a Case study by CIPFA in their Protecting the Public Purse.



	<b>Date of Report</b>	<b>Case Description</b>	<b>Work Undertaken / Findings</b>
8.	Dec 2016	Successful prosecution of a fraudulent social housing tenant who was also a public servant.	<p>Following an investigation into the misuse of a Blue Badge which resulted in a successful prosecution, by a then current employee of the Council, enquiries led to the investigation of an apparent sub-letting matter of the social housing property that she had with THH.</p> <p>Our enquiries showed that the property had been bought under the Right to Buy, but our investigation identified that the Leaseholder had never left any financial footprint at the address apart from a Gas record even when a tenant and that up to three other people had been registered there for credit purposes and on the electoral register.</p> <p>Bank records showed that monies were regularly being paid into her account and we concluded that there was sufficient evidence to seek Legal Services input into the potential for a prosecution case.</p> <p>The Legal Service concurred and a case was brought against her.</p> <p>The basis of our case was that the tenancy conditions had been fundamentally broken and that any subsequent sale was void.</p>

### Results/Outcome

The officer resigned ahead of the disciplinary case created by the successful prosecution for Blue Badge Fraud. The property issue was resolved also when the case was heard at Thames Magistrates Court on 23 June 2016. The former officer entered a plea of guilty. Prosecution facts were read and a plea in mitigation was conducted.

The defendant was sentenced in the following manner:

Work Order: 60 hours of unpaid work

Costs: £2,400

Compensation £8,000

Victim Surcharge: £ 60

TOTAL: £10,460

The issue of property recovery and settlement is currently being finalised.

	Date of Report	Case Description	Work Undertaken / Findings
9.	Oct 2016	Successful prosecution of a fraudulent social housing tenant who was also an elected official*	<p>Following an internal referral into the circumstances of a claim for a Single Person Discount award which appeared to be inappropriate an investigation was undertaken to establish the true circumstances of the occupation of the unit and associated activities.</p> <p>In accordance with powers permitted by the Prevention of Social Housing Fraud Act 2013, we investigated the following areas-</p> <ul style="list-style-type: none"> <li>- Verification of ownership of properties through Land Registry documents</li> <li>- Intelligence from credit agencies to confirm where he was living. It was the house he owned.</li> <li>- Investigated electoral nomination forms to confirm where he was living. It listed the house he owned.</li> </ul> <p>Findings-</p> <ul style="list-style-type: none"> <li>• He didn't tell the council about the legal interests he held in residential properties. (At paragraph 9 of the form headed 'Ownership of property' which read 'do you, or anyone listed on this form, own or have a legal interest in a residential property in the UK?' The tenant responded by ticking the 'no' box.)</li> <li>• He owned three properties by the time he was given a council flat.</li> <li>• He lied about his address on his housing application. The address given was owned by a relative and let out to other people.</li> <li>• The tenant gave as his reasons for applying 'overcrowded because he was sleeping in the living room. He stated that he needed a flat with adequate space for himself. In fact he was married and living at the martial home at the time.</li> </ul> <p>Having consulted Statutory Officers it was agreed that -</p>

			<p>His housing application was fraudulent.</p> <ul style="list-style-type: none"> <li>• His misrepresentation put him in a band that he was not entitled to – he would not have received a property if he had been honest.</li> </ul> <p>It was agreed that the matter would be submitted to Legal Services for consideration to prosecute. Proceedings were commenced and he was summoned to appear before the Thames Magistrates' Court on 9 December 2015, to answer to a charge under the Fraud Act for dishonestly failing to disclose to the Council his ownership of the properties. He pleaded not guilty to the charges.</p> <p>The tenant returned the unit back to the Council in February 2016.</p>

### Results/Outcome

#### Sentencing:

- After several appearances at Snaresbrook Crown Court, the tenant changed his plea to guilty
- On 27 October 2016, he was sentenced to 22 weeks imprisonment. It was ordered that he served half that time in prison and upon his release he was placed on licence for 12 months.
- This case was publicised in the media.

	<b>Date of Report</b>	<b>Case Description</b>	<b>Work Undertaken / Findings</b>
<b>10</b>	July 2016	Housing Benefit Legacy Case- Successful prosecution of a fraudulent Housing Benefit claimant.*	<p>This case related to an undeclared capital and asset matters. Following investigation and an interview Under caution, the case was referred to our Legal Service for consideration to prosecute under the prevailing Social Security legislation.</p> <p>The case was lengthy and protracted but ultimately was prosecuted successfully.</p> <p>A unanimous jury found the claimant guilty of five breaches to Section 111(1A) of the Social Security and Administration Act 1992 at Snaresbrook Crown Court on 22 July 2016.</p> <p>John Biggs, Mayor of Tower Hamlets, said: “We are committed to defending the public purse and ensuring that benefits go to those who legitimately need welfare support. “I am pleased that we identified and brought to justice this serious case of fraud.”</p>

### Results/Outcome

#### Sentencing:

The claimant was sentenced to 40 weeks imprisonment on each of the five offences, to run concurrently (8 months) and was ordered to pay the council's costs of £19,327.00. The judge ordered him to make the payment in full within 30 weeks.

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Non-Executive Report of the:  <b>Audit Committee</b>  28 June 2017	
<b>Report of:</b> Zena Cooke – Corporate Director Resources	<b>Classification:</b> Unrestricted
<b>Risk Management update</b>	

<b>Originating Officer(s)</b>	Minesh Jani
<b>Wards affected</b>	All wards

## 1. Summary

This report provides Members with an overview of the Council’s corporate risks. The report also provides an update on the corporate risk register since last reported in January 2017.

The report enables the Audit Committee to fulfil its role as set out in the Committee’s terms of reference item no.8 - to review the risk management arrangements of the authority.

## 2. Recommendations

2.1 The Audit Committee is recommended to:

- Note the corporate risks and recommend changes and updates as necessary;
- Determine if risks on the corporate risk register are a significant threat to the achievement of corporate objectives or the performance of activities to satisfy core statutory obligations; and
- Request risk owner(s) to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at a future meeting.

## 3. Background

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

it”.

- 3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit by reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, “Delivering Good Governance in Local Government”, which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control.
- 3.3 The council has developed a formal Risk Management framework and processes which are supported by the Risk Management and Audit team. This is part of the council’s corporate governance process and contributes to its compliance with Financial Regulations and Procedures as well as the Accounts and Audit Regulations 2015. It is also a key part of the council’s Annual Governance Statement which is approved by the Audit Committee in June each year.
- 3.4 The council recognises that it has responsibility to manage business risks and opportunities in a structured manner in order to achieve its corporate objectives and enhance the value of services it provides to the community.
- 3.5 The ongoing risk and assurance aims are:
- To give members and senior officers an understanding of the key risks facing the Council and its community, and to show how these risks are being responded to;
  - To implement and maintain a fluid process for the everyday management of risks relevant to our objectives, outcomes, services and assets;
  - To improve the Council’s risk management culture and transparent ownership of risks and issues; and
  - To continue to meet the requirements of our external auditor and compliance providers.

Risks are assessed using the Council’s risk assessment process, in terms of how likely a risk is to occur and what the consequences would be if they did. Based on that assessment risks are classified as follows:

- **Red (Severe)** indicates that the risk is very significant and requires immediate and comprehensive management attention;
- **Amber (Significant)** indicates that the consequences of a risk



materialising would be significant, but not disastrous. Some immediate action (but not as time critical) is required plus the development of a comprehensive action plan;

- **Yellow (Material)** indicates that the consequences of the risk are of concern although treating the risk will be through contingency planning;
- **Green (Low)** indicates the likelihood and impact of the risk relatively unimportant.

#### 4. Reasons for the Decisions

- 4.1 The report is brought quarterly to provide the Committee with an oversight of the authority's processes to facilitate the identification and management of the council's significant business risks.

#### 5. Background

- 5.1 The Audit Committee requires the Head of Audit and Risk Management to provide a regular report on the effectiveness of the process deployed to identify, assess, prioritise and mitigate the key risks which could affect the overall achievement of service objectives.

- 5.2 Corporate risk register

The current risk register contains a total of 13 risks rated as three red, seven amber and three yellow (see para 1.2 above for the risk definitions).

The table below is a breakdown of the number of corporate risks by directorate for quarter 1, 2017/18.

Directorate	8	9	12	15	20	25	Grand Total
HAC	0	0	1	1	0	0	2
CSD	0	0	2	0	0	1	3
PD	0	0	1	1	0	1	3
GD	1	0	1	0	0	0	2
Resources	1	1	0	0	1	0	3
Total	2	1	5	2	1	2	13

Table 2. The number of risks within each directorate by risk score.

Key: **HAC** – Health, Adults and Community directorate  
**CSD** – Children's Services directorate  
**PD** – Place Directorate  
**GD** – Governance directorate

## Resources – Resources directorate

### 6. Details of Report

6.1 The Council’s strategic priorities detailed within the Strategic Plan are as follows:

Creating opportunity by supporting aspiration and tackling poverty

- A dynamic local economy, with high levels of growth that is shared by residents.
- Residents in good quality, well – paid jobs.
- Children get the best start in life and young people realise their potential.
- People are healthy and independent for longer.
- Gaps in inequality have reduced and diversity is embraced.

Creating and maintaining a vibrant and successful place

- An improved local environment
- People feel safe and places have less crime and anti-social behaviour.
- Better quality homes for all.
- Communities are engaged, resilient and cohesive.

Working smarter together as one team with our partners and community

- An enabling and efficient council.

6.2 The table below shows the number of risks associated with these corporate priorities.

<b>Corporate Priority</b>	<b>Q1 2016/17</b>	<b>Q2 2016/17</b>	<b>Q3 2016/17</b>	<b>Q4 2017/18</b>
Creating opportunity by supporting aspiration and tackling poverty	5	4	4	3
Creating and maintaining a vibrant, successful place	1	2	2	2
A transformed council, making best use of resources and with an outward looking culture	3	5	6	8
<b>Total</b>	<b>9</b>	<b>11</b>	<b>12</b>	<b>13</b>

*Table 1. The number of risks identified by Corporate priority*

### 7 Current Corporate risks

7.1 A summary of the Council’s corporate risk registers is attached at Appendix 1. A detailed risk register is attached at Appendix 2, which sets out the nature of the risks and steps taken already to manage the risks and further actions

planned to improve the management of the risk. Finally, the dashboard at Appendix 3 sets out the heat map of the Council's corporate risks and performance information in respect of the risks.

## **8. COMMENTS OF THE CHIEF FINANCE OFFICER**

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

## **9. LEGAL COMMENTS**

- 9.1 The Council has a duty 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 by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 9.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **10. ONE TOWER HAMLETS CONSIDERATIONS**

- 10.1 There are no specific one Tower Hamlets considerations arising from the recommendations in this report.

## **11. BEST VALUE (BV) IMPLICATIONS**

- 11.1 The Council operates a risk management framework governed by a risk management policy to allow risk to be considered using a consistent model. The risk management cycle consists of the key steps for effective risk management which enables the Council to meet its best value duty to secure continuous improvement with regard to economy, efficiency and effectiveness.

## **12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 12.1 There are no specific proposals in the report contributing to a sustainable environmental action for a greener environment.

## **13. RISK MANAGEMENT IMPLICATIONS**

13.1 The report sets out arrangements for mitigating risks to the Council and actions taken to treat and eliminate identified risks.

**14. CRIME AND DISORDER REDUCTION IMPLICATIONS**

14.1 There are no specific 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 Corporate risk register
- Appendix 2 – Detailed risk register.
- Appendix 3 – Corporate risk Dashboard

**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

## Appendix 1 - Corporate Risk Register



Risk Ref	Risk Event	Current Risk Rating	Controlled Risk Rating	Risk Owner
DRCPCD002 <i>Corporate Level</i>	Failure to deliver new Civic Centre by end of the Mulberry Place lease leads to the need to deliver an alternative temporary office location	25	12	Rav Singh
CSD0016 <i>Corporate Level</i>	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.  There was an Ofsted Inspection Jan-Feb 2017 which found CSC services to be overall inadequate. The report stated that children and young people are being left in situations of harm and the DFE have issued directions to the borough. A Department for Education improvement advisor will also be identified to work with the Council to support the necessary improvement.	25	16	Debbie Jones
REV0007 <i>Corporate Level</i>	Impact on local income from appeals on the new local rating effective from 1/4/17.  On the 1/4/17 all business premises will have a new rateable value to reflect a more up to date economic valuation of their premises. All ratepayers have the right to appeal against their valuation and at the beginning of any new valuation list there is always a dramatic increase in the number of appeals by ratepayers and their agents. Traditionally the government sets the new multiplier higher in the first year of a revaluation to take into account the losses of income due to these appeals. If the multiplier is set too low, then LBTH will suffer losses of income as appeals are settled and reductions in RV are achieved.	20	10	Roger Jones
DRCPCD002 <i>Corporate Level</i>	Failure to confirm the Stage 2 Civic Centre client brief leads to the programme stalling and failing to meet its business case objectives.	15	8	Rav Singh
ASD0015 <i>Corporate Level</i>	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	15	10	Luke Addams
LPGSE0001 <i>Corporate Level</i>	Failure to achieve community cohesion. Radicalisation of young people and gangs	12	8	Sue Hayes
PR0001 <i>Corporate Level</i>	There is a risk that the Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed Christ Church Primary School's nursery building, which is built on a disused burial ground. (The basic premise of the challenge is that the school had no right to erect the building, and that it is unlawful to erect the building on a disused burial ground, and that it should be demolished.)	12	8	Roy Ormsby
ASD0017 <i>Corporate Level</i>	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response. (Corporate level risk)	12	4	Denise Radley
CSDSC0004 <i>Corporate Level</i>	Incidents of serious violence where young people known to or in the care (LAC) of the Local Authority are harmed or perpetrate harm in a community setting	12	12	Nikki Bradley

## Basic Risk Report



Risk Ref	Risk Event	Current Risk Rating	Controlled Risk Rating	Risk Owner
CSDSC0005 <i>Corporate Level</i>	Loss of resources as a result of a failure to reach target Payment by Results claims, resulting in loss of capacity to deliver the Troubled Families programme. Reputational risk of being the only Local Authority in England to be withdrawn from the programme.	12	9	Nikki Bradley
LPGLS0001 <i>Corporate Level</i>	Non-compliance with corporate governance procedures	8	6	Graham White
RSB0019 <i>Corporate Level</i>	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	8	8	Neville Murton
ICT-CT0010 <i>Corporate Level</i>	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs/	6	6	Peter Ransom

## Appendix 2 -Detailed Corporate Risk Register



Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
CSD0016	<p>Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.</p> <p>There was an Ofsted Inspection Jan-Feb 2017 which found CSC services to be overall inadequate. The report stated that children and young people are being left in situations of harm and the DFE have issued directions to the borough. A Department for Education improvement advisor will also be identified to work with the Council to support the necessary improvement.</p>	<p>Ofsted report indicated shortfalls in following areas across the service:</p> <ul style="list-style-type: none"> <li>Overall management oversight was weak.</li> <li>Non-compliance in core statutory and local requirements</li> <li>Absence of child care centred practice</li> <li>Key threshold decisions</li> <li>Risk assessment and Risk Management</li> <li>Children's plans and reviews</li> <li>Achieving permanence</li> <li>Drift, delay and escalation</li> <li>Supervision</li> <li>Staff development and competence</li> <li>Quality assurance and Performance Management</li> </ul>	<p>Harm to an individuals</p> <p>Children and young people being left in situations of risk and or unassisted harm.</p> <p>Poorer than expected outcomes for a child.</p> <p>Poor audit/review findings</p> <p>Reputational damage to the council.</p> <p>Loss of experienced professional staff.</p> <p>Potential for legal proceedings against the council leading to financial loss</p> <p>Loss of confidence in safeguarding capability across the council, partnership and wider.</p>	<p>Improvement Arrangements to respond to the Ofsted Report</p> <p>A Children's Services Improvement Board (CSIB) has been established to take forward the improvement work. This will meet every six weeks and will be chaired by an independent advisor appointed by the Dfe.</p> <p>An improvement plan has been drafted to reflect the recommendations detailed in the report and will be reviewed by Ofsted to ensure this is the case. The improvement plan is developing under four main headings which are:</p> <ul style="list-style-type: none"> <li>A robust model of social work practice</li> <li>A sufficient and skilled workforce</li> <li>Quality assurance and audit</li> <li>Leadership, management and governance</li> </ul> <p>The improvement plan is being implemented with robust oversight from the Children's Services Operational Group. reporting to the CSIB.</p>	5	5	25	Overview of level of violence and risk in families in Tower Hamlets <p>Given the number of critical incidents involving children and young people in Tower Hamlets over the last 12 months, it is proposed via the CMT Safeguarding Board that we update the JSNA on domestic violence and abuse as part of the annual assessment on community safety. The links between gang violence and violence in families will be explored as part of this analysis. The purpose will be to test the feasibility of a public health type specific reducing violence strategy across the borough. It will also enable CMT to consider the integration of the the many pieces of work going on within the council and across the wider partnership aiming to increase safety and wellbeing of clyp within a measurable framework.</p> <p><b>Debbie Jones</b> <b>Required Control Measure Target Date:</b> <b>30/08/2017</b></p> <p>Robust commissioning that includes safeguarding checks of providers</p> <p>This is in place including CSC joint monitoring visits. A new joint commissioning exec is in place to address an integrated commissioning partnership at the most senior level.</p> <p><b>Debbie Jones</b> <b>Required Control Measure Target Date:</b> <b>30/08/2017</b></p>	4	4	16	Debbie Jones	Creating Opportunity by Supporting Aspiration and Tackling Poverty		



Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Adherence to statutory government guidance, policies and procedures laid down by the council and LSCB / SAB Local Safeguarding Children's Board Statutory government guidance, policies and procedures in place. Management oversight including supervision is in place. Quality Assurance framework to check and audit various areas is in place.</p> <p>All the above are being revised as part of LBTH improvement plan</p> <p>Quality assurance systems including case audits, LSCB and SAB sub-groups. There is a new approach being taken to multiagency audits via the LSCB sub group and CSC are reviewing their QA framework with a view to achieve less process, more assurance and better feedback. There is an active internal audit programme that does pick up key areas of risk and challenge within safeguarding. The effectiveness of this system is a work in progress. CSC have an improvement plan which is being implemented which is being overseen by the Children Services Improvement Board and Operational Group.</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Effective working relations and swift communication across partnership agencies ....</p> <p>Effective working relations and swift communication across partnership agencies that is held at different levels of Children's services.</p> <p>LSCB has an executive board for Directors and Chief Executive Officer level across the partnership.</p> <p>Continue to implement Signs of Safety as overarching practice framework</p> <p>Signs of Safety is a well-established intervention which has some evidence of effectiveness. To strengthen the implementation of Signs of Safety in LBTH it has been agreed that it needs to be part of a wider practice model which includes systemic practice as clear Practice Standards.</p> <p>Training and development work is part of the CSC workforce strategy.</p> <p>LSCB and CSC has Quality Assurance systems in place.</p> <p>This should provide evidence and assurance to safeguarding board and partners that service is being delivered to expected standards, there are clear (proxy) indicators and where it is not so remedial action can be taken.</p> <p>As part of the response to the Ofsted inspection and subsequent improvement plan, the QA framework has been revised. The LSCB is reviewing its priorities and audit programme.</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Serious case review/learning process in place There has been a refreshed case alert process disseminated within Children Social Care, which feeds into the LSCB case review group. Any ongoing SCR work is held at service head level and a communication flow is done to the CMT Corporate Safeguarding Group, chaired by Chief Executive Officer.</p> <p>Safeguarding training programme in place covering induction and workforce development programme</p> <p>A back to basics training course is being developed and will be rolled out to all CSC staff in 2017 as part of the LBTH improvement plan.</p> <p>Staff complete the Health and Care professions Council (HPC) re-registration process every 3 years There is a process to pick up delays/failures in registration so action can be taken by managers.</p> <p>Review arrangements of looked after children and child protection is led by the child protection review service. This is a critical challenge role to children's social workers. There is ongoing work to improve the oversight and authoritative advice role.</p> <p>A new resolution process has been introduced and there is regular reporting of QA activities to CSC management team.</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				Ensure that CMT have a view of the activities within the service ..... Ensure that CMT have a view of the activities within the service and develop some assurance using the corporate accountability framework, risk register, management oversight, audit framework and Forward Plan. CMT safeguarding board is active. The Ofsted SEF document have been through DMT and to lead member. A new Inspection and Improvement Board has been set up.								
DRCPDC0 022	Failure to deliver new Civic Centre by end of the Mulberry Place lease leads to the need to deliver an alternative temporary office location	End of Mulberry Place Lease in June 2020 (or as otherwise negotiated)	Additional capital and/or revenue costs to ensure delivery of a Business Continuity office location	Business Continuity Plan decision timeline worked up and presented to CMT 30 Jun 15.	5	5	25	3	4	12	Rav Singh	A Transformed Council, Making Best Use of Resources and With an Outward Looking Culture

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
								Project Board - Priority Risk to be reviewed  WS-C (Business Continuity) work stream will work through Landlord negotiations. Project SRO has instructed searches into cost of alternative offices space in other locations, e.g. Canary Wharf.  <b>Rav Singh</b> <b><u>Required Control Measure Target</u></b> <b><u>Date:</u></b> <b>31/10/2017</b>							
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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
REV0007	<p>Impact on local income from appeals on the new local rating effective from 1/4/17.</p> <p>On the 1/4/17 all business premises will have a new rateable value to reflect a more up to date economic valuation of their premises. All ratepayers have the right to appeal against their valuation and at the beginning of any new valuation list there is always a dramatic increase in the number of appeals by ratepayers and their agents. Traditionally the government sets the new multiplier higher in the first year of a revaluation to take into account the losses of income due to these appeals. If the multiplier is set too low, then LBTH will suffer losses of income as appeals are settled and reductions in RV are achieved.</p>	<p>The multiplier for 2017/2018 not being set high enough to take into account losses due to appeals on the new local rating list effective from 1/4/17.</p>	<p>Loss of revenue generated from Business Rates. Impact of revenue loss on provision of services.</p>		5	4	20	<p>Draft new values available September 2017 when estimates can be made on income levels and value of appeals.</p> <p>We have set our level for the provision for appeals in line with Governments calculation of the additional element in the multiplier to take account of appeals in the new 2017 local list. It remains very difficult to estimate whether this will be enough to cover the actual costs of appeals. The Government are also proposing that the cost of appeals could be funded centrally thereby taking the risk away from local government. Further details of this proposal will be available after the general election.</p> <p><b>Roger Jones</b> <b><u>Required Control Measure Target Date:</u></b> <b>07/10/2017</b></p>	5	2	10	Roger Jones	A Transformed Council, Making Best Use of Resources and With an Outward Looking Culture

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	<p>There is a failure of one or more of the controls which fails to identify the degree of risk to a vulnerable adult.</p> <p>Poor practice and inadequate management oversight.</p> <p>Failure of quality control systems.</p> <p>Service user fails to work to agreed partnership / agency arrangements.</p> <p>Poor communication and partnership work.</p> <p>Poor resourcing of service areas against increased demand.</p> <p>Local authority contracted out service do not have sufficiently robust safeguarding arrangements.</p>	<p>Harm to an individual.</p> <p>Reputational damage to the Council.</p> <p>Potential for legal proceedings against the council leading to financial loss.</p> <p>Loss of confidence in safeguarding capability.</p>	<p>Revised safeguarding procedures introduced from care act implemented. Robust safeguarding procedures in place.</p> <p>Oversight through management reporting</p> <p>Social workers have 1:1 supervision monthly on their casework including safeguarding cases.</p> <p>The PSMT meet monthly to review and monitor Adult Safeguarding casework, particularly serious cases and develop and implement action plans and lessons learnt.</p> <p>Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board</p> <p>A sub group of the Safeboarding board leads on publicity and promotion of safeguarding</p> <p>4 year (2015 – 2019) adults board strategy</p> <p>The actions within the SAB strategy aim to mitigate the risks associated with safeguarding.</p> <p>Safeguarding issues as part of contract management procedures</p> <p>.</p> <p>Target operating module as part of the care act implemented.</p> <p>This includes key worker role assigned.</p> <p>Signs of safety framework implemented.</p> <p>This framework helps identify the risks in a strategic manner.</p> <p>CQC care commission embargo list used.</p> <p>This list is available from the CQC highlighting all providers where the CQC has raised concerns.</p>	3	5	15	<p>Developing a strategic approach to reviewing and analysing data in a systematic way.</p> <p>The Council and its partners have a number of controls to monitor and safeguard vulnerable adults including data from a variety of sources.</p> <p>The proposed control seeks to use this from a structured analysis to help identify areas of risk.</p> <p>Commissioning and Health development of a systematic approach to monitoring the quality and safety of external and internal provision is underway, links with wider quality monitoring and the adults QAF are being firmed up.</p> <p><b>Karen Sugars</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/07/2017</b></p>	2	5	10	Luke Addams	Creating Opportunity by Supporting Aspiration and Tackling Poverty

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				Failed visit policy and procedures in place. Introduction of safeguarding Star Chamber for front line teams  Decision on discharge policy in consultation with Bart's											
DRPCD0029	Failure to confirm the Stage 2 Civic Centre client brief leads to the programme stalling and failing to meet its business case objectives.	Stage 2 design stakeholder meetings have now commenced, and the programme is working to a draft report in May 2017.	Inability to progress Stage 2 design, resulting in the overall programme (and business case objectives) being at risk. Financial, Business Continuity, and Reputational implications.	Weekly Escalation of Required Next Steps with CEO Weekly updates and review meetings being held with CEO to secure decisions required to confirm the Client brief (Service Delivery Plans, e.g. Local Presence; Headcount Assumptions; Partner Co-location requirements). Instruction and re-mobilisation of design team required post-Christmas. Governance review to be agreed and implemented, with CEO sponsorship.  Massing Option Testing with Historic England Offline testing of design capacity of the Civic Centre, in order to focus the number of options being considered by CMT.	3	5	15	Stage 2 AHMM and Client Meetings schedule  AHMM and Client meetings are now taking place with Council departmental stakeholders. Project Board meetings are also now being held monthly (as opposed to 6-weekly previously) to aid and support decision making.  <b>Rav Singh</b> <b><u>Required Control Measure Target Date:</u></b> <b>30/06/2017</b>	2	4	8	Rav Singh	Creating and Maintaining a Vibrant, Successful Place		
ASD0017	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response. (Corporate level risk)	Failure by Directorates to ensure that the Borough Major Emergency Plan (Part 3B) is kept up to date with Directorate information and procedures, and that staff are unaware of the EP process.	(1) Systemic failure of the Council to continue to operate during a crisis period as a consequence of a civil event or situation; (2) Resulting in a slower than expected management response causing increased disruption to key service delivery, inconvenience to service users and the stakeholders, adverse public criticism and additional costs to the	Business continuity plans kept up to date Business continuity plan updates remain outstanding from 3 Directorates – CX, Resources and ECSW, meaning the Council's corporate BC plan is out of date.	4	3	12	Procurement of an IT system to manage BC plan update  Drafting of a business case to procure IT System to manage BC plan update.  <b>Denise Radley</b> <b><u>Required Control Measure Target Date:</u></b> <b>24/08/2017</b>	2	2	4	Denise Radley	A Transformed Council, Making Best Use of Resources and With an Outward Looking Culture		



Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
			Council.	<p>Staff with extensive experience in dealing with incidents need to be in place Officers in the Civil Protection Unit have dealt with this type of incident on several occasions, and have gained quite extensive experience on dealing with this type of incident and the action that may be required to be taken.</p> <p>Any future restructure will need to ensure that key posts are retained within the organisation to continue to minimise this risk</p> <p>Borough Emergency Management Team to co-ordinate the Council's response on tactical matters. B. E. M. Team.</p> <p>6 month review of EP plan with Directorate changes.</p> <p>Annual report to CMT</p> <p>Independently review the Borough Major Emergency Plan to ensure it is fit for purpose. complete</p> <p>Rollout a refresh training programme for senior managers and officers supporting the emergency plan. Complete</p> <p>2016 June BC business impact assessment reviews by service areas 2016 June BC plan update notification has been sent to directorates</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
CSDSC0004	Incidents of serious violence where young people known to or in the care (LAC) of the Local Authority are harmed or perpetrate harm in a community setting	Postcode tensions due to gang activity, honey trap behaviour or rumours on social media escalating tension between groups of young people who consider themselves to be aligned to a gang or postcode group. Revenge attacks by friends or family of young people who have been targeted for violence or humiliation Increased use of knives and other weapons	Risk of serious harm or death to the young people concerned. Risk of harm to community members who may inadvertently become caught up in the incident. Reputational risk to Local Authority and poor media coverage. LBTH now rank as No 1 for youth violence in London.	Targeted or/and specialist intervention Targeted or/and specialist intervention with young people and their families from a range of services within the Community Safety partnership. Monitoring of intelligence through the monthly gang's unit meetings and daily police intelligence meetings in the Youth Offending Service. Regular reviews to assist risk management using the Risk Management panel. EGGSYV co-ordinator is leading on work to develop a Reducing Youth Violence Strategy and MOPAC bid to secure a specialist knife intervention for schools and early intervention delivery.	3	4	12	3	4	12	Nikki Bradley	Creating Opportunity by Supporting Aspiration and Tackling Poverty

**Nikki Bradley**  
Required Control Measure Target  
Date:  
**31/07/2017**

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
CSDSC0005	Loss of resources as a result of a failure to reach target Payment by Results claims, resulting in loss of capacity to deliver the Troubled Families programme. Reputational risk of being the only Local Authority in England to be withdrawn from the programme.	Troubled Families data system solution is not yet in place, causing a reliance on manual data sets and work arounds. This has impacted on the Payment by Results claims in the first two years of Phase Two of the SSF programme in LBTH. A lack of strategic drive has weakened the programme's capacity to problems solve and gain cross directorate support and co-operation. A review of the timescale until the system goes live is May 2017, beyond this financial year. It is not possible to catch up manually before March 31st 2017.  Target date for data system to 'Go live' is now set at 5th May 2017 Manual process of identifying attached families has enabled 1900 attached to date/close to target	The DCLG who drive the national programme have formally expressed their concern to the CEO in writing. The risk of further attachment fees and unclaimed payment by results funds being withheld is a real risk at this stage as there is no prospect of catch up this financial year. However, Recovery Plan has been accepted	Change of governance arrangements Current governance arrangements enable practice sharing and multiagency consultation but mitigate against quick and focussed decision making. Review of governance is underway to determine clarity of purpose, agile decisions and clear accountability for the programme.  Project Board has been re-established  Renewed strategic drive An additional senior manager has joined the programme delivery to offer a fresh approach and additional management capacity. A rescue plan is being compiled for presentation to the CEO to assist a response to the DCLG Families team  Recovery plan submitted to, and accepted by DCLG by 28th February 2017 Re- established Project Board chaired by DCS Children's Services	3	4	12							Nikki Bradley	A Transformed Council, Making Best Use of Resources and With an Outward Looking Culture
								<b><u>Required Control Measure Target Date:</u></b>							

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
LPGSE0001	Failure to achieve community cohesion. Radicalisation of young people and gangs	Extremist incident - local, national or international Failure to engage with stakeholders in responding to extremism Failure to liaise with police to address extremism Increasing polarisation between communities in the borough Council funding decision exacerbating community tension	Rising crime and unrest within the Borough Damage to property and harm to persons Reputation damage Increase in social deprivation More segmented society	<p>Formal multi-agency approach in place Formal multi-agency approach in place (including Council, Police, Education, Housing Organisations, Voluntary Sector and Faith Organisations.</p> <p>Cohesion Promotion Programme e.g. No Place for Hate Forum and Events</p> <p>Use of Community Cohesion Contingency Planning &amp; Tension Monitoring Group Community Cohesion Contingency Planning &amp; Tension Monitoring Group that complete cohesion impact assessment around key event</p> <p>Debrief programme in place for after key events/incidents.</p> <p>Cohesion toolkit and impact assessment in place and used</p> <p>Annual cohesion measured through residents' survey.</p> <p>Home Office funded programme of activities including interventions with young people.</p> <p>Multi-agency SAP Panel in place to review case referrals of individuals of concern within the Borough. Multi-agency SAP Panel in place to review case referrals of individuals of concern within the Borough. (Close liaison with Policy and SO15).</p> <p>On-going development of the "Prevent Programme" to include work in schools. Officer appointed to lead this work from May 2014.</p>	3	4	12	<b><u>Required Control Measure Target Date:</u></b>			2	4	8	Sue Hayes	Creating and Maintaining a Vibrant, Successful Place

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				Competing prevent agenda action plan funded by Home Office								
PR0001	There is a risk that the Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed Christ Church Primary School's nursery building, which is built on a disused burial ground. (The basic premise of the challenge is that the school had no right to erect the building, and that it is unlawful to erect the building on a disused burial ground, and that it should be demolished.)	Decision by the Council to allow the Christ Church Primary School to occupy the building for the next academic year may trigger the matter taken to Court by the interested parties calling themselves Spitalfields Open Space (SOS) who object to the new building.	<p>- The Council allowing Christ Church Primary School to occupy the building may result in the matter taken to Court, which could result in an injunction to vacate or not to occupy the building.</p> <p>- The Council's decision under the 1967 Act, to retain the building could be challenged in the High Court by way of a Judicial Review.</p>	<p>Authorise officers to write to SOS with the Council's offers</p> <p>Authorise officers to write to SOS with an offer based on a 25 year life for the building and a commitment to moving the open space to a community trust and a proportion of their stated costs (to be determined by CMT). Letter sent and SOS are considering their position</p> <p>Authorise officers to seek Counsel's opinion</p> <p>Authorise officers to seek Counsel's opinion regarding the likely outcome of the Judicial Review currently held in abeyance (following the 1967 act determination) and on the extent to which populating the building and entering in to a lease with the school may or may not undermine our defence.</p> <p>CMT to agree to move forward with the lease to the School to allow occupation for the Summer Term</p> <p>Subject to the above advice received being marginal, neutral or positive, CMT to agree to move forward with the lease to the School to allow occupation for the Summer Term.</p>	3	4	12	2	4	8	Roy Ormsby	A Transformed Council, Making Best Use of Resources and With an Outward Looking Culture

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				CMT to consider if or when to commit any additional resource to the landscaping and improvement of the Open space In the context of the offer to SOS, and pending their reaction to it, CMT to consider if or when to commit any additional resource to the landscaping and improvement of the Open space.								
LPGLS000 1	Non-compliance with corporate governance procedures	Poor understanding of governance processes / lack of clarity of processes Lack of awareness on areas such as conflict of interest and the Bribery Act Possible pressure from politicians on officers to deviate	Ineffective decision making Potential for reputation damage Poor council performance Failure to optimise opportunities Adverse media reporting Unlawfulness leading to ultra vires decision	Council Constitution in place  Annual Governance Statement process reporting to the Audit Committee.  Regular meetings of the Statutory Officers Co-ordination Group. Ongoing.  Arrangements in place for regular reporting of significant governance matters via Head of Audit and Risk and the Monitoring Off.  Financial regulations, Financial and Procurement Procedures have been updated and further clarification of staff, manager and senior officer responsibilities have been incorporated.  The post of 'financial compliance manager' has also been created through the restructure of finance and the role of that post is to monitor and report to the section 151 officer on non-compliance in key areas such as use of purchase cards, petty cash, budget monitoring etc...	2	4	8	2	3	6	Graham White	A Transformed Council. Making Best Use of Resources and With an Outward Looking Culture
								Review Constitution  Proposals to be submitted to CMT by Constitution Working Group piecemeal as changes occur.  <b>Graham White</b> <b><u>Required Control Measure Target Date:</u></b> <b>30/06/2017</b>  Refresh Local Code of Corporate Governance  The review will need to be carried out in conjunction with the work of the Governance Group and the new code of corporate governance.  <b>Graham White</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/03/2017</b>  Delivery of the culture change plan of the Best Value Plan.  <b>Will Tuckley</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/03/2017</b>  Refresh Officers' Scheme of Delegation  <b>Graham White</b> <b><u>Required Control Measure Target Date:</u></b> <b>30/06/2017</b>				

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				<p>Member training provided on Code of Conduct.</p> <p>Training for members and independent co-opted members of Standards Advisory Committee on Standards Framework was held on 14/07/15.</p> <p>Mandatory training programme in place for members of the Planning, Licensing and Grants Scrutiny Committees. Training provided post 2015 Elections and further training delivered due to changes in membership of said Committees.</p> <p>Member Induction Programme took place June - July 2014. (After the Local, Mayor and Euro elections).</p> <p>Strategic Information Governance Board and Information Governance Review Group in place.</p> <p>Governance Review Working Group provide an oversight of continuing development of good governance</p> <p>E-learning anti-fraud and bribery training programme including Bribery Act Provisions The e-learning and the accompanying test provide staff an opportunity to be appraised of the bribery regulations and more generally, of the anti-fraud arrangements.</p> <p>Refresh Members Code of Conduct</p>				<p>Progression to the Mayor taking executive decisions in the absence of the Commissioners</p> <p><b><i>Will Tuckley</i></b> <b><i>Required Control Measure Target Date:</i></b> <b><i>03/04/2017</i></b></p>							

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>O&amp;S Grants Scrutiny Sub-committee responsible for pre-decision scrutiny of grants matters</p> <p>Discharge of Executive decisions by the Commissioners to ensure that legal requirements are met.</p>								
RSB0019	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	<p>Reduction in government funding NHS integration – unfunded services transferred in through Public Health and Adult Social Care Changes in Government initiatives/priorities Potential inability to manage working capital effectively Increasing expectation of the Council aligned with increasing local need Implications of welfare reform agenda on council services and budgets CSR in Autumn 2015 HRA changes Population growth</p>	<p>Future service cuts Inability to meet public expectation Increased pressure on delivery of statutory and priority services Unfunded base budget pressures/new burdens from government Failure to deliver community plan/strategic plan priorities.</p>	<p>Implement savings programme/opportunities Longer term financial and investment strategy</p> <p>Formal annual budget setting process and medium term financial plan</p> <p>Continuous monitoring of Council's medium term financial plan in place</p> <p>Monthly monitoring and management reporting of Council's financial position</p> <p>Annual External Audit health check on financial processes including budgets and reporting</p> <p>Programme Manager for Council Savings Plan in place.</p> <p>Corporate Programme Board formed to monitor delivery of savings programme. Monitoring in progress.</p> <p>Develop and implement corporate approach to deliver and monitoring of Council savings plan and transformation plan</p> <p>On-going advancement of linkages between the 30 year HRA Business Plan and Council service plans. Longer term financial and investment strategy</p>	2	4	8	2	4	8	Neville Murton	A Transformed Council, Making Best Use of Resources and With an Outward Looking Culture
								<b><u>Required Control Measure Target Date:</u></b>				



Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				Methodology for council transformation in place and ongoing Corporate Transformation Programme covering all directorates with a focus on delivering service improvements, efficiencies and savings											
ICT-CT0010	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs/	SLAs missed, projects late, operational issues and relationships showing disconnects.	The Corporate vision of a Digitally Enabled Council will be threatened. Operational SLAs will fail affecting productivity		2	3	6				2	3	6	Peter Ransom	





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9 June, 2017

## Probability Impact Heatmap




Almost Certain	0	0	0	1	2
Likely	0	0	1	0	0
Possible	0	0	0	4	2
Unlikely	0	0	1	2	0
Rare	0	0	0	0	0
	Negligible	Low	Medium	High	Very High

## Risk Profile Summary




	No. of Risks	% of Total
	3	23.08%
	7	53.85%
	3	23.08%
	0	0.00%
<b>13</b>		

## Risk Profile Quarterly Movements

### 2017

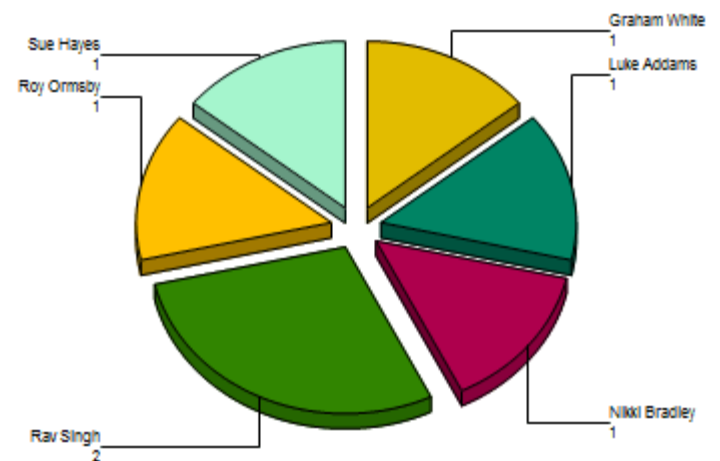
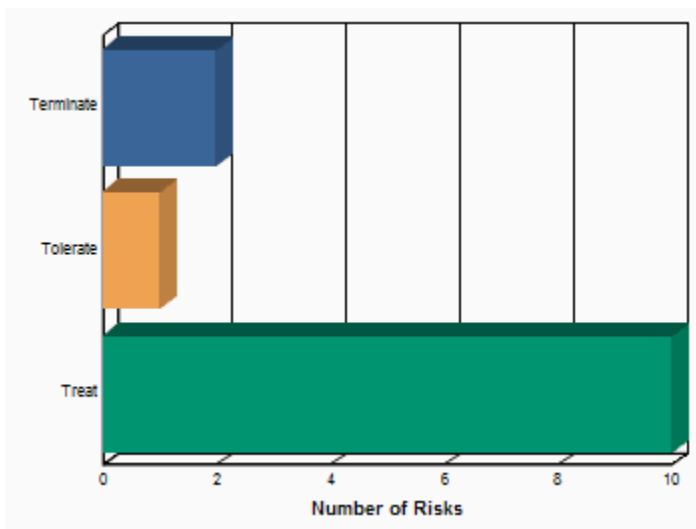
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	1	2	0	0
	9	9	0	0
	3	2	0	0

### 2016


	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	0	1	0	0
	10	10	11	11
	1	0	0	1

## Risk Approach Summary

## Overdue Risk by Risk Owner



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Non-Executive Report of the:  <b>Audit Committee</b>  28 <sup>th</sup> June 2017	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b> [Unrestricted or Exempt]
<b>Treasury Management Outturn Report for 2016/17</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment & Treasury Manager
<b>Wards affected</b>	[All wards]

## Summary

The Local Government Act 2003 requires that treasury management activities are reported to this Committee. This report summarises the Council's treasury management activities for the financial year ended 31 March 2017.

The report sets out the treasury management outturn position based on:

- the credit criteria adopted by the Corporate Director, Resources;
- the investment strategy for the financial year as approved by the Council; and
- the investment returns achieved.

The Council has complied with its legislative and regulatory requirements as set out in the legal comments at paragraph 5 of this report. The actual prudential and treasury management indicators for the year together with the comparators are also set out in this paper.

The Corporate Director, 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; and
- No short-term or long-term borrowing was undertaken during the year to 31 March 2017. Note, £2.096m of a corporate capital scheme was financed internally without the need to raise new borrowing.

Long term debt reduced from £87.825m to £85.936m (excluding accrued interest shown in Statement of Accounts) as a result of loans maturing during the financial year.

The investment portfolio stood at £447.3m (excluding pension fund cash balances and accrued interest shown on the balance sheet) at 31 March 2017 with £15m being investments longer than one year. The Council earned 0.70% on short term lending, outperforming the benchmark of rolling average 7 Day LIBID rate of 0.20%.

The Council participates in a quarterly Investment Portfolio Benchmarking Analysis with 13 other local authorities and can demonstrate from this exercise that the risk and returns realised from investments are in line with the Council's risk appetite.

This report demonstrates that the Council is delivering its Treasury Management service in an open and transparent manner and that the Council is fulfilling its obligations under the Local Government Act 2003 to produce an annual review of activities. The report is being submitted to the Audit Committee to enable Members to fulfil their scrutiny role of the treasury management function as per CIPFA's Treasury Management Code of Practice. The report also provides information on the economic conditions prevailing in the final quarter of 2016-17.

## **Recommendations**

Members are recommended to:

- Note the Treasury Management activities and performance against targets for the twelve months to 31 March 2017.
- Note the Pension Fund investments balance (set out in section 9 of Annex A).
- Note the Council's investments as at 31 March 2017 (as in Appendix 2 of Annex A).
- Note the Prudential indicators outturn for 2016/17 (set out in Appendix 1 of Annex A).

### **1. REASONS FOR 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 2016/17. 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; 24 February 2016);
  - a mid-year treasury update report (Council; 5 December 2016); and
  - an annual report at the end of the year setting out the activity compared to the strategy (this report)
- 1.3 In addition, the Audit Committee received treasury management activity update reports on 28 June, 20 September, 8 November 2016 and 22 March 2017.
- 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 Presenting all of the above treasury management reports to the Audit Committee for scrutiny before they were reported to the full Council, fulfils the Council's requirements under the code of practice.

## **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 because of the requirements 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. THE STRATEGY**

- 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 24 February 2016, which included the Investment Strategy, Minimum Revenue Provision and prudential indicators for 2016/17. 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 assists Members in discharging their responsibilities relating to the review and scrutiny of Treasury Management policies and activities in 2016/17.
- 3.3 The Council complied with its legislative and regulatory requirements in 2016/17 and was not in breach of any of the prudential and treasury management indicators. A more detailed report of the indicators is attached as Annex 1 with section 1 and 2 tables summarising the key indicators relating to capital expenditure activities in the year.
- 3.4 The Corporate Director, Resources also confirms that whilst the Council entered into a number of finance lease transactions during the year, the Council did not undertake any external borrowing during the year, thus operating within the authorised borrowing limit in the financial year.
- 3.5 The Council's actual capital expenditure was £61m less than the budgeted figure of £89.675m for the General Fund. Capital expenditure from the Housing Revenue Account (HRA) was £51.269m against a budget of £138.315m.
- 3.6 The HRA Capital Financing Requirements (CFR) increased from £75.583m to £84.269m for the year and General Fund CFR increased from £187.005m to £197.434m. The Council's overall CFR stood at £281.703m with total external debt (including PFI) of £121.192m at the end of this financial year 2016/17, giving a borrowing requirement of £160.511m. This borrowing need is being funded by internal borrowing, hence no external borrowing was undertaken during this financial year due to prevailing investment concerns of both counterparty risk and ultra-low investment returns.

- 3.7 The HRA does not receive a Minimum Revenue Provision (MRP) charge, with the exception of a MRP contained within finance leases. The statutory calculation of the MRP is applied to the General Fund; this is 4% of the aggregate assumed borrowing for general fund investment, known as the Capital Financing Requirement (CFR). The MRP applied to the General fund CFR for this financial year was £7.097m (including PFI and finance lease MRP).
- 3.8 No loan rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 3.9 The Council has continued with its conservative approach of prioritising security, appropriateness and liquidity over yield. Investments have therefore continued to be dominated by low counterparty risk considerations although this resulted in a high cost of carry as investment returns are relatively low compared to borrowing rate.
- 3.10 The strategy adopted in the original Treasury Management Strategy Report for 2016/17 approved by the Council on 24 February 2016 was subject to a revision during the year because of a large amount of cash balances and low investment rates as a consequence of the revision of the base rate from 0.50% to 0.25% after the E.U referendum. There was an amendment to the Council's Investment Strategy at the Full Council meeting in September 2016, to increase the monetary value from £50m to £100m for Long Term Investments and duration span from 3 year to 5 year limits.
- 3.11 The Council participates in a benchmarking club to enable officers to compare the Council's treasury management and 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 2017. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 21 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.
- 3.12 The comparison demonstrated that Tower Hamlets' investment portfolio had a lower credit risk of 2.77 compared to the benchmark group average of 3.19. (To measure the credit worthiness of a portfolio, a credit risk scale of 1-5 is applied, a portfolio with 5 will be the riskiest investment portfolio full of BBB+ and below credit rated institutions and a portfolio with 1 will be an investment portfolio full of institutions with credit rating AAA+).
- 3.13 The investment return associated with the level of risk taken on our investment portfolio is within the range 0.53% - 0.65% and the portfolio delivered 0.62%, which is 0.03% above its model portfolio.
- 3.14 The current institutions the Council can currently lend to, is as set out in Appendix 3 of Annex A.



#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 This report fulfils the requirement to report the annual performance and position of the Council's Treasury and Investment activities to the Audit Committee and then Full Council. During 2016/17 the Council's investments portfolio delivered a return of 0.70%, which exceeded the benchmark average 7 days LIBID rate of 0.20% for the period.
- 4.2 For budgeting purposes, in 2016/17 the Council estimated that it would have an average cash balance of £300m during the year which it could invest to generate a 0.9% or £2.7m return on investment. However, the actual average balances for the year were significantly higher, totalling £404m. This was used to generate a 0.7% or £2.825m return on investment. The higher average cash balance was as a consequence of lower than expected capital expenditure during the year.

#### **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 income on the Council's cash flows 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 2017 and the treasury function operated within budget for financial year 2016/17.

## **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 – contained in Annex A to this paper**

Appendix 1: Prudential and Treasury Indicators

Appendix 2: Investments Outstanding as at 31st March 2017

Appendix 3: Counterparty List for London Borough of Tower Hamlets at 09/06/2017

Appendix 4: Definition of Fitch Credit Ratings

Appendix 5: Glossary

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

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

Capita Treasury Advisory Services - Investment Reports & Benchmarking club report

#### **Officer contact details for documents:**

Bola Tobun - Investment & Treasury Manager (Ext. 4733 Mulberry Place, 3<sup>rd</sup> Floor)

# Annex A

## London Borough of Tower Hamlets

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Annual Treasury Management Review  
2016/17

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## Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

### 1. The Council's Capital Expenditure and Financing 2016/17

1.1 The Council undertakes capital expenditure on long-term assets.

1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

<b>£m General Fund</b>	<b>2015/16 Actual</b>	<b>2016/17 Estimate</b>	<b>2016/17 Actual</b>
<b>Capital expenditure</b>	<b>26.620</b>	<b>89.475</b>	<b>28.621</b>
Financed in year	26.475	89.325	26.525
<b>Unfinanced capital expenditure</b>	<b>0.145</b>	<b>0.150</b>	<b>2.096</b>

<b>£m HRA</b>	<b>2015/16 Actual</b>	<b>2016/17 Estimate</b>	<b>2016/17 Actual</b>
<b>Capital expenditure</b>	<b>66.359</b>	<b>138.315</b>	<b>51.269</b>
Financed in year	66.359	125.455	51.269
<b>Unfinanced capital expenditure</b>	<b>0.000</b>	<b>12.860</b>	<b>0.000</b>

## 2. The Council's Overall Borrowing Need

- 2.1 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 indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2016/17 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 2.2 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) 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-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
- 2.3 The Council's 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2016/17 on 24/02/2016.
- 2.4 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

<b>CFR (£m): General Fund</b>	<b>31 March 2016 Actual</b>	<b>31 March 2017 Budget</b>	<b>31 March 2017 Actual</b>
Opening balance	192.943	187.005	187.005
Add unfinanced capital expenditure (as above)	0.145	7.150	2.096
Less MRP/VRP*	(7.084)	(5.000)	(7.097)
Less PFI & finance lease repayments		(2.000)	15.430
<b>Closing balance</b>	<b>187.005</b>	<b>187.155</b>	<b>197.434</b>

<b>CFR (£m): HRA</b>	<b>31 March 2016 Actual</b>	<b>31 March 2017 Budget</b>	<b>31 March 2017 Actual</b>
Opening balance	69.675	75.583	75.583
Add unfinanced capital expenditure (as above)	5.991	12.860	9.190
Less VRP*			
Less PFI & finance lease repayments	(0.083)		(0.504)
<b>Closing balance</b>	<b>75.583</b>	<b>88.443</b>	<b>84.269</b>

2.7 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council ensured that its gross external borrowing does not exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next financial year. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2016/17. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	<b>31 March 2016 Actual</b>	<b>31 March 2017 Budget</b>	<b>31 March 2017 Actual</b>
Gross borrowing position	£123.723m	£132.106m	£121.192m
CFR	£262.588m	£275.598m	£281.703m

2.8 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

2.9 **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. **For the reporting financial year the boundaries were not breached.**

2.10 **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.

	<b>2016/17</b>
Authorised limit	£307.588m
Maximum gross borrowing position	£123.723m
Operational boundary	£287.588m
Financing costs as a proportion of net revenue stream	0.030%

### 3. Treasury Position as at 31 March 2017

3.1 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 detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2016/17 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	31 March 2016 Principal	Rate of Return	31 March 2017 Principal	Rate of Return
<b>Fixed rate Funding</b>				
-PWLB	£10.325m	7.10%	£8.436m	6.64%
-Market	<u>£13.000m</u>	<u>4.37%</u>	<u>£13.000m</u>	<u>4.37%</u>
<b>Total Fixed</b>	<u>£23.325m</u>	<u>5.58%</u>	<u>£23.436m</u>	<u>5.26%</u>
<b>Variable rate Funding</b>				
-PWLB	-	-	-	-
-Market	<u>£64.500m</u>	<u>4.32%</u>	<u>£64.500m</u>	<u>4.32%</u>
<b>Total Variable</b>	<u>£64.500m</u>	<u>4.32%</u>	<u>£64.500m</u>	<u>4.32%</u>
<b>Total debt</b>	<b>£87.825m</b>	<b>4.65%</b>	<b>£85.936m</b>	<b>4.55%</b>

	31 March 2016 Principal	Rate/ Return	31 March 2017 Principal	Rate/ Return
<b>Total debt</b>	<i>£87.825m</i>	4.65%	<b>£85.936m</b>	<b>4.55%</b>
<b>CFR</b>	<i>£262.588m</i>		<b>£281.703m</b>	
<b>Over / (under) borrowing</b>	<i>(£174.763m)</i>		<b>(£195.767m)</b>	
<b>Investments:</b>				
In house	£370.5m	0.78%	£447.3m	0.64%
External managers	£0.000m		<u>£0.000m</u>	
<b>Total investments</b>	<b>£370.5m</b>	<b>0.78%</b>	<b>£447.3m</b>	<b>0.64%</b>

The maturity structure of the debt portfolio was as follows:

	31 March 2016 Actual	2016/17 original limits %	31 March 2017 Actual	31 March 2017 Actual
Under 12 months	£1.889m	10%	£0.970m	11.29%
12 months and within 24 months	£1.639m	30%	£1.673m	1.95%
24 months and within 5 years	£2.763m	40%	£3.421m	3.98%
5 years and within 10 years	£2.825m	80%	£1.163m	1.35%
Over 10 years	£78.209m	100%	£78.209m	91.0%



## The maturity structure of the investment portfolio was as follows:

	2015/16 Actual £000	2016/17 Original £000	31 March 2017 Actual £000
Investments			
Longer than 1 year	£20,000	£50,000	£15,000
Under 1 year	£350,500	£300,000	£432,300
Total	£350,500	£350,000	£447,300

### 4. The Strategy for 2016/17

- 4.1 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. 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.
- 4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.
- 4.3 The actual movement in gilt yields meant that the general trend in PWLB rates during 2016/17 was an increase in rates during the first quarter followed by marked bouts of sharp volatility since July 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year.

### 5. The Economy and Interest Rates

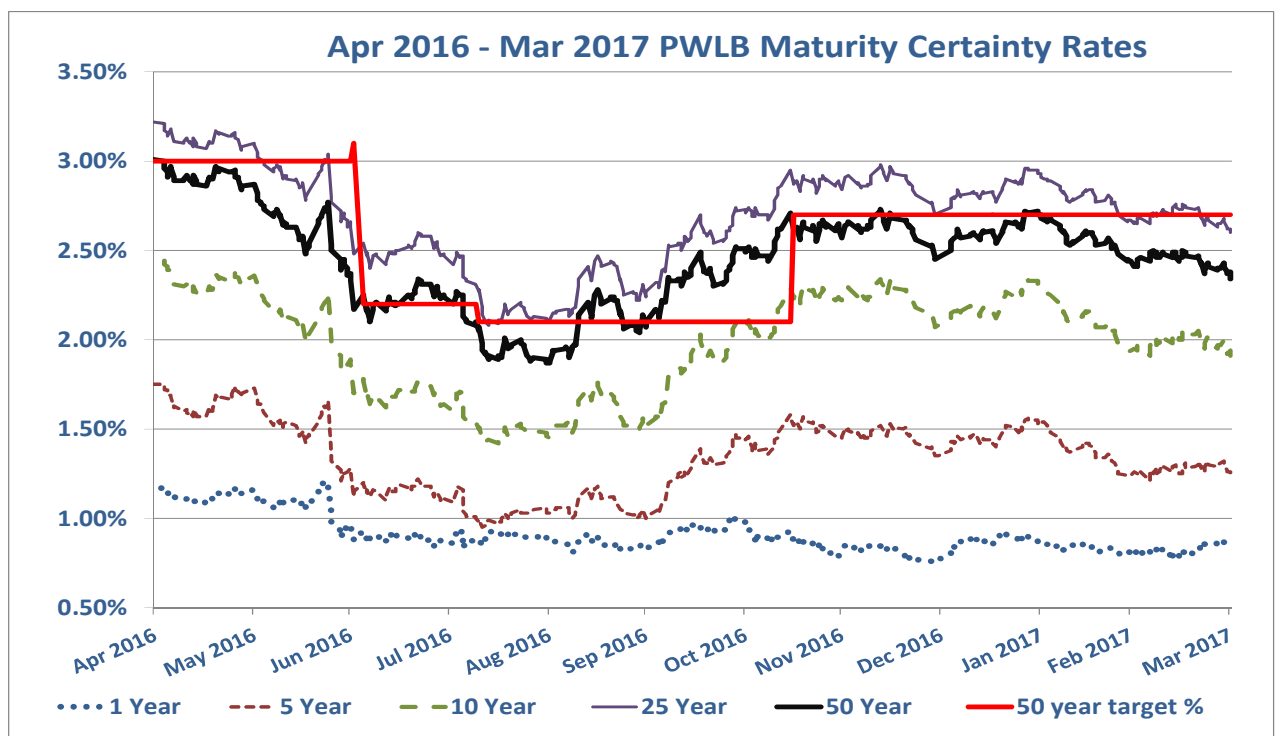
- 5.1 The two major landmark events that had a significant influence on financial markets in 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019.
- 5.2 The Monetary Policy Committee (MPC) at its 4 August meeting, cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- 5.3 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the

MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

- 5.4 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2017) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. 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.
- 5.5 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.
- 5.6 During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.
- 5.7 The strategy adopted in the original Treasury Management Strategy Report for 2016/17 approved by the Council on 24/02/2016 was subject to a revision during the year due to large amount of cash balance and appalling investments rate as a consequence of revision of base rate from 0.50% to 0.25% after the E.U referendum. There was an amendment at the Full Council meeting of September 2016, to the Council Investment Strategy to increase the monetary value from £50m to £100m for Long Term Investments and duration span from 3 years to 5 years limits.

## 6. Borrowing Rates in 2016/17

6.1 **PWLB certainty maturity borrowing rates** - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.

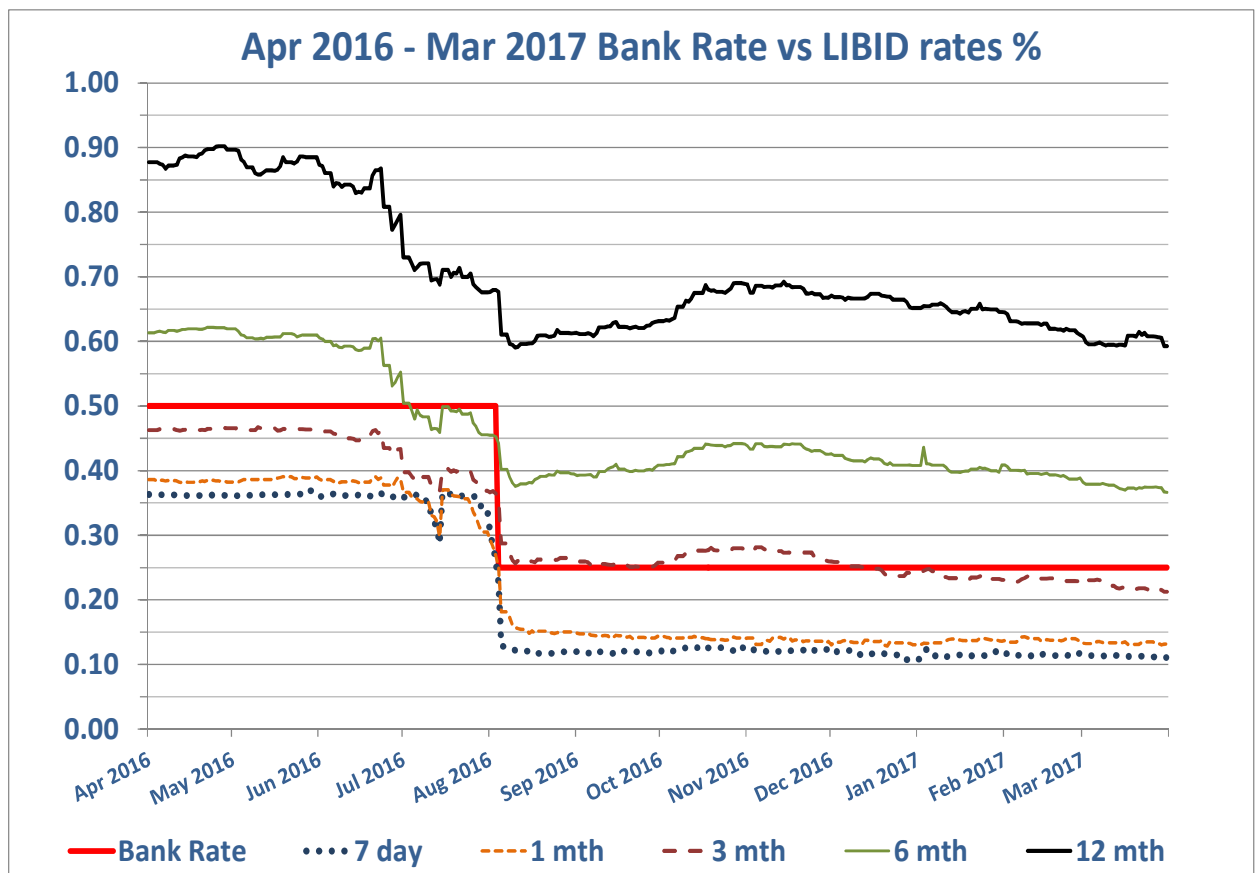


## 7. Borrowing Outturn for 2016/17

- 7.1 **Treasury Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.
- 7.2 **Rescheduling** - No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 7.3 **Summary of debt transactions** – management of the debt portfolio resulted in a fall in the average interest rate of 0.06%, representing net General Fund savings of £80,000p.a.

## 8. Investment Rates in 2016/17

- 8.1 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. At the start of this financial year, market expectations timing for the start of monetary tightening was set at quarter 3 of 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



## 9. Investment Outturn for 2016/17

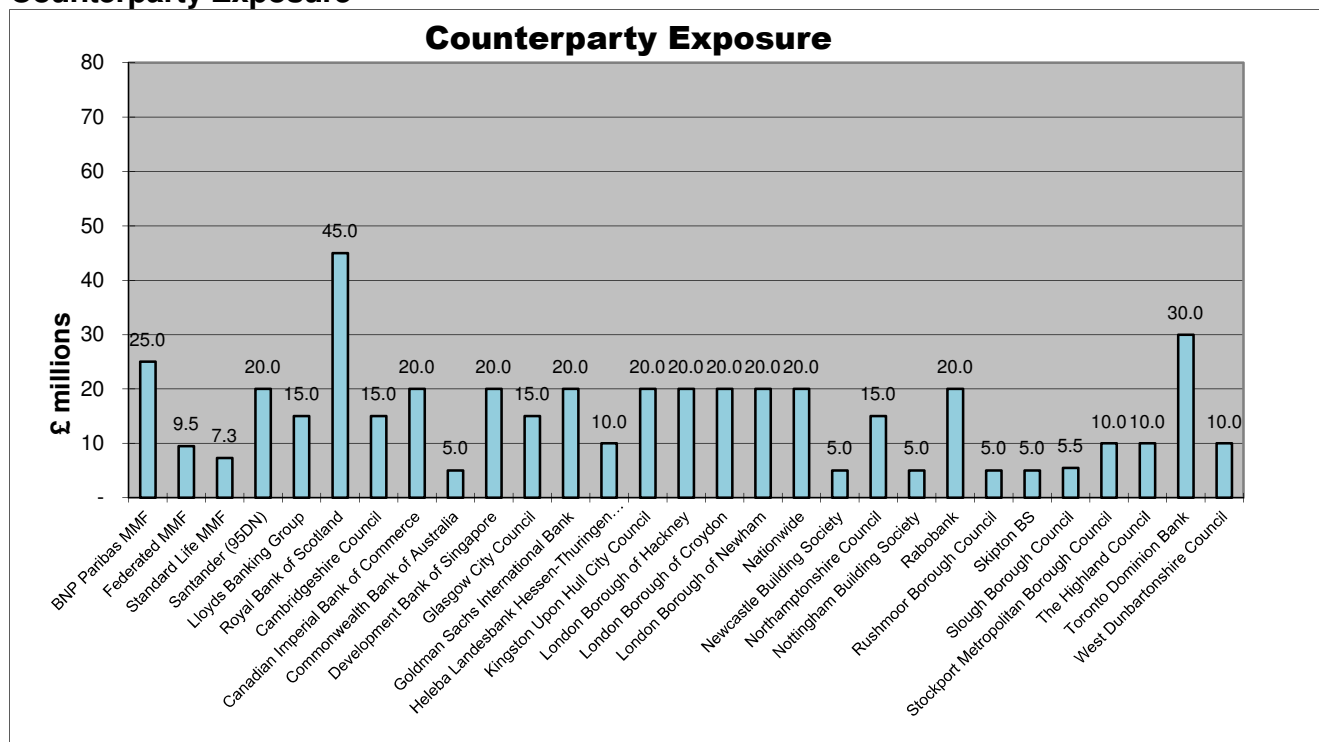
- 9.1 **Investment Policy** – the Council’s investment policy is governed by CLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 24/02/2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps).
- 9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 9.3 **Investments held by the Council** - the Council held an outstanding balance of £447.3m, the internally managed funds earned £2.825m, with an average rate of return of 0.70% for this financial year 2016/17 on average cash balance of £404m. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20% for the reporting financial year. This compares with a budget assumption of £2.7m on average cash balance of £300m to earn an average rate of 0.90%.
- 9.4 **Pension Fund - Internal Cash Management** - Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working cash flows requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.
- 9.5 The Pension Fund cash balance is invests in accordance with the Council’s Treasury Management strategy agreed by Full Council in February 2016, which is delegated to the Corporate Director of Resources to manage on a day to day basis within set parameters.
- 9.6 At 31st March 2017, no outstanding cash investments of pension fund cash balance with the Council’s treasury activity.
- 9.7 Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Fund’s cash remains the overriding priority.

### Investment performance for 2016/17

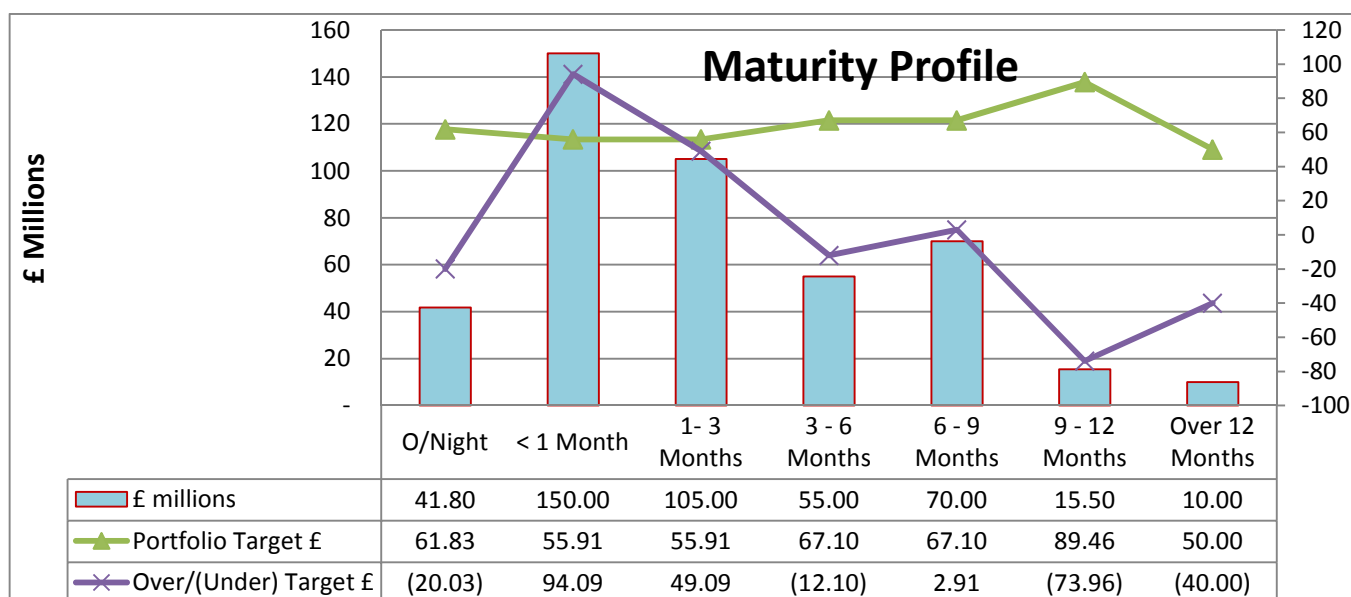
Period	LBTH Performance	Benchmark Return	Over/(Under) Performance
<b>Full Year 2015/16</b>	<b>0.78%</b>	<b>0.36%</b>	<b>0.42%</b>
<b>Quarter 1 2016/17</b>	0.78%	0.36%	0.42%
<b>Quarter 2 2016/17</b>	0.72%	0.12%	0.60%
<b>Quarter 3 2016/17</b>	0.65%	0.13%	0.52%
<b>Quarter 4 2016/17</b>	0.64%	0.13%	0.51%
<b>Full Year 2016/17</b>	<b>0.70%</b>	<b>0.20%</b>	<b>0.50%</b>

9.8 As illustrated above, the Council outperformed the benchmark by 50bps for this financial year. The Council's budgeted investment return for 2016/17 was £2.7m, based on average cash balance of £300m with rate on return on investment of 0.90%. The investment return for the year was some £125k above budget, at £2.825m; this is mainly due to substantial increase of average cash balance by some £100m above budgeted cash balance, coupled with appalling investment rates realised towards the second half of the financial year.

### Counterparty Exposure



9.9 The counterparty exposure chart above shows the counterparty exposure that is deposits outstanding with authorised counterparties at 31 March 2017, of which 10.06% was with part-nationalised bank (RBS Groups).



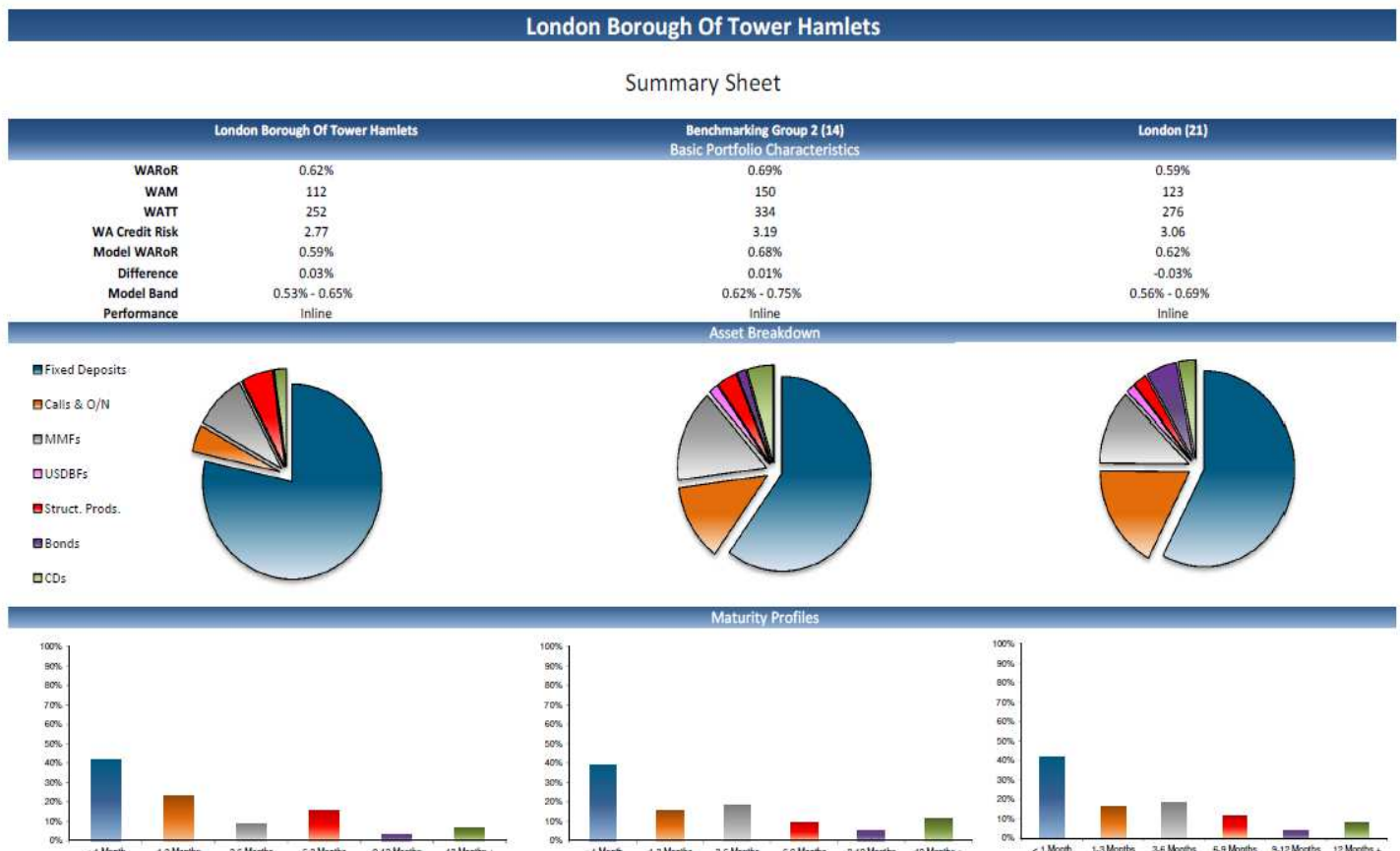
9.10 The maturity profile chart above illustrates the maturity structure of deposits at 31 March 2017; we have £41.8m as overnight deposits, and this is all Money Market Funds.

9.11 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 127 days for the month of March and including MMF is 112 days. This is the average number of outstanding days to maturity of each deal from 31 March 2017.

## 10. Investment Benchmarking Club

10.1 The Council 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 2017. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 21 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.

10.2 The below summary chart is comparing the council's investments portfolio with other London Boroughs as at 31<sup>st</sup> March 2017. The basic portfolio characteristics are investment returns and risks, asset allocations and maturity profiles were compared.



10.3 The comparison demonstrated that Tower hamlets investment portfolio had a lower credit risk of 2.77 compared to the benchmark group average of 3.19. (To measure the credit worthiness of a portfolio, a credit risk scale of 1-5 is applied, a portfolio with 5 will be the riskiest investment portfolio full of BBB+ and below credit rating institutions and a portfolio with 1 will be an investment portfolio full of institutions with credit rating AAA+.

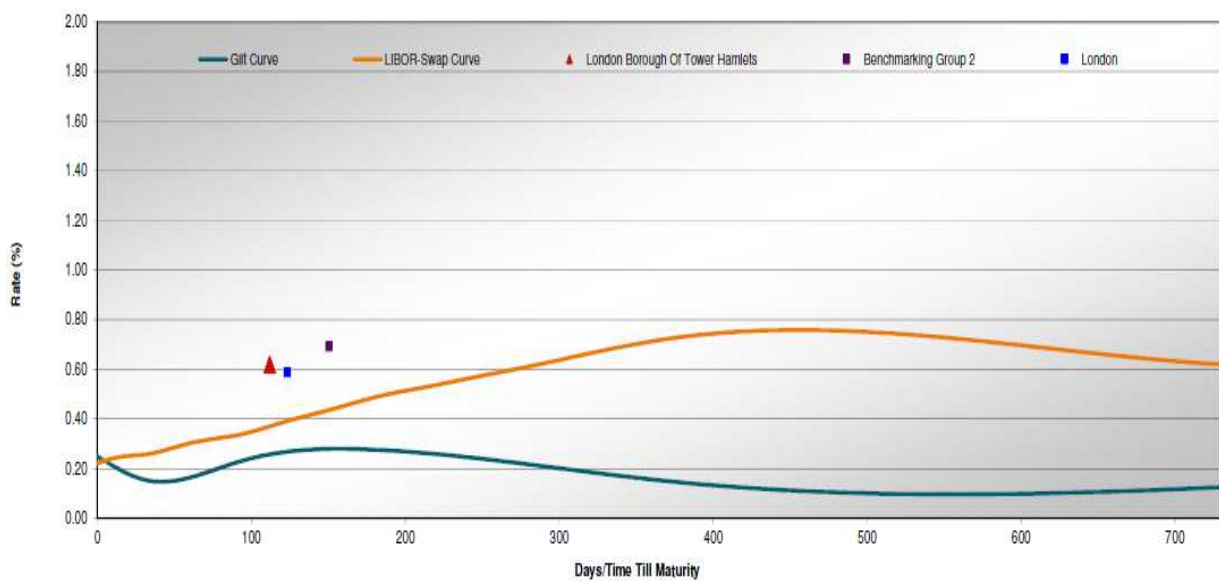


10.4 The investment return associated with the level of risk taken on our investment portfolio is within the range 0.53% - 0.65% and the portfolio delivered 0.62%, which is 0.03% above its model portfolio return of 0.59%.

1.5 The below graph compared benchmarking club member' returns against the risk-free return and LIBOR curve. It can be seen that the weighted average rate of return (WARoR) for the council investments is 0.62% compared to 0.59% for the London group and 0.69% for the benchmarking group as a whole. The return on LBTH investment is commensurate with the Council's risk appetite as set out in the Investment Strategy.

**London Borough Of Tower Hamlets**

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	0.62%	112	252	2.77	0.26%	0.37%	0.36%	0.25%	0.53% - 0.65%	Inline
Benchmarking Group 2	0.69%	150	334	3.19	0.28%	0.44%	0.41%	0.26%	0.62% - 0.75%	Inline
London	0.59%	123	276	3.06	0.27%	0.39%	0.32%	0.20%	0.56% - 0.69%	Inline

## Appendix 1: Prudential and Treasury Indicators

Prudential Indicators	2015/16	2016/17	2016/17	2016/17	2017/18
Extract from Estimate and rent setting reports	Actual	Original Estimate	Revised Estimate	Actual	Estimate
	£m	£m	£m	£m	£m
<b>Capital Expenditure</b>					
Non – HRA	26.620	89.475	77.362	28.621	75.586
HRA	66.359	138.315	92.991	51.269	92.430
<b>TOTAL</b>	<b>92.979</b>	<b>227.790</b>	<b>170.353</b>	<b>79.890</b>	<b>168.016</b>
<b>Ratio of Financing Costs To Net Revenue Stream</b>					
Non – HRA	0.19%	0.21%	0.02%	0.03%	0.04%
HRA	4.02%	4.00%	4.73%	4.45%	4.44%
	£m	£m	£m	£m	£m
<b>Gross Debt and Capital Financing Requirement</b>					
Gross Debt	123.723	132.106	133.661	121.192	117.960
Capital Financing Requirement	262.588	275.598	277.153	281.703	282.058
Over/(Under) Borrowing	(138.865)	(143.493)	(143.493)	(160.512)	(164.098)
<b>In Year Capital Financing Requirement</b>					
Non – HRA	(6.938)	0.150	0.355	10.429	0.355
HRA	5.908	12.860	14.210	8.686	0.000
<b>TOTAL</b>	<b>(1.030)</b>	<b>13.010</b>	<b>14.565</b>	<b>19.115</b>	<b>0.355</b>
<b>Capital Financing Requirement as at 31 March</b>					
Non - HRA	187.005	187.155	187.360	197.434	197.789
HRA	75.583	88.443	89.793	84.269	84.269
<b>TOTAL</b>	<b>262.588</b>	<b>275.598</b>	<b>277.153</b>	<b>281.703</b>	<b>282.058</b>
<b>Incremental Impact of Financing Costs (£)</b>					
Increase in Council Tax (band D) per annum	108.922	162.162	115.009	69.413	71.821
Increase in average housing rent per week	5.615	5.707	6.907	6.580	6.584



Treasury Management Indicators	2015/16	2016/17	2016/17	2016/17	2017/18
	Actual	Original Estimate	Revised Estimate	Actual	Estimate
	£m	£m	£m	£m	£m
<b>Authorised Limit For External Debt -</b>					
Borrowing & Other long term liabilities	287.588	300.598	302.153	306.703	307.058
Headroom	20.000	20.000	20.000	20.000	20.000
<b>TOTAL</b>	<b>307.588</b>	<b>320.598</b>	<b>322.153</b>	<b>326.703</b>	<b>327.058</b>
<b>Operational Boundary For External Debt -</b>					
Borrowing	250.079	264.294	265.849	270.399	272.101
Other long term liabilities	37.509	36.304	36.304	36.304	34.957
<b>TOTAL</b>	<b>287.588</b>	<b>300.598</b>	<b>302.153</b>	<b>306.703</b>	<b>307.058</b>
<b>Gross Borrowing</b>	<b>123.723</b>	<b>132.106</b>	<b>133.661</b>	<b>121.192</b>	<b>117.960</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>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>Upper Limit For Variable Rate Exposure</b>					
Net interest payable on variable rate borrowing / investments	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
<b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b>	<b>£50m</b>	<b>£50m</b>	<b>£100m</b>	<b>£100m</b>	<b>£100m</b>
<b>Maturity structure of new fixed rate borrowing during 2016/17</b>			<b>Upper Limit</b>	<b>Lower Limit</b>	
under 12 months			10%	0%	
12 months and within 24 months			30%	0%	
24 months and within 5 years			40%	0%	
5 years and within 10 years			80%	0%	
10 years and above			100%	0%	

## Appendix 2 - Investments Outstanding as at 31 March 2017

Maturity	Counterparty	From	Maturity	Amount £m	Rate
<b>Overnight</b>	BNP Paribas MMF		MMF	25.00	
	Federated MMF		MMF	9.50	
	Standard Life MMF		MMF	7.30	
	<b>SUB TOTAL</b>			<b>41.80</b>	
<b>&lt;1 Month</b>	Rushmoor Borough Council	06/01/2017	03/04/2017	5.00	0.30%
	Kingston Upon Hull City Council	21/02/2017	07/04/2017	10.00	0.32%
	London Borough of Newham	21/02/2017	07/04/2017	20.00	0.32%
	Development Bank of Singapore	10/01/2017	10/04/2017	10.00	0.35%
	Nationwide	12/04/2016	12/04/2017	5.00	0.95%
	Lloyds Banking Group	14/04/2016	13/04/2017	5.00	1.05%
	Lloyds Banking Group	15/04/2016	13/04/2017	5.00	1.05%
	Nationwide	15/04/2016	13/04/2017	10.00	0.97%
	Kingston Upon Hull City Council	23/02/2017	18/04/2017	10.00	0.35%
	Stockport Metropolitan Borough Council	23/02/2017	18/04/2017	10.00	0.35%
	Nationwide	22/04/2016	21/04/2017	5.00	0.95%
	Northamptonshire Council	22/02/2017	24/04/2017	15.00	0.37%
	Cambridgeshire Council	22/02/2017	24/04/2017	15.00	0.37%
	Rabobank	26/10/2016	26/04/2017	10.00	0.52%
	Royal Bank of Scotland	29/04/2016	28/04/2017	5.00	1.25%
	Newcastle Building Society	28/04/2016	28/04/2017	5.00	1.15%
	Lloyds Banking Group	29/04/2016	28/04/2017	5.00	1.05%
	<b>SUB TOTAL</b>			<b>150.00</b>	
<b>1 - 3 Months</b>	Heleba Landesbank Hessen-Thüringen	03/05/2016	03/05/2017	10.00	1.01%
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.45%
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.45%
	Nottingham Building Society	09/05/2016	09/05/2017	5.00	1.03%
	Commonwealth Bank of Australia	12/05/2016	12/05/2017	5.00	0.99%
	Development Bank of Singapore	22/11/2016	22/05/2017	10.00	0.45%
	West Dunbartonshire Council	23/12/2016	23/06/2017	10.00	0.45%
	London Borough of Croydon	23/12/2016	23/06/2017	20.00	0.45%
	Glasgow City Council	23/02/2017	23/06/2017	15.00	0.45%
	London Borough of Hackney	24/03/2017	26/06/2017	20.00	0.50%
	<b>SUB TOTAL</b>			<b>105.00</b>	
<b>3 - 6 Months</b>	Santander (95DN)		Call - 95N	20.00	1.10%
	Royal Bank of Scotland	31/01/2017	31/07/2017	10.00	0.80%
	The Highland Council	01/02/2017	01/08/2017	10.00	0.45%
	Toronto Dominion Bank	16/08/2016	15/08/2017	10.00	0.61%
	Royal Bank of Scotland	19/08/2016	19/08/2017	5.00	0.86%
	<b>SUB TOTAL</b>			<b>55.00</b>	
<b>6 - 9 Months</b>	Toronto Dominion Bank	13/10/2016	12/10/2017	10.00	0.59%
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%
	Toronto Dominion Bank	17/10/2016	16/10/2017	10.00	0.61%
	Goldman Sachs International Bank	24/10/2016	24/10/2017	10.00	0.90%
	Rabobank	26/10/2016	25/10/2017	10.00	0.66%
	Goldman Sachs International Bank	14/11/2016	14/11/2017	10.00	0.93%
	<b>SUB TOTAL</b>			<b>70.00</b>	
<b>9 - 12 Months</b>	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	Slough Borough Council	20/02/2017	19/02/2018	5.50	0.60%
	<b>SUB TOTAL</b>			<b>10.50</b>	
<b>&gt; 12 Months</b>	Royal Bank of Scotland	30/04/2015	30/04/2018	5.0	0.90-1.25%
	Royal Bank of Scotland	22/12/2016	22/06/2018	5.00	0.79%
	Royal Bank of Scotland	22/12/2016	24/09/2018	5.00	0.84%
	<b>SUB TOTAL</b>			<b>15.00</b>	
	<b>GRAND TOTAL</b>			<b>447.30</b>	

### Appendix 3 – List of Approved Counterparties for Lending as at 09/06/2017

Counterparty	Fitch Ratings				Moody's Ratings				S&P Ratings	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
<b>Australia</b>										
	SB	AAA			SB	Aaa			NO	AAA
Banks	Australia and New Zealand Banking Group Ltd.	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
	Commonwealth Bank of Australia	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
	Macquarie Bank Ltd.	SB	A	F1	SB	A2	P-1	NO	A	A-1
	National Australia Bank Ltd.	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
	Westpac Banking Corp.	SB	AA-	F1+	NO	Aa2	P-1	NO	AA-	A-1+
<b>Canada</b>										
	SB	AAA			SB	Aaa			SB	AAA
Banks	Bank of Montreal	SB	AA-	F1+	NO	A1	P-1	SB	A+	A-1
	Bank of Nova Scotia	SB	AA-	F1+	NO	A1	P-1	SB	A+	A-1
	Canadian Imperial Bank of Commerce	SB	AA-	F1+	NO	A1	P-1	SB	A+	A-1
	National Bank of Canada	SB	A+	F1	NO	A1	P-1	SB	A	A-1
	Royal Bank of Canada	NO	AA	F1+	NO	A1	P-1	NO	AA-	A-1+
	Toronto-Dominion Bank	SB	AA-	F1+	NO	Aa2	P-1	SB	AA-	A-1+
<b>Denmark</b>										
	SB	AAA			SB	Aaa			SB	AAA
Banks	Danske A/S	SB	A	F1	PO	A1	P-1	SB	A	A-1
<b>Germany</b>										
	SB	AAA			SB	Aaa			SB	AAA
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+
	Landesbank Berlin AG				PO	Aa3	P-1			
	Landesbank Hessen-Thüringen Girozentrale	SB	A+	F1+	SB	Aa3	P-1	SB	A	A-1
	Landwirtschaftliche Rentenbank	SB	AAA	F1+	SB	Aaa	P-1	SB	AAA	A-1+
	NRW.BANK	SB	AAA	F1+	SB	Aa1	P-1	SB	AA-	A-1+
<b>Netherlands</b>										
	SB	AAA			SB	Aaa			SB	AAA
Banks	ABN AMRO Bank N.V.	SB	A+	F1	SB	A1	P-1	SB	A	A-1
	Bank Nederlandse Gemeenten N.V.	SB	AA+	F1+	SB	Aaa	P-1	SB	AAA	A-1+
	Coöperatieve Rabobank U.A.	SB	AA-	F1+	NO	Aa2	P-1	SB	A+	A-1
	ING Bank N.V.	SB	A+	F1	PO	A1	P-1	SB	A	A-1
	Nederlandse Waterschapsbank N.V.				SB	Aaa	P-1	SB	AAA	A-1+

		SB	AAA			SB	Aaa			SB	AAA		
<b>Singapore</b>													
Banks	DBS Bank Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+
	Oversea-Chinese Banking Corp. Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+
	United Overseas Bank Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+
<b>Sweden</b>													
Banks	Nordea Bank AB	SB	AA-		F1+	SB	Aa3		P-1	SB	AA-		A-1+
	Skandinaviska Enskilda Banken AB	SB	AA-		F1+	SB	Aa3		P-1	SB	A+		A-1
	Svenska Handelsbanken AB	SB	AA		F1+	SB	Aa2		P-1	SB	AA-		A-1+
	Swedbank AB	SB	AA-		F1+	SB	Aa3		P-1	NO	AA-		A-1+
<b>Switzerland</b>													
Banks	Credit Suisse AG	SB	A		F1	SB	A1		P-1	SB	A		A-1
	UBS AG	SB	A+		F1	SB	Aa3		P-1	SB	A+		A-1
<b>United Kingdom</b>													
		N O	AA			NO	Aa1			NO	AA		
AAA rated and Government backed securities	Debt Management Office												
Banks	Bank of Scotland PLC	SB	A+		F1	SB	A1		P-1	NO	A		A-1
	Close Brothers Ltd	SB	A		F1	SB	Aa3		P-1				
	Co-operative Bank PLC (The)	E W	B-	E W	B	EO	Caa 2		NP				
	Goldman Sachs International Bank	SB	A		F1	SB	A1		P-1	SB	A+		A-1
	HSBC Bank PLC	SB	AA-		F1+	NO	Aa2		P-1	NO	AA-		A-1+
	Lloyds Bank Plc	SB	A+		F1	SB	A1		P-1	NO	A		A-1
	Santander UK PLC	SB	A		F1	NO	Aa3		P-1	NO	A		A-1
	Standard Chartered Bank	SB	A+		F1	SB	A1		P-1	SB	A		A-1
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A		F1	SB	A1		P-1	PO	A		A-1
	UBS Ltd.	SB	A+		F1	SB	A1		P-1	SB	A+		A-1
	Ulster Bank Ltd	SB	BBB+		F2	PO	A3		P-2	SB	BBB+		A-2
Building Society	Coventry Building Society	SB	A		F1	NO	A2		P-1				
	Cumberland Building Society												
	Leeds Building Society	SB	A-		F1	NO	A2		P-1				
	National Counties Building Society												
	Nationwide Building Society	SB	A+		F1	NO	Aa3		P-1	NO	A		A-1

	Newcastle Building Society		WD		WD								
	Nottingham Building Society					NO	Baa 1		P-2				
	Principality Building Society	SB	BBB+		F2	SB	Baa 3		P-3				
	Progressive Building Society												
	Skipton Building Society	SB	A-		F1	SB	Baa 1		P-2				
	West Bromwich Building Society					SB	B1		NP				
	Yorkshire Building Society	SB	A-		F1	SB	A3		P-2				
Nationalised and Part Nationalised Banks	National Westminster Bank PLC	SB	BBB+		F2	PO	A3		P-2	SB	BBB +		A-2
	The Royal Bank of Scotland Plc	SB	BBB+		F2	PO	A3		P-2	SB	BBB +		A-2

## Appendix 4

## Definition of Fitch Credit Ratings

### Support Ratings

Rating	Current Definition (December 2014)
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

### Short-term Ratings

Rating	Current Definition (December 2014)
F1	<b>Highest short-term credit quality.</b> Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	<b>Good short-term credit quality.</b> A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	<b>Fair short-term credit quality.</b> The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

## Long -term Ratings

Rating	Current Definition (December 2014)
<b>AAA</b>	<b>Highest credit quality</b> - 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
<b>AA</b>	<b>Very high credit quality</b> - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
<b>A</b>	<b>High credit quality</b> - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
<b>BBB</b>	<b>Good credit quality</b> - 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest investment-grade category.
<b>BB</b>	<b>Speculative</b> - 'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
<b>B</b>	<b>Highly speculative</b> - 'B' ratings indicate that material default risk is present, but limited margin of safety remains. Financial commitments are currently being met, however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
<b>CCC</b>	<b>Substantial credit risk</b> – 'CCC' Default is a real possibility.
<b>CC</b>	<b>Very high levels of credit risk</b> – 'CC' Default of some kind appears probable
<b>C</b>	<b>Exceptionally high levels of credit risk</b> Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a 'C' category rating for an issuer include: a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation; b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or c. Fitch Ratings otherwise believes a condition of 'RD' or 'D' to be imminent or inevitable, including through the formal announcement of a distressed debt exchange. (RD – stands for restricted default and D – default).

*Note:*

*The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-Term IDR category, or to Long-Term IDR categories below 'B'.*

## Appendix 5 - 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 to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI



	differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for)

	funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the council's Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the council's high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the council.