

# AUDIT COMMITTEE

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Wednesday, 27 September 2017 at 7.00 p.m.

C1, 1st 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:**

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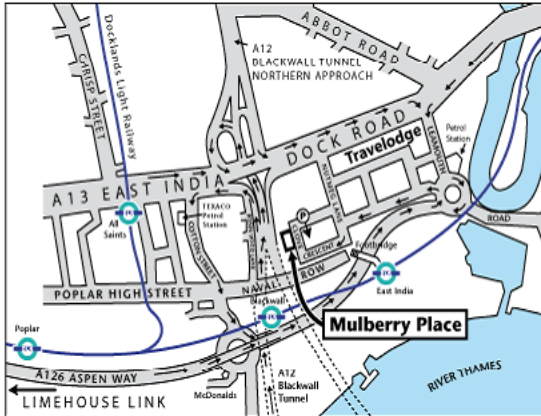
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## **APOLOGIES FOR ABSENCE**

- |  |                  |
|--|------------------|
| <b>1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST</b>   | <b>1 - 4</b>     |
| 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. |                  |
| <b>2. MINUTES OF THE PREVIOUS MEETING(S)</b>   | <b>5 - 14</b>    |
| To confirm the minutes of the Audit Committee held on 28 <sup>th</sup> June 2017.  |                  |
| <b>3. KPMG ITEMS FOR CONSIDERATION</b>   | <b>15 - 46</b>   |
| <b>4. TOWER HAMLETS ITEMS FOR CONSIDERATION</b>  |                  |
| <b>4 .1 Annual Financial Report 2016-17</b>  | <b>47 - 182</b>  |
| <b>4 .2 Quarterly Internal Audit Assurance Report</b>  | <b>183 - 238</b> |
| <b>4 .3 Draft Annual Governance Statement 2016/17</b>  | <b>239 - 258</b> |
| <b>4 .4 Annual Risk Management Report 2017/18 and Q2 Risk Management Update</b>  | <b>259 - 304</b> |
| <b>4 .5 Treasury Management Quarterly Update Report (April 2017 - June 2017)</b>   |                  |
| To Follow  |                  |
| All Wards  |                  |
| <b>4 .6 Internal Audit Forward Plan</b>  | <b>305 - 306</b> |
| <b>5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT</b>  |                  |

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

Thursday, 16 November 2017 at 7.00 p.m. to be held in the C1, 1st Floor, 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:-

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

## APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

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

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## LONDON BOROUGH OF TOWER HAMLETS

### MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.05 P.M. ON WEDNESDAY, 28 JUNE 2017

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

#### Members Present:

Councillor Candida Ronald (Chair)

Councillor Danny Hassell

Councillor Ayas Miah

Councillor Ohid Ahmed

Councillor Andrew Wood

#### Apologies:

Councillor Rabina Khan

#### Officers Present:

Terry Bryan

Michael Darby

Neil Isaac

Minesh Jani

John Kiwanuka

Christine McInnes

Kevin Miles

Stephen Murray

Neville Murton

Ann Otesanya

Tony Qayum

Brian Snary

Anthony Sotande-Peters

David Williamson

Ms Kaur

Head of Pupil Admissions & Exclusions

Head of Parking & Mobility Services

Interim Director of Finance, Tower Hamlets Homes

Head of Audit and Risk Management, Resources

Housing Partnerships Manager, Housing Strategy Regeneration and

Sustainability, Development & Renewal

Divisional Director, Education and Partnership, Children's

Chief Accountant, Resources

Head of Arts and Events, Communities Localities & Culture

Divisional Director, Finance, Procurement & Audit

Director of Neighbourhoods Tower Hamlets Homes

Anti-Fraud Manager, Risk Management , Resources

Financial Accountant - Resources

Interim Strategic Risk Advisor, Risk Management and Audit

Member of the Public

Member of the Public

### 1.1 APPOINTMENT OF VICE-CHAIR

Councillor Ayas Miah nominated Councillor Danny Hassell as vice-chair of the Audit Committee for municipal year 2017/18, which was seconded by Councillor Candida Ronald.

The Audit Committee agreed to appoint Councillor Danny Hassell as vice-chair.

### 1.2 APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Rabina Khan.

Cllr Andrew Wood gave apologies for leaving the meeting for a short period to attend the Development Committee to raise objections to an application.

### 1.3 DECLARATIONS OF DISCLOSEABLE PECUNIARY INTEREST

No declarations of discloseable pecuniary interest were disclosed by the members.

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

The minutes from the 21<sup>st</sup> March 2017 were agreed to be an accurate record of the meeting and were signed off by the Committee.

## 3. TOWER HAMLETS ITEMS FOR CONSIDERATION

### 3.1 Audit Committee Terms of Reference, Quorum, Membership and Dates of Meetings

The Chair, Councillor Candida Ronald informed members the Terms of Reference, Quorum, Membership and Dates of Meetings report was for noting. She said it was useful for Members to be reminded of the purpose and responsibilities of the Committee.

Members of the Committee agreed and confirmed they were happy for future meetings to commence at 7:00 p.m.

The Audit Committee **NOTED** the report.

### 3.2 Draft Annual Financial Report 2016/17

Neville Murton, Service Head for Finance and Procurement introduced this report and stated the Draft Annual Financial Report for 2016-17 comprised of a Narrative Report by the Corporate Director for Resources and the draft

Statement of Account which was subject to audit. The full Annual Financial Report also contained the Annual Governance Statement which is subject to a separate report on the Committee agenda. Mr Murton said the draft Annual Financial Report and Annual Governance Statement would be submitted to the external auditors KPMG and would be placed on the Council website for public inspection next week.

Members of the Audit Committee asked the following questions

- Page 46 – the Earmark reserve has seen a large increase and so has the Pension Reserve. Is there an explanation for this?  
*Overall the levels of reserves have been reviewed and earmarked reserves have changed to reflect the different priorities of the Council. The Pensions reserve has increased in value due to an increased deficit in the actuary's report. Though the pension fund investments increased in value by over £200m, the bond rate used by the actuary to calculate the net present value (NPV) of future pension liabilities has reduced – this reduction increased the under the NPV of pension liabilities by over £300m.*
- The Chair asked Officers to talk through the earmarked reserves on page 70.  
*Neville Murton responded that two notable earmarked reserves were the IT and the Transformation Reserves. The transformation reserve referred to the Council programme 'smarter together' and IT related to the Council's ambition to update IT systems. The time frame for the projects is short to medium term.*
- Will external auditors have a view on the earmarked reserves?  
*They will examine the rationale adopted and will question the reasons behind the move away from a generic to more specific reserves.*

The Audit Committee **NOTED**

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

### **3.3 Head of Audit Report 2016/17**

Minesh Jani, Divisional Director for Risk Management presented his Audit Report for 2016/17. He referred Members to page 144 of the agenda and said paragraph 3.2 set out what the report encompassed. He made reference to the table at 8.3, page 146 which summarised the audit assurance resulting from audit reports in 2016/17. 22% of services had achieved 'limited assurance' and Officers from the services were present to answer questions from Members.

Members of the Audit Committee asked the following questions:

- Were there no 'nil' returns?

*The table captures information from 2016/17 and there were no 'nil' returns.*

- Referring to Page 148, what does the Committee need to do in order to ensure recommendations from internal audit reports are fully implemented, in a timely way?

*The Audit Committee does have a role and if services are repeatedly coming to Audit then it raises questions about how effective Risk Management has been.*

- **ACTION:** Recommendations arising from audit reports should be referred to the Corporate Leadership Team to ensure they are aware how services are performing and what recommendations are outstanding.
- What effect has the churn of staff and interim appointments had on services moving from 'limited' assurance to 'substantial'?  
*Churn of staff does have a detrimental effect on services, however the Council is moving forward with its transformation programme with services and methodology changing.*
- When recommendations are made how does Audit test the vigour with which the recommendations are implemented?  
*Audit will always follow up recommendations with 'follow up' visits and recommendations are fully reported back to Service Heads and Divisional Directors. The Audit Plan is devised in consultation with Senior Management and takes into account areas of concern. The Best value regime has raised the need to improve Risk Management and the control environment.*

The Audit Committee heard further from Officers in the following services:

### **Management and Control of Parking Permits**

Michael Darby, Head of Parking and Mobility Services, informed members that out of the 16 recommendations 6 recommendations were moving forward and 10 were dependant on a new IT system being in place. Mr Darby stated tenders were being sought and it was hoped the new system would be in place by February 2018. Tony Qayum offered assistance in ensuring bidders/providers had the correct risk controls when procuring the PID system.

It was agreed the 'follow up' visit by Audit should take place in April 2018 once the new system had bedded in.

### **Brady Arts Centre and Kobi Nazul Centre**

Steve Murray Head of Arts and Events informed Members that the Service had made significant progress against the 6 recommendations identified by Audit. Members of staff had been trained to use the HR Self-Service Portal to book annual leave and flexi time sheets and sickness records were cross referenced. He said the Centre kept hard copies of the return to work interviews conducted with staff and had tightened up procedures relating to purchase cards.

- Cllr Hassell asked if issues such as timesheets and purchase cards could be explored under thematic categories.

*Minesh stated this was part of the Audit Forward Plan.*

### **Market Vouchers – Follow up**

Roy Wayre, Interim Markets Manager, referred to the recommendations on page 163 of the agenda and said he had taken over a fragmented service, which was currently being restructured. The service had reached an agreement with the Trade Unions and was in the process of recruiting to vacant positions. He said the training programme had been strengthened to include legal and enforcement processes and personal safety training.

Mr Wayre assured Members of the Committee that any follow up visit would show the service had made improvements.

### **Control and Monitoring of Right to Buy Valuations**

John Kiwanuka, Housing Partnership Manager addressed the Committee stating the Housing contract was managed by the Council and Tower Hamlets Homes (THH). The six recommendations on pages 166-167 had been addressed. Members questioned how the contract had a seven fold overspend. Minesh Jani explained this was not something the Budget Head would have been able to spot and Neil Issac, Interim Director of Finance from THH explained the oversight occurred as THH officers and the Councils asset management had failed to communicate with each other. THH Officers did not ask about the value of the contract as the company employed was a reputable one who provided concise valuations. The procedures have been tightened up with THH providing a spreadsheet log of all outstanding recommendations, which is discussed as part of their management team meetings.

### **Highways Repairs and Maintenance – Follow up**

No one from this Service was present to answer questions from Members.

### **Commissioning of SEN Placements**

Christine McInnes, Service Head Education and Paternship, referred to the six recommendations made by the Audit inspection, pages 170-171 of the agenda pack and said the SEND leadership and management team had been established to increase capacity and capability of the SEND team. She said the team was undertaking three strands of work: Establishment of the SEND team; SEND area inspection – Ofsted and mapping of referrals and following processes.

Terry Bryan, Head of Pupil Services, stated he was confident if re-inspected the service could show that SEND placements were achieving value for money and assessments were now involving parents and were being co-produced with other agencies involved – i.e. health and education colleagues.

### **Pensions**

Neville Murton, Service Head of Finance and Procurement stated officers had undertaken a repeat exercise to identify former employees who had passed away, but were still in receipt of a Pension. Next of kin were contacted and recovery action was taken to recoup overpayment. However this took time due to legal processes and sometime criminal prosecutions.

**Financial Assessments**

Members had no questions in relation to this audit assessment.

**THH Housing Insurance Claims – Follow up**

Ann Otesanya, Director of Neighbourhoods, THH addressed the committee stating THH had made progress since April 2017. She said regular meetings were in the diary with contractors and processes around performance reporting had been improved. She said information on what a Tenant or Leaseholder should expect was on their website and not in the referred handbooks.

Ann also confirmed they had agreed with the Council to turnaround insurance claims within 15 working days and any further follow –up from Audit would show they were compliant.

**THH Management of Asbestos – Follow up**

Neil Issac, Interim Director of Finance, THH referred Members to page 185 of the agenda and stated that a considerable amount of data had been brought together to ensure Asbestos was managed properly. He made reference to the organisations overarching Strategy and Keystone – the database which holds asbestos records.

Members of the committee were assured THH had implemented the recommendations made and that a log of recommendations recording the speed at which they were implemented would be shared with the Council's Audit function.

**St Luke's CoE Primary School**

Members of the Committee agreed there should be a standard report coming to the Audit committee outlining how schools were performing to ensure the safety of children, rather than individual reports being received relating to specific schools.

Members of the Committee **NOTED** the report.

**3.4 Anti-Fraud Update**

Tony Qayum, Corporate Anti-Fraud Manager presented his Anti-Fraud update relating to the Corporate Anti-Fraud Team's (CAFT) activities for the financial year end of 2016.

He referred Members to the table at 4.1, page 252-3 in the agenda which summarised the activity of CAFT and showed the amount of money the Anti-Fraud team had recovered.

The Chair commended Tony Qayum for the excellent work his team had achieved and enquired about the social housing amnesty. Tony confirmed this had been a successful campaign with most of the sub-let properties being returned to the Council.

Councillor Wood added the success of the team ought to be publicised by the Council's communications team so to ensure the general public were aware Tower Hamlets was not a 'soft touch'. Councillor Wood made reference to the work the CAFT team had undertaken regarding Blue Badge Fraud and said he was really pleased how the team had resolved queries from Members and the general public. Tony informed Members the team was to feature in a BBC programme about anti-fraud, which Members praised as a positive outcome of the CAFT team's achievements.

The Committee **NOTED** the report.

### **3.5 Risk Management Update**

Anthony Sontande-Peters, Interim Strategic Risk Advisor updated Members on the Corporate Risk register. He referred Members to point 5.2 of the report and stated a total of 13 risks had been identified. Appendix 1 gave an overview about the risk and the current risk rating; appendix 2 gave further details and appendix 3 was the corporate risk dashboard which set out the heat map of the Council's risks and performance information in respect of the risks.

#### **FIRE SAFETY – UPDATE FROM TOWER HAMLETS HOMES ON PRECAUTIONARY MEASURES TAKEN**

Members of the Audit Committee heard from Ann Otesanya, Director of Neighbourhoods and Neil Issac, Interim Director of Finance from Tower Hamlets Homes about the precautionary measures they had taken in light of the Grenfell Tower Tragedy.

They stated THH had met with the Fire Brigade's Borough Commander and had written to residents about the 'stay put' policy currently followed for tower blocks in the borough. Ann said it was clear the risk register will need to be expanded to include fire safety and there was work to be done to map out what THH's policy should be, in light of the emerging advice.

Fire assessments had been undertaken and 8 tower blocks had been identified to be 'high or substantial' risk. Ann said THH was working with the Fire Brigade to ensure people's safety was not compromised. Cladding on tower blocks was being reassessed but none of the blocks in Tower Hamlets have ACM materials. However that is not to say other materials will not be identified as being a risk, so the situation is fast moving.

With respect to the fire at Turin Street, the Fire Brigade had dealt with the situation extremely well. The fire spread in the roof space and therefore THH was working with the Borough Commander on how to make roof voids safer. Three similar blocks, which are undergoing refurbishment, will have roof voids fire proofed as part of the works being undertaken.

THH officers have also had a visible presence on the Estates managed and have been providing advice and support to residents.

Members of the Committee asked the following questions relating to fire safety:

- Have residents effected by the Turin Street fire being housed outside of the borough?  
*THH confirmed some residents were being housed in a hotel in Barking and Dagenham. However affected residents will be offered secure tenancies from existing housing stock. THH was working with residents to achieve the best outcome.*
- Letters sent in relation to the stay put policy is causing confusion amongst residents. Can you be clear on the advice you give.
- Nationally buildings are being categorised quickly as to if they are a risk, so why is this information not being used?  
*Work is already underway to identify and categorise buildings however in light of Grenfell those risks have changed, so fire risk assessments have to be undertaken.*  
*Risk assessments are undertaken by independent assessors and THH's assessor – Savills carry this out. The oldest Fire assessment is 9 months old but we will go back to fire risk assess all our estate.*

*With respect to the 'Stay put' policy we are following the Fire Brigade's current advice. However in context of Grenfell, this will change. It's about the construction of the building and the materials used in construction that will determine if 'stay put' is the right policy.*

- What has been done to ensure residents and leaseholders concerns are being listened to?  
*It's clear this was identified as an issue by Grenfell Tower residents. Residents need to be listened to and THH is looking at its existing policies and processes so to ensure the resident's voice is listened to. We have already started to audit past complaints and member enquires to ensure we capture emerging themes and complaint trends.*

Members of the Audit Committee asked the following questions relating to the report itself.

- How is the risk rating calculated?
- In reference to page 284, are these existing controls or Ofsted ratings?  
*A deep dive on risk is scheduled to take place looking at Children's services for the next meeting and officers from the service will be invited to answer member questions.*
- Cllr Wood requested 'Fire safety' be added to the Corporate Risk register in light of the Grenfell Tower tragedy.

The Audit Committee **NOTED** the report.

### 3.6 Treasury Management Outturn Report for 2016/17



Neville Murton, Service Head for Finance and Procurement and Kevin Miles, Chief Accountant Corporate Finance presented the Treasury Management Outturn Report for 2016/17.

Under the Local Government Act 2003 the treasury management activities of the Council must be reported annually. The report summaries the Council's treasury management activities for the financial year ending 31<sup>st</sup> March 2017.

Kevin referred Members to page 326 of the agenda and the summary table showing all outstanding investments as at 31<sup>st</sup> March 2017. He also referred members to page 322 which showed how current investments have been performing.

The Investment advisor would be appointed to offer training to Members of the Audit Committee.

Members of the Audit Committee **NOTED** the report and **AGREED**:

1. It would like to receive investment training from the Council's investment and treasury advisor; and
2. In future the Committee would welcome an abbreviated summary of the adviser's performance report rather than the whole report.

### **3.7 Forward Plan 2017/18**

Minesh Jani, Service Head for Risk Management informed members the forward plan would be circulated via e-mail.

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

There was no other urgent business discussed.

The meeting ended at 9.42 p.m.

Chair, Councillor Candida Ronald  
Audit Committee

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# External Audit Report 2016/17

London Borough of Tower Hamlets

—

September 2017

# Content

Contacts in connection with this report are:

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## Important notice

### 1. Summary

### 2. Financial statements audit

### 3. Value for money conclusion

## Appendices

- 1 Recommendations raised and followed up
- 2 Materiality and reporting of audit differences
- 3 Audit differences
- 4 Audit independence
- 5 Audit quality framework

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This report is addressed to the London Borough of Tower Hamlets (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

# Important notice

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This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to the London Borough of Tower Hamlets (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

**Basis of preparation:** We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

**Purpose of this report:** This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

**Limitations on work performed:** This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

**Status of our audit:** Our audit is almost complete, but there is some on-going work and closing procedures to complete. As such matters communicated in this Report may change, although at this stage we are not anticipating anything of significance. We will provide an oral update on the status of our audit at the Audit Committee meeting.

### Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 30 September 2017, following the Audit Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 30 September 2017.

We have almost completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences.

We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In relation to grant payments and property leases the issues that we identified in our 2015/16 ISA260 report still apply (as the Authority have only addressed them in 2017/18). In summary several Mainstream Grant payments have been identified that were not made in accordance with all of the conditions set by Commissioners. Specifically for the organisations receiving the grant there was no formal agreement in place setting out the agreed use/occupation of the property. Thus for 11 organisations the Authority has concluded that no formal property agreement was in place for 2015/16 and that this continued to be the case in 2016/17. **Therefore the xx payments made to these 11 organisations in 2016/17 are considered to unlawful. The total value of the payments made was £xxx,xxx.** The position will be set out and summarised as an additional disclosure in the Authority's financial statements.

- In addition to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - grants paid and significant grant funding schemes; and
  - section 106 and Community Infrastructure Levy (CIL) agreements.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We have received one proposed objection from a local elector this year.

We intend to issue our 2016/17 Annual Audit Letter in October 2017.

The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries. One is in relation to parking matters and the Authority's 2013/14 financial statements. The other is an objection that refers to two of the Authority's Private Finance Initiative schemes and relates to 2016/17. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Value for money – see section 3 for further details

We identified one significant risk and two areas of audit focus in relation to our VFM work in our External audit plan 2016/17 issued in January 2017. The significant risk was in relation to the implementation of the Best Value (BV) action plans and the areas of focus were the Medium Term Financial Plan (MTFP); and the 'clear up' project.

We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 3 of this report.

In terms of our VFM conclusion our key consideration has been in relation to the progress made on the areas which led us to qualify our VFM conclusion in 2013/14, 2014/15 and 2015/16. These areas were grant payments and connected decisions; disposal of property and the granting of leasehold interests; spending on publicity; and corporate governance arrangements in the three areas. Our qualification for 2014/15 additionally referred to our Section 11 recommendation made in October 2015 reflecting our view that the Authority needed to ensure that its governance processes were appropriate in a wider sense for the Authority as a whole and as part of its programme of cultural change and not just the areas referred to in the BV Inspection report.

Consequently, in terms of 2016/17 we have considered the reporting by the Commissioners to the Secretary of State for Communities and Local Government (SoS for CLG) and the extent to which the Authority's BV action plans were reported as actions completed. In relation to our Section 11 recommendation, we are satisfied that the issues referred to have been incorporated into the Authority's BV action plan relating to organisational culture.

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In their February 2017 letter to the SoS for CLG the Commissioners were positive and they set out their endorsement of the progress that had been made in all areas of the Direction regime. In particular the Commissioners welcomed the Authority's realistic appreciation not only of what has been done, but also what remains to be done to fulfil the expectations for the Directions. The Authority was clear in its February 2017 submission to the SoS for CLG, that it would take some 12 months to complete the work required. The Authority has developed this work into a BV Improvement Plan under five areas: elections; communications; property; grants; and organisational culture.

Following meetings with the Mayor, the SoS for CLG decided to end the 2014 Directions and not extend the appointment of the Commissioners beyond 2014 in recognition of the Authority's progress. In light of the remaining work the SoS CLG has made three new, less intrusive Directions (in force until 30 September 2018) which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV improvement plan to the SoS CLG; and set up an independent review of achievement of the BV improvement plan with a report to the SoS CLG by 1 August 2018.

The latest progress report shows that delivery is on track for around 80% of the 115 actions/milestones detailed in the Authority's BV improvement plan. The Authority is monitoring progress closely, has not identified any significant concerns with respect to the delayed/overdue actions, and is attempting to take corrective action to bring delayed/overdue actions back on track.

From all of the above commentary we have noted that the Authority has made good progress and this has been acknowledged by external parties. However, with respect to the VFM conclusion we are required to consider the financial year as a whole and thus there were a number of actions that were not completed within 2016/17.

We have therefore concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2016/17. However, we are now satisfied that none of the remaining issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore anticipate issuing a qualified VFM conclusion on an 'except for' basis rather than the adverse basis that we have applied in 2013/14, 2014/15 and 2015/16. **Our proposed opinion covering both the financial statements and the VFM arrangements is included in Appendix 6.**

### Value for money (continued)

In terms of the other areas of focus (MTFS and 'Clear Up' project) There are no significant matters arising.

For the MTFS the Authority has appropriate processes and mechanisms in place to manage its finances over the life of the MTFS, although there are significant agreed savings plans to be delivered and savings opportunities to be finalised and then delivered. Furthermore, the Authority is facing some significant challenges as it moves forward with an ambitious 3 year transformation programme.

In terms of the 'Clear Up' project, the investigations into matters brought to the Authority's attention have been completed with a final report of findings and issues arising being considered by Cabinet in June 2017. The Authority has set up comprehensive responsibility and public monitoring to ensure that all of the actions identified are completed.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances, etc).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

Our 2015/16 ISA260 report contained two recommendation relating to 2015/16 and a prior year recommendation that required further action by Management. As this report was only finalised recently we intend to follow up on the Authority's progress as part of the 2017/18 audit. To the extent that we have tested these areas of the Authority's operations during this year's audit our approach and the results of our work are detailed in this report.

We have not made any new recommendations as a result of our 2016/17 work. However, this should be viewed in the context that the 2015/16 ISA 260, which included two recommendations, has only recently been finalised (the 2015/16 recommendations are included in Appendix 1); and the new Directions issued by the Secretary of State for Communities and Local Government in March 2017, which set out the Authority's Best Value Improvement Plan (referred to on the previous page).

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- Teacher's Pensions Return – this work is planned to be undertaken in October 2017 in order to meet the Teacher's Pensions agency deadline of 30 November 2017; and
- Housing Capital Receipts Return - this work is planned to be undertaken in October 2017 in order to meet the DCLG's deadline of 30 November 2017.

The fees for this work are explained in section two.



## Section Two

# Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	Before	During	After
<b>1. Business understanding:</b> review your operations	✓	✓	–
<b>2. Controls:</b> assess the control framework	✓	–	–
<b>3. Prepared by Client Request (PBC):</b> issue our prepared by client request	✓	–	–
<b>4. Accounting standards:</b> agree the impact of any new accounting standards	✓	✓	–
<b>5. Accounts production:</b> review the accounts production process	✓	✓	✓
<b>6. Testing:</b> test and confirm material or significant balances and disclosures	–	✓	✓
<b>7. Representations and opinions:</b> seek and provide representations before issuing our opinions	✓	✓	✓

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We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Chief Accountant and the Interim Financial Accountant and this was issued as a final document to the finance team. The Council has continued to produce appropriate quality working papers with clear audit trails.

## Section Two

# Financial statements audit

4. Accounting standards	<p>We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to:</p> <ul style="list-style-type: none"><li>• Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis;</li><li>• Amended guidance on the Annual Governance Statement; and</li><li>• Changes in the format of the Pension Fund accounts.</li></ul> <p>We have no significant comments/observations to bring to your attention in relation to these changes.</p>
5. Accounts Production	<p>We received complete draft accounts by 30 June 2017 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a good position to meet the new accelerated 2017/18 deadline.</p> <p>We thank the Finance team for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted, they have no material effect on the financial statements. In addition the Council has identified one material presentational change, relating to the gross value of pension assets and liabilities in note 41 of the financial statements. The amendment has decreased the gross value of the pension assets and liabilities by £50 million, but there is no impact on the net pensions liability, which remains as £619 million at 31 March 2017.</p>
7. Representations	<p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Corporate Director of Resources on [DD] September 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on:</p> <ul style="list-style-type: none"><li>• Grants paid and significant grant funding schemes; and</li><li>• Section 106 and Community Infrastructure Levy (CIL) agreements.</li></ul>

## Section Two

# Financial statements audit

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with Management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- Page 23
- The results of the procedures we performed over Property, Plant and Equipment; Valuation of Pension Fund Assets; Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation; Declarations of interest; Section 106/CIL agreements; and Grant payments which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
  - The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
  - Our view of the level of prudence applied to key balances in the financial statements (including provisions (for bad debts, NNDR etc); HRA assets; PPE assets; asset lives; accruals and de minimis levels; and pension liability) concluded that these were considered reasonable and we have not needed to comment further on these in this report.

## Section Two

# Financial statements audit

SIGNIFICANT audit risk	Account balances affected	Summary of findings
<p><b>Valuation of Pension Fund Assets (Pension Fund)</b></p> <p>At 31 March 2016 the Pension Fund had investment assets totalling £979 million. The investment portfolio includes derivative contracts which can be complex to value. Given the size and potential for complexity in the investment portfolio we consider this to be a significant audit risk for 2016/17.</p>	<p>Investment assets £1,353 million, PY £971 million</p>	<p>We have undertaken detailed testing of investments as part of our final accounts audit, including assessing the design and operation of controls in place, obtaining independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances, undertaking substantive testing over sales and purchases made in the year, reviewing year on year movements, and comparing performance to known benchmarks.</p> <p>No issues were noted as a result of our procedures.</p>
<p><b>Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation (Authority)</b></p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p>The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by the Authority itself as the pension liabilities represent a significant element of its balance sheet.</p> <p>Further there are significant judgments made in relation to the assumptions to be adopted when calculating the pension liability.</p>	<p>Pensions reserve £619 million, PY £517 million</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>▪ Confirmed that the information provided to the actuary from the Authority is reasonable;</li> <li>▪ Reviewed the actuarial valuation and considered the disclosure implications; and</li> <li>▪ Considered the approach adopted and assumptions made by your actuaries to benchmarks (including independent experts engaged by the NAO) and other information available to us and to the assumptions used for 2016/17 for consistency with previous years.</li> </ul> <p>No issues were noted as a result of our procedures.</p>

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## Section Two

# Financial statements audit

SIGNIFICANT audit risk	Account balances affected	Summary of findings
<p><b>Property, Plant and Equipment (Authority)</b></p> <p>The Authority has a significant asset base primarily relating to Authority dwellings; and operational buildings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty.</p>	<p>Property, plant and equipment £2,275 million, £2,157 million</p>	<p>We have considered the Authority's approach to valuation of PPE with reference to accounting standards and the Code; the information provided to the valuer; reports received by the Authority from its valuer and the judgements made by the Authority in response to those reports. We have compared your valuer's assumptions to benchmarks and to assumptions used for 2016/17 for consistency and ensured that the valuer explicitly considered upward trends as well as impairments in conducting the valuations; and also whether there were material changes in valuations for asset classes valued more than 12 months ago. We also considered disposals including in relation to the BV Inspection findings and consequent Direction.</p> <p>We have no matters to bring to your attention as a result of completing this work.</p>
<p><b>Declarations of Interest (Authority)</b></p> <p>The Commissioners informed us that they remained concerned as to whether declarations were being made appropriately and completely by both officers and Members. Our 2015/16 consideration of the Authority's approach noted some weaknesses in the Authority's systems and approach to the new requirement for all staff to complete an annual declaration of interest. In particular these related to completeness of records to ensure all staff have completed a return; for those staff identified to date there had not yet been a 100% return of declarations; training should be enhanced to ensure staff understand the importance of the declarations and completing them fully and accurately; obtaining further assurance about the process and consideration/ assessment of the returns received and whether any further action is needed.</p>	<p>N/A</p>	<p>We have considered the actions taken by the Authority which include a requirement for all staff to complete an annual declaration. The most recent update is that over 99% of staff have completed a Declaration of Interest which has been approved by their line manager. There is a specific HR team set up to work on and monitor completion of declaration of interests, and provide support and training to staff and line managers.</p> <p>All interests are captured on the HR system. A report is sent to Divisional Directors informing them of the interests declared by their staff. Further, because line managers are required to approve the Declaration of Interest forms they should be aware of any interests that might harm the independence of their staff.</p> <p>HR have also provided managers with a checklist of what to do if their staff disclose certain interests. Managers are required to consider whether the interest disclosed could be perceived to impact the independence of staff and are required to raise it with their head of service if this is the case.</p> <p>Internal audit have also completed a review of interest declaration and the report was issued with a 'substantive' assurance.</p> <p>We have no further matters to bring to your attention as a result of the above considerations.</p>

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SIGNIFICANT audit risk	Account balances affected	Summary of findings
<p><b>Section 106/CIL agreements (Authority)</b></p> <p>This has historically been highlighted as an additional area of concern by Commissioners from the enquiries they have made. The Authority has responded positively to an independent review of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements. Although our 2015/16 testing did not identify any issues in terms of balances held and monies spent, we did note some issues regarding when funds were spent vis a vis the deadline set out in the final agreements.</p>	<p>Balances: developers' contributions (received in advance) £82 million; PY £68 million.</p> <p>Income: CIL (non-conditional) £18 million, PY £7 million; developers' contributions (conditional) £2 million, PY £4 million; and developers' contributions (credited to services) £5 million PY £7 million</p>	<p>We have tested a selection of schemes and the overall controls employed by the Authority to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process. Our testing of 28 schemes did not identify any issues in terms of balances held; monies spent during 2016/17; and plans for spending. No issues were noted from this testing.</p> <p>For the two schemes which had gone beyond the time when the s106 agreement requires the funds to have been spent that we identified in 2015/16 we noted:</p> <ul style="list-style-type: none"> <li>• (PA/06/01439 expired October 2015) – the balance at 31 March 2017 was £1.5 million, with expenditure of £2.1 million during 2016/17. We understand the balance is fully committed and expected to be largely spent during 2017/18; and</li> <li>• For the other small scheme (PA/02/1852 - £40,000), the Authority are awaiting the resolution of a legal dispute with the developers regarding how the development has been completed. Until this is resolved the contribution will be held in the account prior to programming or return.</li> </ul> <p>We understand that due to the circumstances of each scheme that there is very limited risk of the funds being lost.</p> <p>Last year we also noted that a further scheme was due to expire in January 2017. However, an additional contribution has now been received and therefore the date by which the funds need to be used has been revised to 2022.</p> <p>In respect of the independent review last year we noted that the Authority had reported that all recommendations had been implemented except those that required the implementation of a new software system which had been procured and was in the process of being implemented. This year we have noted that the database has now been scoped and purchased. The Authority is in the process of linking CIL, Accolade and Agresso and the links will need to be fully tested before final implementation.</p>

# Financial statements audit

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SIGNIFICANT audit risk	Account balances affected	Summary of findings
<p><b>Grant payments (Authority)</b></p> <p>The Best Value Inspection concluded that the Authority had not achieved its best value duty with regard to the payment of grants and connected decisions between 2010 and 2014. Consequently, the award of grants became the responsibility of independent Commissioners who were appointed by the Secretary of State for CLG from January 2015. A small number of grant payments (seven, with a value of £32,721 across the 2015/16 and 2016/17 financial years) were identified by the Commissioners/ Authority as not having been made in accordance with the conditions the Commissioners had set ie considered to be unlawful. Whilst our testing of payments in 2015/16 did not identify any further significant issues, the lack of a central record of all grant payments made it difficult to identify the population that we needed to sample test to address the risks identified in our 2015/16 audit plan. We understand that the Authority intends to move to a unified system for recording all grant payments in 2017.</p>	<p>Included within service expenditure. Value of grants paid £18.5 million (Non Domestic Rate discretionary relief £12.4 million; and Mainstream grants £2.9 million)</p>	<p>We have considered the detailed approach and systems put in place by the Authority and Commissioners and tested payments. We have also assessed whether any conditions/ delegation arrangements have been implemented effectively by Authority officers.</p> <p>We have completed detailed testing of 17 grants paid in 2016/17. All of the grant expenditure tested was found to have been incurred in line with the approval given; conditions of the specific grant stream; payments consistent with approval given; monitoring evidence had been received and considered by the Authority; and any other conditions imposed by the Commissioners.</p> <p>In 2015/16 we reported that the Commissioners/Authority officers have identified several Mainstream Grant payments that were made where the conditions set by Commissioners had not been met. Specifically for the organisations receiving the grant there was no formal agreement in place, between the organisation and the Authority, setting out the agreed use/occupation of the property. Consequently, these payments are considered to be unlawful.</p> <p>The Authority completed a detailed review of the position for 41 organisations in June 2017 and identified 27 organisations with issues requiring further work/assessment. Of these 27 organisations, the Council has concluded that as of June 2017, for seven organisations there was no evidence that a formal property agreement was not in place for 2015/16; for one organisation a lease was agreed in 2016/17 and consequently grant payments have been authorised; and for nine organisations the organisation is considered, by Members, to be working constructively with the Council to ensure formal arrangements will be in place as soon as possible and thus all previous grant payments have been authorised.</p> <p>For the remaining 11 organisations the Authority has concluded that no formal property agreement was in place for 2015/16 and that this continued to be the case for 2016/17. <b>Therefore the XXX payments made to these 11 organisations in 2016/17 are considered to be unlawful. The total value of the payments made was £xxx,xxx.</b></p> <p>As our work has not identified any errors in terms of the recording of expenditure for financial statements purposes and we are already proposing a qualified opinion on the Authority's arrangements for securing VFM in its use of resources, we have not extended our work further. However, we did make a recommendation in our recently finalised 2015/16 ISA260 report referring to the need for the Authority to make further improvements relating to its systems/controls for grant payments.</p>

## Section Two

# Financial statements audit

### Other areas of audit focus

We identified three other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances affected	Summary of findings
<p>Payroll (Authority)</p> <p>Payroll represents a significant proportion of the Authority's annual expenditure (approaching 33% of gross spend at £482 million in 2015/16). Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.</p>	<p>Employee benefits expenses £477 million, PY 473 million</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed and tested reconciliations for gross pay and deductions (eg pensions, tax and national insurance).</li> <li>Completed substantive analytical reviews of payroll costs and tested supporting system information used to compile our analytical review.</li> </ul> <p>No issues were noted as a result of our procedures.</p>
<p>Youth Services (Authority)</p> <p>Reviews have uncovered historical shortcomings and wide spread malpractice in the Authority's youth service. The Authority has responded by putting in place an interim model to deliver services and is now moving to securing a long term strategic and operational plan for the service. There is an action plan in place to both deal with the historical matters and to move to the future service model.</p>	<p>Included within service expenditure</p>	<p>We have noted that the Authority had completed the interim actions to stabilise the Service. In December 2016 the Authority agreed to implement a proposal to transform the Council's youth service. This includes a restructure of the youth service, from January 2017 to enable the service to be delivered through a combination of internal resources and external commissioning. The new approach was also aimed at resolving the longstanding issues associated with service values and culture through a three year strategic and operational plan.</p> <p>No issues were noted as a result of our procedures.</p>
<p>Calculation of benefits (Pension Fund)</p> <p>The calculation of benefits can be complex. In 2015/16 a total of £52 million was paid out by the Pension Fund (pensions and lump sums). Given the quantity and complexity of these calculations there is a risk of misstatement.</p>	<p>Benefits (lump sum and pensions) £52 million, PY £52 million</p>	<p>We have completed a substantive analytical review of pensions in payment and tested supporting system information used to compile our analytical review. We have tested a sample of lump sum benefit calculations.</p> <p>No issues were noted as a result of our procedures.</p>

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## Section Two

# Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider this generally to be a significant risk for local authorities (or the pension funds) as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures, except for conditional grant income (which is predominantly made up of section 106 ie developers' contributions (80% of the total of £76 million in 2015/16)). We therefore combined this work with the significant audit risks for section 106/CIL agreements.</p>	As noted, we have combined the work identified with our work on the significant audit risk for section 106/CIL agreements. The findings from our work have therefore been reported in that Section.
Fraud risk from management override of controls	<p>Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	There are no matters arising from this work that we need to bring to your attention in relation to the Authority or Pension Fund.

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## Section Two

# Financial statements audit

### Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

### Pension fund audit

The audit of the pension fund and the Pension Fund Annual Report was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

### Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in the London Borough of Tower Hamlets' financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of the London Borough of Tower Hamlets. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

### Queries from local electors

We have received one objection this year, that refers to two of the Authority's Private Finance Initiative schemes. We are considering whether it meets the criteria to be accepted as an objection.

### Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. The audit cannot be formally concluded and an audit certificate issued as we are considering two elector queries. One is in relation to parking matters and the Authority's 2013/14 financial statements. The other is an objection that refers to two of the Authority's Private Finance Initiative schemes and relates to 2016/17. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

## Section Two

# Financial statements audit

### Whole of Government Accounts (WGA)

We reviewed your WGA consolidation pack and there are no issues to report. We anticipate issuing an unqualified consistency report.

### Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- Teacher's Pensions Return – this work is planned to be undertaken in October 2017 in order to meet the Teacher's Pensions agency deadline of 30 November 2017; and
- Housing Capital Receipts Return - this work is planned to be undertaken in October 2017 in order to meet the DCLG's deadline of 30 November 2017.

### Audit fees

Our fee for the audit (Authority and Pension Fund) was £230,918 excluding VAT (£248,523 excluding VAT in 2015/16). This fee is in line with that highlighted in our audit plan approved by the Audit Committee in January 2017. Additional fees will be required for the additional work we have needed to undertake relating to the BV Inspection issues and the Authority's response. Further additional fee would also be needed if the objection to the Authority's PFI schemes were to be accepted.

Our work on the certification of Housing Benefits (BEN01) is in progress, but is not yet complete. The planned scale fee for this is £22,838 excluding VAT (£20,327 excluding VAT in 2015/16). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £7,000 excluding VAT (£6,500 excluding VAT in 2015/16).

We have not completed any other non-audit work at the Authority in 2016/17.

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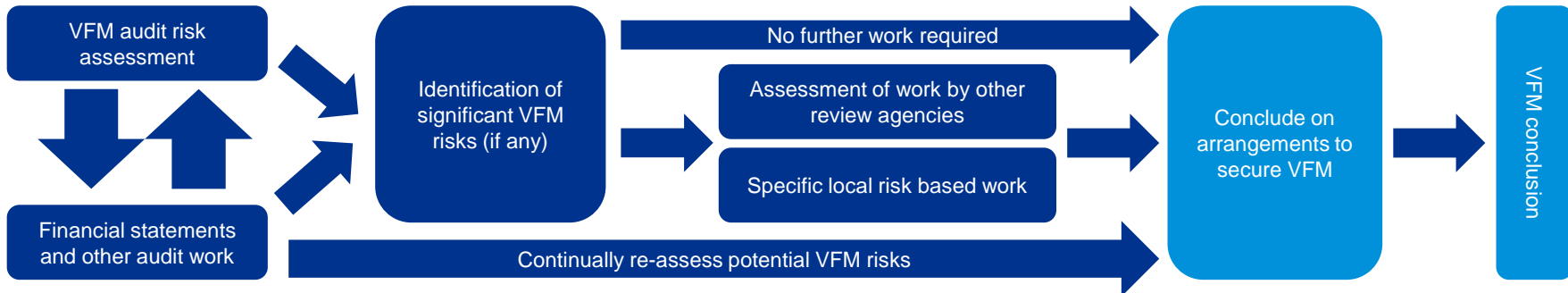
## Section Three

# Value for money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified one significant VFM risk and two other areas of audit focus which are summarised on the following pages.

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2016/17. However, we are now satisfied that none of the remaining issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore anticipate issuing a qualified VFM conclusion on an 'except for' basis rather than the adverse basis that we have applied in 2013/14, 2014/15 and 2015/16.

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## Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this risk is significant	Our audit response and findings
Implementation of BV Action Plans	<p>The Authority monitors progress towards implementation regularly and reports on a monthly basis to the Best Value Programme Board with a summary report produced every 6 months for reporting to the SoS CLG. The latest report to the SoS CLG (September 2016) reported 95% completion of these Plans. In light of the Authority's report and the accompanying commentary from the Commissioners, the SoS CLG is proposing to reduce/end two of the Directions (procurement and grants) with the elections Direction potentially being ended pending consideration of the conduct of the December 2016 Whitechapel bi-election. On the remaining Directions the Commissioners have reported that the Authority has further work to do to either complete the identified actions; that the actions have had the planned impact; have addressed the weaknesses in the Authority's arrangements; and are embedded into the Authority's culture.</p>	<p>In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have continued our consideration of the findings of the BV Inspection report and more specifically the Authority's progress towards implementing the action plans that it produced in response.</p> <p>Consequently, in terms of 2016/17 we have considered the reporting by the Commissioners to the Secretary of State for Communities and Local Government (SoS for CLG) and the extent to which the Authority's BV action plans were reported as actions completed. In relation to our Section 11 recommendation, we are satisfied that the issues referred to have been incorporated into the Authority's BV action plan relating to organisational culture.</p> <p>In their February 2017 letter to the SoS for CLG the Commissioners were positive and they set out their endorsement of the progress that had been made in all areas of the Direction regime. In terms of the specified areas in the Directions the Commissioners' views were:</p> <ul style="list-style-type: none"> <li>• Grants - the amendment to the Directions in January 2017 returned decision making powers in this area to the Council with Commissioner oversight. The Commissioners comment that the Council is still learning and improving how to do this effectively. The necessary changes to the officer support arrangements will provide a more professional and less conflicted service to Members and the voluntary sector but the Council will need to take care to ensure they have properly thought through the policy and practice implications as they seek to impose a consistent approach on the incoherence of the past.</li> <li>• Property - The policy framework for the proper use of the Council's physical assets is now in place. Working through the implications of past decisions to bring fairness, consistency and transparency will require determined effort and political support in doing the right thing rather than the expedient thing.</li> <li>• Publicity – no specific comment made.</li> <li>• Culture - The Clear Up team is part of a wider project to improve the culture and working relationships between Members and Officers and between Members on the Council. This is not explicitly covered by Directions and is necessarily of a much longer duration. It is however a crucial part of restoring the basics of good local government to Tower Hamlets and needs to continue beyond the 2018 election.</li> </ul>

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Significant risk based VFM audit work (continued)

Significant VFM risk	Our audit response and findings
<p>Implementation of BV Action Plans (continued)</p>	<p>Further, the Commissioners welcomed the Authority’s realistic appreciation not only of what has been done, but also what remains to be done to fulfil the expectations for the Directions. The Authority was clear in its February 2017 submission to the SoS for CLG, that it would take some 12 months to complete the work required. The Authority has developed this work into a BV Improvement Plan under five areas: elections; communications; property; grants; and organisational culture.</p> <p>Following meetings with the Mayor, the SoS for CLG decided to end the 2014 Directions and not extend the appointment of the Commissioners beyond 2014 in recognition of the Authority’s progress. In light of the remaining work the SoS CLG has made three new, less intrusive Directions (in force until 30 September 2018) which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV improvement plan to the SoS CLG; and set up an independent review of achievement of the BV improvement plan with a report to the SoS CLG by 1 August 2018.</p> <p>The latest progress report shows that delivery is on track for around 80% of the 115 actions/milestones detailed in the Authority’s BV improvement plan. The Authority is monitoring progress closely, has not identified any significant concerns with respect to the delayed/overdue actions, and is attempting to take corrective action to bring delayed/overdue actions back on track.</p> <p>Also an Ofsted inspection undertaken in January and February 2017 rated the Authority’s services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The report made 15 recommendations and highlighted poor frontline practice and ineffective, complacent and sometimes resistant management practices which enabled non-compliance with basic standards (including legal requirements) and in some cases left children at risk of harm. The report also highlighted the need for stronger leadership, management and governance to ensure there is robust performance management and scrutiny of children’s social care.</p> <p>In consultation with the Department of Education (DfE), the Authority has established a Children’s Services Improvement Board led by an Independent Chair and an Improvement Plan has been submitted to DfE in July 2017. The Board ensures that there is clear leadership of the improvement journey at corporate, political and partnership levels. The Board’s key focus has been on understanding why this happened in Tower Hamlets and how to put this right through the development, implementation and monitoring of the Improvement Plan. Ofsted will be carrying out quarterly monitoring visits to ensure that its recommendations are being robustly addressed.</p> <p>The Children’s Service Improvement Board will continue to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work. Quarterly progress updates will be provided to the Best Value Improvement Board and the Council’s Cabinet and Overview and Scrutiny Committee.</p>

## Section Three

# Value for money

### Significant risk based VFM audit work (continued)

Significant VFM risk	Our audit response and findings
Implementation of BV Action Plans (continued)	<p>From all of the above commentary we have noted that the Authority has made good progress and this has been acknowledged by external parties. However, with respect to the VFM conclusion we are required to consider the financial year as a whole and thus there were a number of actions that were not completed within 2016/17.</p> <p>We have therefore concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2016/17. However, we are now satisfied that none of the remaining issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore anticipate issuing a qualified VFM conclusion on an 'except for' basis rather than the adverse basis that we have applied in 2013/14, 2014/15 and 2015/16.</p>

**Other areas of audit focus**

Below we set out the detailed findings against other areas of audit focus for our VFM work.

VFM: other area of audit focus	Our audit response and findings
<p>Medium Term Financial Strategy (MTFS)</p>	<p>We have reviewed overall management arrangements that the Authority has for managing its financial position, including the processes to develop a robust MTFS, ongoing monitoring of the annual budget, review of how savings plans have been developed and how their delivery is monitored, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to the Authority.</p> <p><b>2016/17 outturn</b></p> <p>In terms of its financial standing the Authority is reporting that the revised budget has been met, with a small under spend of £0.7 million in total which meant that the planned use of reserves was not required (as contingencies in the budget were not needed to be applied). The Authority has also reviewed its reserves and has agreed to earmark reserves for key priorities, including the transfer of General Fund balances for priorities such as the new Civic Centre and IT and Transformation programmes. Following this review the General Fund reserve at 31 March 2017 is £31.7 million.</p> <p><b>2017/18 budget</b></p> <p>In relation to the MTFS we note that the Authority has agreed a balanced budget for 2017/18. The budget includes £20.4 million of agreed savings. The £21 million savings were agreed by Members in February 2017 as part of budget setting. All of the savings schemes were supported by detailed statements explaining what was being planned and how it would be delivered/achieved. The supporting papers also set out any changes to services; explained any equality implications and included a formal Equalities Impact Assessment (supported by an action plan for any groups affected adversely). In terms of monitoring the savings are built into base budgets and so they are monitored as part of on-going budget monitoring.</p> <p><b>MTFS 2017 – 2020</b></p> <p>For the period covered by the MTFS (three years from 2017 – 2020) the Authority has identified savings opportunities that largely meet the estimated £58 million budget gap and is looking to use less than £3 million from General Fund reserves over this period (leaving reserves at £28 million at 31 March 2020).</p> <p>Over the period of the MTFS there are clearly a number of risks that could affect either the level of service demand (and therefore service delivery costs) or sources of funding. In addition there are general economic factors, such as the level of inflation and interest rates that can impact on the net cost of services. Furthermore, the Authority is facing some significant challenges as it moves forward with an ambitious 3 year transformation programme. Consequently, the budget and savings delivery are being closely and continually monitored in addition to any changes/potential changes in assumptions made to ensure the Authority remains on track and capable of delivering the MTFS.</p>

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Other areas of audit focus (continued)

VFM: other area of audit focus	Our audit response and findings
<p>Progress on 'clear up' project</p>	<p>We reviewed the process by which the Clear Up Team, which was led by an independent investigator, conducted their investigations. At the close of the three month nomination period (which ran from September to December 2016) the Clear Up Project Board (comprising the three Authority Statutory Officers and a Secretary of State appointed Commissioner) agreed which of the allegations received should be investigated. In total 66 allegations were received.</p> <p>The final report from the Clear Up Team was considered by Cabinet on 27 June 2017. The Team reported that out of the 66 allegations: 10 were partially upheld; 5 were upheld; 1 had been referred to the Council for further consideration and investigation as the matter may be criminal; and 1 was partially upheld <u>and</u> partially rejected. The report also identified a number of themes which were considered by the Team to be areas for further consideration (such as improved training and enhanced procedures) by the Authority in terms of how allegations of various types have been dealt with/approached. The themes are set out in the report to Cabinet and included:</p> <ul style="list-style-type: none"> <li>• Organisational culture – whistle-blowing and reporting concerns;</li> <li>• Approach to investigations;</li> <li>• Monitoring compliance following Council decision points;</li> <li>• HR policies and practices;</li> <li>• Council Systems and Processes;</li> <li>• Member/officer protocols; and</li> <li>• Security/Confidentiality.</li> </ul> <p>Following receipt of the Clear Up Project report the Monitoring Officer considered the report and where further action is required by the Authority and has allocated all of the actions to various Corporate Directors and Divisional Directors. The Corporate Leadership Team will monitor progress every other month until all the matters have been completed. Quarterly reports on progress will be submitted to the Overview and Scrutiny Committee and if required to Cabinet. The Standards Advisory Committee will also receive regular reports as some of the issues raised fall within its terms of reference.</p> <p>Commissioners also commented positively in their February letter to the SoS CLG re the Council's progress.</p> <p><i>Commissioners judge that this is on the way to being a significant success. It has proved to be a very useful way to lance long standing sores from the past and provide confidence in the Council's whistleblowing procedures for the future. Many lessons have been learned all of which are intended to be documented in a report to full Council in June 2017. Particular mention needs to be made of the work of the Project Co-ordinator, a secondee from the Cabinet Office, whose approach and diligence has driven the whole process forward to completion.</i></p>

# Recommendations raised and followed up

We have not formally followed up the recommendations from the prior year’s audit, as these have only recently been finalised in the 2015/16 ISA260 report. For clarity the recommendations included in the 2015/16 ISA260 are:

#	Risk	Recommendation
<b>Financial statements</b>		
1	2	<p><b>Grant Payments/Property Leases</b></p> <p>Our work has identified several issues relating to grant payments and the controls over them. Matters arising include:</p> <ul style="list-style-type: none"> <li>• No central listing of grant payments in 2015/16 was available, making identification of grants paid difficult;</li> <li>• One instance where the allocation awarded by the Commissioners was exceeded by almost 20% (£34,000); and</li> <li>• Fifty grant payments made in 2015/16 (to 11 organisations), with a value of £152,000 have been identified by the Council as being unlawful due to the lack of a formal property agreement being in place;</li> </ul> <p><b>Recommendation</b></p> <p>The Authority should:</p> <ul style="list-style-type: none"> <li>• Ensure that the single system that the Authority now requires all Directorates to use to record all grant payments is used universally and all grant payments for 2016/17 onwards are captured on it;</li> <li>• Clarify the arrangements for grants (particularly demand led ones) to ensure that additional approval by Commissioners/ the relevant Authority Committee/officer is required (even where the over spend is being managed within the Directorate’s overall resources);</li> <li>• Ensure that all unlawful grant payments have been identified and disclosed in the financial statements; and</li> <li>• Ensure that all grant programmes have been assessed to ensure that recipients are complying with the Commissioners’ requirements that all grant recipients occupying Authority property must have a formal property agreement in place.</li> </ul>

# Recommendations raised and followed up

#	Risk	Recommendation
<b>Financial statements</b>		
2	3	<p><b>Section 106 agreements</b></p> <p>Our testing of 27 schemes noted that there are two schemes which have gone beyond the time when the s106 agreement required the funds to have been spent. We understand that due to the circumstances of each scheme that there is very limited risk of the funds being lost. We have also noted a further scheme which is due to expire in January 2017 with a balance of £2.1m at 31 March 2016 where there are approved schemes in place that are due to use the balance during 2016/17. We will review the position on this scheme as part of our 2016/17 audit.</p> <p>We have also considered the results of the independent review and the Authority's response. The Authority has reported that all recommendations have been implemented except those that required the implementation of a new software system which has been procured and is in the process of being implemented.</p> <p><b>Recommendation</b></p> <p>The Authority needs to continue to monitor its performance compared with deadlines set out in section 106 agreements and try to ensure that there are no future instances where the monies are not spent in advance of the deadlines.</p> <p>The Authority also needs to complete the implementation of the new software system to address the remaining recommendations from the independent review.</p>

# Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

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

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in January 2017.

Materiality for the Authority's accounts was set at £15 million which equates to around 1.2% of gross expenditure.

Materiality for the Pension Fund was set at £20 million which equates to around 1.5% of gross assets.

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

## Reporting to Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.75 million for the Authority and less than £1 million for the Pension Fund.

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

## Appendix 3

# Audit differences

### Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements.

There are no unadjusted audit differences that we need to bring to your attention.

### Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present a summary of any significant adjusted audit differences (including disclosures) identified during the course of our audit. We have not identified any such audit differences. The adjustments below have been included in the financial statements.

NOTE: None so far. The only significant adjustment was to the Pension's Liability note, where there had been a netting off in earlier years (value £50m) ie no impact on the balance sheet or CIES. Also it was identified by LBTH not the audit.

# Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

### Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

### Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

## Appendix 4

# Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

### Auditor declaration

In relation to the audit of the financial statements of the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets and the London Borough of Tower Hamlets Pension Fund, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have not undertaken any non-audit services to the Council in 2016/17.

# Audit quality framework

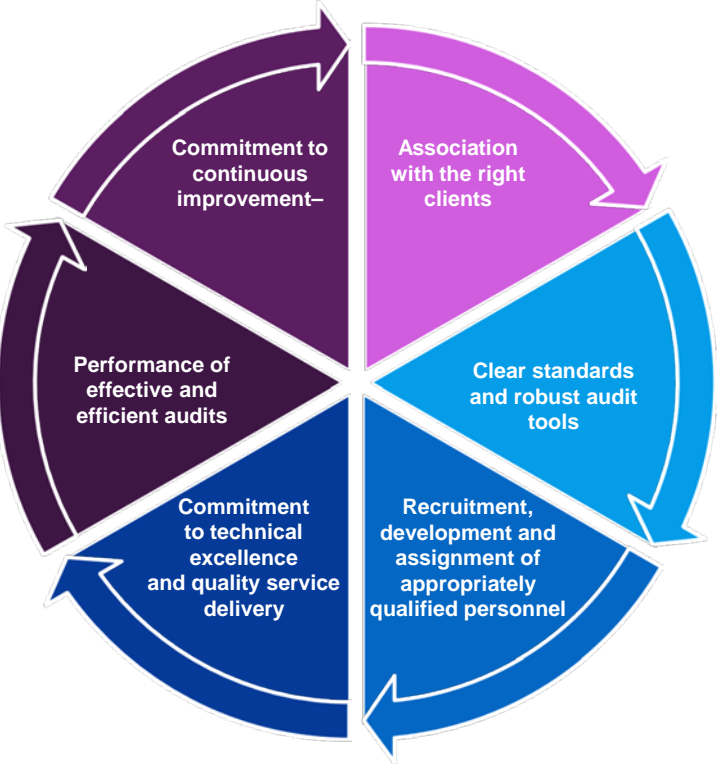
Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

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- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists





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Non-Executive Report of the:  <b>Audit Committee</b>  27 September 2017	
<b>Report of:</b> Zena Cooke, Corporate Director Resources	<b>Classification:</b> [Unrestricted]
<b>Annual Financial Reports 2015-16 and 2016-17 (Incorporating KPMG's Reports to Those Charged With Governance 2015-16 and 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 for approval. The report comprises a Narrative Report by the Corporate Director, Resources, the audited Statement of Accounts and the Annual Governance Statement.

The external auditors, KPMG are also tabling their final report to those charged with governance (ISA260) for 2015-16 and a draft report for 2016-17 on this agenda.

### Recommendations:

The Audit Committee is recommended to:

1. Note the auditor's 2015-16 final report to those charged with governance for 2015-16 and the letter of representation for 2015-16.
2. Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31<sup>st</sup> March 2017, having regard for the auditor's Annual Governance Report and the letter of representation 2016-17.
3. Note that the draft Annual Financial Report for 2017-18 will be published by 31<sup>st</sup> May 2018 and the audit opinion is to be provided by 31<sup>st</sup> July 2018.

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

- 1.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial report statements by statutory deadlines each year. The external auditors are required to audit this report information by 30th September and to provide an audit opinion.

## **2. ALTERNATIVE OPTIONS**

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

## **3. DETAILS OF REPORT**

- 3.1 The Annual Financial Report comprises three main elements:
- A Narrative Report
  - The Statement of Accounts
  - The Annual Governance Statement (signed for approval by the Mayor and Chief Executive).
- 3.2 The Annual Financial Report for 2016-17 is attached as Appendix 1. The audit has almost concluded without any changes being required to the Council's usable reserves.

The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit Regulations 2015. The accounts must be prepared and certified by 30th June by the Corporate Director, Resources (the 'responsible financial officer') stating that it presents a true and fair view of the financial position of the Council. By no later than 30th September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value of giving Members early notification of the financial outcome of the previous financial year.

- 3.3 For 2016-17 the audit of the Accounts was conducted by KPMG commencing in July 2017 and expected to be finalised by the end of September.
- 3.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to this Committee by the auditors. The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to this Audit Committee.

Note that KPMG's appointment continues until 31<sup>st</sup> March 2018, though they will continue to work with the Council whilst they conduct the 2017-18 audit. The Council has taken part in a group tender exercise organised by PSAA (Public Sector Audit Appointments). This group tender is intended to reduce procurement costs and will also demonstrate that the auditor appointment process was completely impartial.

#### **4. ANNUAL FINANCIAL REPORT 2015-16**

- 4.1 The Annual Financial Report for 2015-16 was approved by the Audit Committee in September 2016 and KPMG tabled a draft ISA260 at the March 2017 Committee. KPMG have now completed their audit for 2015-16 and are tabling their final report at this committee as a separate agenda item.
- 4.2 Though an unqualified opinion on the accounts has been provided, the ISA260 report makes reference to the governance review not being completed by the end of 2015-16; grant payment management and the risk of section 106 monies received from developers under the Town & Country Planning Act 1990 becoming due for repayment. These receipts are to be used for improvements towards community and social infrastructure. The report contains management responses to these last two items.
- 4.3 Attached is the letter of representation for 2015-16 that the Committee Chair and Chief Financial Officer will sign. The letter makes reference to the £151,778 of grants paid without appropriate property agreements in place as required by the Commissioners. To put this in context, the Council paid out over £3.4m of grants during 2015-16.

#### **5. ANNUAL FINANCIAL REPORT 2016-17**

- 5.1 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.
- 5.2 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.
- 5.3 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.

- 5.4 The Council's 2016-17 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet in June and Overview and Scrutiny Committee in July.
- 5.5 **Audit Opinion** – the external auditor anticipates giving an unqualified opinion on the accounts and that they give a true and fair view for the year ended 31st March 2017. There were no material changes to the draft accounts that affect the Council's reported financial position or usable reserves. Though the audit review of the Accounts has not been completed, the auditors have not raised any major concerns on the accounts so far.
- 5.6 **Value For Money Assessment** – The VFM conclusion will be unqualified. However the auditors will want to bring some matters to the Committee's attention at the meeting. The auditors acknowledge improvements have been made to working practices but the work plans are not yet complete.
- 5.7 The VFM assessment will comment on the following areas:
- S106 Agreements** – the auditors are reviewing if s106 monies will be spent within the agreement timescales.
  - Grant payments** – the award of grant payments is reviewed by the Commissioners. The auditors are reviewing the Council's grant register to see if all relevant grant payments have been subject to suitable approval processes.
- 5.8 **Objections to the Accounts by the public** - As part of the process for the inspection of the Council's Accounts, local electors are able to raise objections to the Statement of Accounts with the external auditors. One objection to the 2016-17 Accounts was received. It relates to the legality of the Council entering into PFI contracts. The Council entered into these contracts over ten years ago. As KPMG have received a number of similar objections at their other clients, KPMG are currently considering how to respond to be consistent across all of their clients.
- 5.9 LOBO Loans objection – an objection was received in 2016 for the 2015-16 Accounts relating to the legality of the Council using LOBO bank loans. The auditors have come to a draft conclusion that they consider that local authorities have the power to borrow and the use of LOBO loans is lawful. Also the auditor concluded the Council made a rational approach in making the decision to borrow.

5.10 Parking objection – the auditors are finalising the parking objection received on the 2014-15 Accounts. Though the Council may have acted appropriately with its parking enforcement arrangements on housing estates, the Council is considering the introduction of Traffic Management Orders on housing estates, which is in accordance with the objector’s wishes.

5.11 The auditors have to conclude their review of objections before they can formally conclude their audits for 2014-15 and 2015-16, though the nature of these objections will not delay the accounts audit opinion being given.

**6. Statement of Accounts Recap**

6.1 Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

<p>Comprehensive Income and Expenditure Account</p>	<p>This summarises the revenue activities of the Council during 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 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 £1.25 billion with a net surplus of £53.5 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</p>
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	<p>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 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, £5m for Mayor's Tackling Poverty Fund, £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>
<p>Balance Sheet</p>	<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</p>



	<p>equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment have increased to £2.285 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 £1.84 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	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 11,692 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</p>

	<p>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	The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.
Pension Fund Accounts	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31<sup>st</sup> March 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 £1.367 billion (an increase of 21% from the</p>

	<p>£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>
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## **7. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 7.1 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 process with any significant issues being brought to the Committee's attention in September

## **8. LEGAL COMMENTS**

- 8.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 8.2 The Accounts and Audit Regulations 2015 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 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 Local Auditor under the Local Audit and Accountability Act 2014. 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.

- 8.3 As indicated in the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.
- 8.4 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. The Annual Financial Report for 2016-17 will go towards demonstrating that the Council is meeting this duty.
- 8.5 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

- 9.1 There are no direct One Tower Hamlets considerations arising from this report.

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

- 10.1 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.

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

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

## **12. RISK MANAGEMENT IMPLICATIONS**

- 12.1 There are no specific risk management implications.

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

- 13.1 There are no crime and disorder reduction implications.

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

### **Linked Report**

- Annual financial report 2015-16 tabled at September 2016 Audit Committee
- Draft annual financial report 2016-17 tabled at June 2017 Committee

### **Appendices**

- Annual Financial Report 2016-17
- Letters of Representation 2015-16 and 2016-17 (2016-17 letter to follow)

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

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

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

- NONE

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

- Kevin Miles, Chief Accountant (ext. 6791)

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# LONDON BOROUGH OF TOWER HAMLETS

## 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 spent 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.

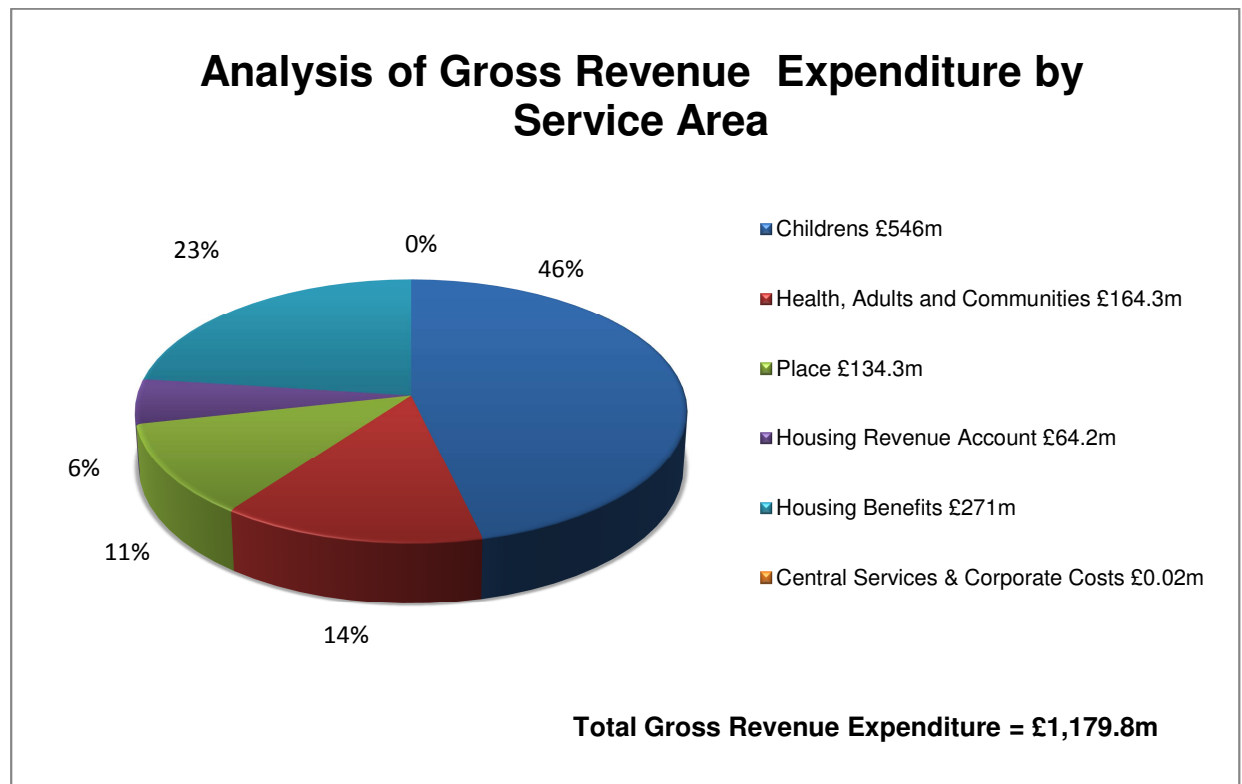
## **Review of the Year**

### **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 (£1.4 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.

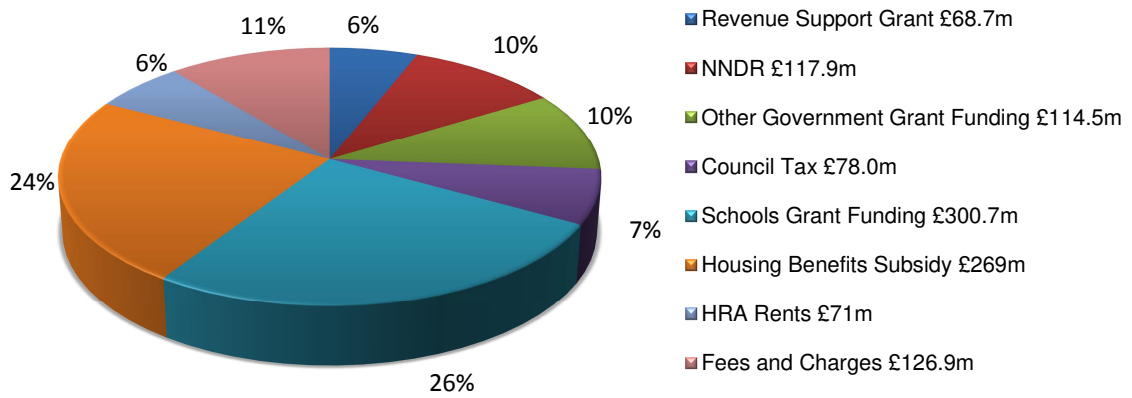


## Revenue Funding

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

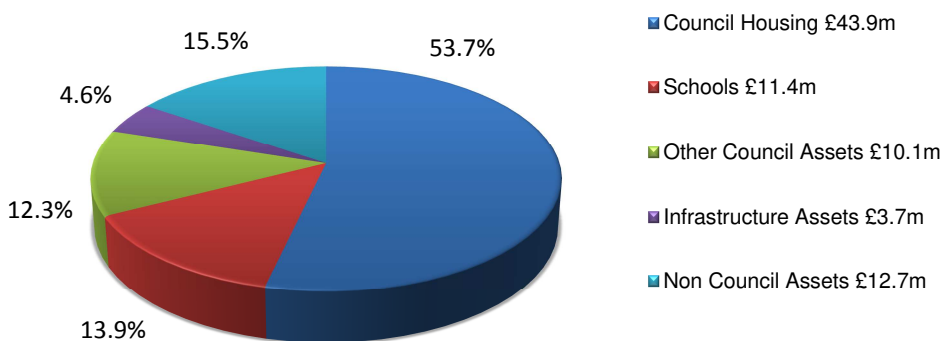


**Total Gross Revenue Funding = £1,146.5m**

### 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.

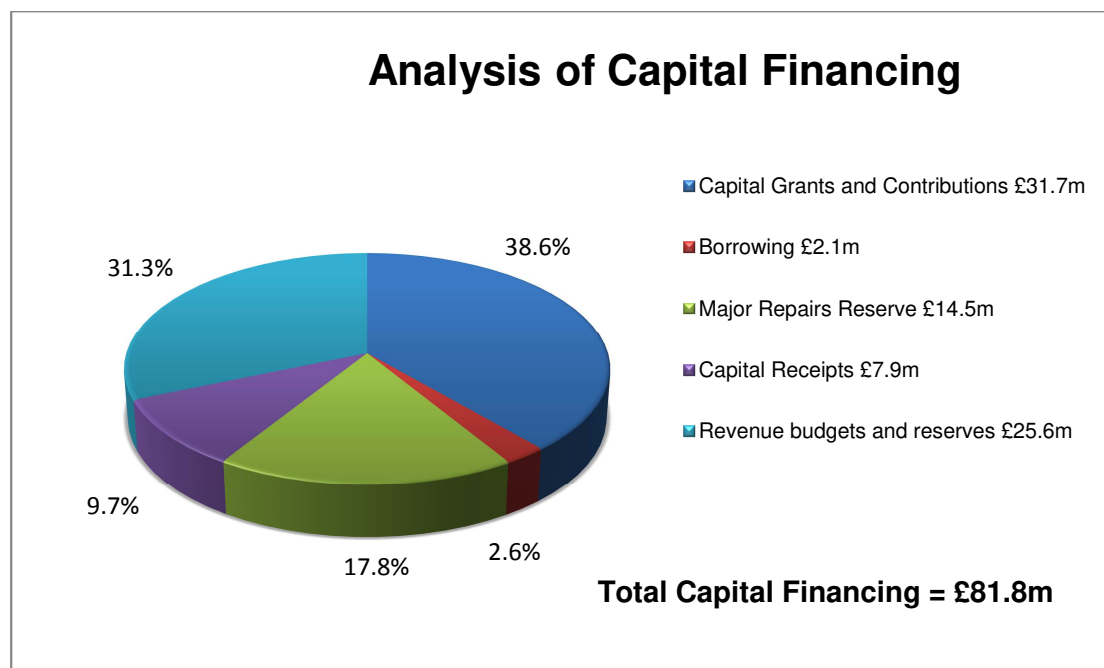
## Analysis of Capital Expenditure



**Total Capital Expenditure = £81.8m**

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 financial

assumptions that have significantly increased the estimated liabilities. 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.

	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	capital grants unapplied £'000	total usable reserves £'000	revaluation reserve £'000	capital adjustment account £'000	pensions reserve £'000	collection fund adjustment account £'000	financial instrument adjustment account £'000	accumulated absences account £'000	deferred capital receipts £'000	total unusable reserves £'000						
<b>Balance as at 31 March 2015</b>	71,450	156,651	21,145	22,174	49,136	55,484	376,040	342,264	1,428,571	8,047	568	(2,988)	11	1,126,909	1,502,949						
<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	70,468						
Other comprehensive expenditure and income	0	0	0	0	0	0	0	64,703	0	151,822	0	0	0	0	216,525						
<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>0</b>	<b>151,822</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>286,993</b>						
Adjustments between accounting basis and funding basis under regulations	22,308	0	(83,992)	(12,998)	37,247	711	(36,724)	(5,312)	67,883	(18,853)	(7,319)	(284)	618	(9)	36,724						
<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>67,883</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	0						
Transfers to or from school reserves	4,177	(4,177)	0	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>67,883</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>409,784</b>	<b>401,655</b>	<b>1,496,454</b>	<b>(516,595)</b>	<b>728</b>	<b>284</b>	<b>(2,370)</b>	<b>2</b>	<b>1,789,942</b>						
<b>carried forward</b>																					
<b>Movement in reserves during 2016/17</b>																					
Surplus or (Deficit) on the Provision of Services	(314)	0	63,122	0	0	0	62,808	0	0	0	0	0	0	0	62,808						
Other comprehensive expenditure and income	0	0	0	0	0	0	0	82,645	0	(91,986)	0	0	0	0	(9,341)						
<b>Total Comprehensive Expenditure and Income</b>	<b>(314)</b>	<b>0</b>	<b>63,122</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>62,808</b>	<b>82,645</b>	<b>0</b>	<b>(91,986)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>53,467</b>						
Adjustments between accounting basis and funding basis under regulations	(34,551)	0	(56,137)	284	70,466	25,834	5,896	(19,705)	29,224	(10,541)	(3,029)	(284)	(1,559)	(2)	(5,896)						
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>(34,865)</b>	<b>0</b>	<b>6,985</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>68,704</b>	<b>62,940</b>	<b>29,224</b>	<b>(102,527)</b>	<b>(3,029)</b>	<b>(284)</b>	<b>(1,559)</b>	<b>(2)</b>	<b>53,467</b>						
Transfers to or from earmarked reserves	(12,590)	12,590	0	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	0						
<b>Increase or (Decrease) in Year</b>	<b>(40,358)</b>	<b>5,493</b>	<b>6,985</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>68,704</b>	<b>62,940</b>	<b>29,224</b>	<b>(102,527)</b>	<b>(3,029)</b>	<b>(284)</b>	<b>(1,559)</b>	<b>(2)</b>	<b>53,467</b>						
<b>Balance as at 31 March 2017</b>	<b>31,738</b>	<b>159,335</b>	<b>39,077</b>	<b>9,460</b>	<b>156,849</b>	<b>82,029</b>	<b>478,488</b>	<b>464,595</b>	<b>1,525,678</b>	<b>(619,122)</b>	<b>(2,301)</b>	<b>0</b>	<b>(3,929)</b>	<b>0</b>	<b>1,364,921</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	168,107	64,494	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>1,249,752</b>	<b>948,823</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			(351,174)
		<b>(70,468)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(62,808)</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) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>						<b>(53,467)</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>	2,275,180
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>2,285,109</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>1,843,413</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>			
401,655	Revaluation Reserve	<a href="#">25</a>	464,596
1,496,454	Capital Adjustment Account		1,525,680
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>1,364,924</b>
<b>1,789,947</b>	<b>TOTAL RESERVES</b>		<b>1,843,413</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		62,808
52,405	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	62,492
(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>33,085</b>
(105,757)	Investing Activities	<u>27</u>	(8,570)
(2,907)	Financing Activities	<u>28</u>	(928)
<b>(41,645)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>23,587</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>184,299</b>

## 1. Accounting Policies

### 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 21(2) of the Local Government Act 2003.

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

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council for the year ending 31st March 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 to be accrued.

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

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

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

### **4. Exceptional Items**

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

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

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

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

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

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £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 what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. For example this may include reference to sale proceeds of similar items by same artist to demonstrate values are clearly under materiality values. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. The Council has four heritage assets that have material values, these values are reviewed periodically, however the real value would only be established upon sale as valuations on assets of this nature are subjective.

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

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

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

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

### **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 44). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's

own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

## **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 2016/17 (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.

### **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 30 to the accounts.

#### **c. Contingent Assets**

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

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

### **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 events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 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.



## 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	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	24,398	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	9,333	0	3,341	0	0	0	12,674	(12,674)	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>(34,551)</b>	<b>0</b>	<b>(56,137)</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>5,896</b>	<b>(5,896)</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		
	£'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	10,500	10,500
29 Revenue Grants	0	0	0	0	0	487	1,156	1,643
30 Mayor's Tackling Poverty Reserve	0	0	0	0	0	0	5,000	5,000
<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>

Of XX grant payments made during 2016/17, XX grant payments totalling £XX were paid in error by the Council as appropriate premises rental agreements were not in place at the time of payment. As the Commissioners required appropriate premises agreements to be in place before payment was made, this expenditure is considered unlawful. These payments represent XX% of all £XXm grants payments in the financial year and 3.2% of the number of payments processed. The £XX of expenditure is included within the Comprehensive Income and Expenditure Statement. The approval process has been strengthened and work continues to address grants related premises issues. Progress has been reported to the Commissioners' public decision making meetings and since 17 January 2017, to the Grants Determination (Cabinet) Sub Committee.

## 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	(50,236)
<b>(344,762)</b>	<b>Total</b>	<b>(351,174)</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	31,900	263	3,743	523	0	20,812	93,688	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
<b>At 31 March 2017</b>	<b>1,342,492</b>	<b>992,333</b>	<b>24,691</b>	<b>157,546</b>	<b>54,414</b>	<b>7,575</b>	<b>31,517</b>	<b>2,610,568</b>	<b>257,384</b>
<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)	(4,349)	0	0	0	0	0	(17,814)	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
<b>At 31 March 2017</b>	<b>151,745</b>	<b>112,337</b>	<b>21,787</b>	<b>49,940</b>	<b>5</b>	<b>(426)</b>	<b>0</b>	<b>335,388</b>	<b>23,782</b>
<b>Net Book Value</b>									
At 31 March 2017	1,190,747	879,996	2,904	107,606	54,409	8,001	31,517	2,275,180	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	-	63,783	-	-	-	-	-	63,783
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>879,996</b>	<b>2,904</b>	<b>107,606</b>	<b>54,409</b>	<b>8,001</b>	<b>31,517</b>	<b>2,275,180</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 - 29.04.2016 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	0	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>452,301</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	142,485	0%	0%	0%
Money Market Funds	41,814	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	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>495,959</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.

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	(2,446)	2,446	583
<b>TOTAL</b>	<b>4,741</b>	<b>(2,739)</b>	<b>74</b>	<b>2,076</b>	<b>(2,882)</b>	<b>5,661</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	1,525,680
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>1,364,924</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	(12,674)
(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)
(37,428)		(77,729)
5,312	Adjusting amounts written out of the Revaluation Reserve	19,705
(32,116)	Net written out amount of the cost of non current assets consumed in the year	(58,024)
	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
100,000		87,249
<b>1,496,455</b>	<b>Balance at 31 March</b>	<b>1,525,680</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)
	Reversal of items relating to retirement benefits debited or credited to the Surplus or	
(64,399)	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>62,808</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		37,652
<b>52,405</b>		<b>62,492</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>33,085</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	(70,456)
(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>(8,570)</b>

## 28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2015/16 £'000		2016/17 £'000
(1,572)	Billing Authorities - Council Tax and NNDR adjustments	0
(964)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(557)
(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	109,386	0	380,253
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>227,975</b>	<b>110</b>	<b>1,512,165</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	0	1	0	226	0
330,001 - 340,000	0	0	0	1	0	1	0	339
<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>5,457</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	69,070
Intangible Assets	0	0
Heritage Assets	0	1
Revenue Expenditure Funded from Capital Under Statute	10,898	12,674
<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</b>	<b>263,618</b>	<b>262,588</b>
<b>Capital investment</b>		
Property, Plant and Equipment	88,072	93,689
Intangible Assets	0	0
Heritage Assets	0	1
Revenue Expenditure Funded from Capital under Statute	10,898	12,674
<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)	(1,894)
<b>Total Capital Grants and Contributions</b>	<b>(48,976)</b>	<b>(50,236)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(6,615)	(4,397)
Developers' Contributions (capital) funding REFCUS	(2,192)	(2,793)
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>(687,178)</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 central government departments and other grant making bodies are set out in the subjective analysis in Note 37 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2017 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	103	1,147	1,021
<b>Total Service Cost</b>	<b>43,505</b>	<b>38,219</b>	<b>385</b>	<b>377</b>	<b>43,890</b>	<b>38,596</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>735</b>	<b>64,399</b>	<b>56,497</b>
<b>Remeasurement of the Scheme Liabilities</b>						
Changes in demographic assumptions	0	(25,190)	0	(1,744)	0	(26,934)
Changes in financial assumptions	(149,342)	290,196	(4,424)	10,217	(153,766)	300,413
Other experience	(22,390)	(27,267)	(10)	(2,375)	(22,400)	(29,642)
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>(2,993)</b>	<b>(144,710)</b>	<b>93,794</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)	(735)	(64,399)	(56,497)
<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	37,914	0	0	4,466	37,914
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>(1,911,848)</b>	<b>(63,016)</b>	<b>(68,652)</b>	<b>(1,726,212)</b>	<b>(1,980,500)</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	(36,106)	0	0	2,646	(36,106)
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>1,298,703</b>	<b>53,961</b>	<b>62,675</b>	<b>1,209,617</b>	<b>1,361,378</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)	(1,911,848)
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	1,298,703
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%	73%	46%	59%
Bonds	17%	17%	0%	0%
Property	11%	9%	4%	5%
Infrastructure	0%	0%	5%	5%
Commodities	0%	0%	0%	0%
Cash	5%	1%	13%	9%
Cash flow matching	0%	0%	10%	0%
Target return portfolio/other	3%	0%	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	2,904	83	68	3,390	2,972
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	184,299	7,744	7,820	168,456	192,119
Short-term creditors	204,158	154,154	2,508	3,065	206,666	157,219
Pensions liability	516,595	619,122	0	0	516,595	619,122
Pensions reserve	(516,595)	(619,122)	0	0	(516,595)	(619,122)
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	10,705	6,178	1,174,562
Additions, disposals, transfers and revaluations	98,316	(1,919)	282	20,812	(6,178)	111,313
<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	28,524
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	2,195
<b>Benefits</b>			
Pensions	4	(39,103)	(39,485)
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)	(972)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>4,370</b>	<b>8,555</b>
<b>RETURN ON INVESTMENTS</b>			
		2015/16 £'000	2016/17 £'000
Investment income	11	14,349	17,776
Taxes on Income		(409)	(363)
Change in market value of investments			
Realised		1,321	415,494
Unrealised	10	(28,625)	(197,035)
Investment management expenses	13	(3,076)	(2,879)
<b>NET RETURN ON INVESTMENTS</b>		<b>(16,440)</b>	<b>232,993</b>
Net increase in the Fund during the year		(12,070)	241,548
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>1,367,677</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
		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	19,847
<b>Current Liabilities</b>			
	5	(1,942)	(10,550)
<b>TOTAL NET ASSETS</b>		<b>1,126,129</b>	<b>1,367,677</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 pension fund account notes (specifically note 12 - Actuarial Position) for which there is a significant risk of material adjustment in the forthcoming financial year.

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

The assumptions interact in complex ways. During 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	3,877
Deficit funding contributions		
Council	20,500	22,000
Other contributions		
Council	1,697	1,288
<b>Total employers</b>	<b>49,009</b>	<b>51,812</b>
<b>Total contributions</b>	<b>59,960</b>	<b>62,963</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(1)(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)	(37,650)	(679)	(1,156)	(39,485)
Lump sum retirement benefits	(10,828)	(441)	(425)	(11,694)	(9,688)	(300)	(839)	(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>(48,852)</b>	<b>(979)</b>	<b>(1,995)</b>	<b>(51,826)</b>
Transfer Values Received (Individual)	2,166	0	0	2,166	2,195	0	0	2,195
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>(50,174)</b>	<b>(979)</b>	<b>(1,995)</b>	<b>(53,148)</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	1,176
	<u>694</u>	<u>1,417</u>
<b>Total Debtors</b>	<b>2,667</b>	<b>3,090</b>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	35	45
<b>Current Liabilities</b>		
Unpaid benefits	1,271	1,664
Administrative expenses	671	747
London Borough of Tower Hamlets Pension Fund	0	3,940
HMRC Creditor Income Tax Deducted	0	4,199
	<u>1,942</u>	<u>10,550</u>
<b>Total Creditors</b>	<b>1,977</b>	<b>10,595</b>
<b>Net Debtors</b>	<b>690</b>	<b>(7,505)</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. INVESTMENT STRATEGY STATEMENT

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish the Investment Strategy Statement (ISS), this replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.

## 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	4,536
Deferred Pensioners	6,770	7,076
Dependants	1,018	1,030
	<b>18,505</b>	<b>19,139</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  
 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  
 Legal & General Investment Management  
 London LGPS CIV  
 Schroders Asset Management Property Fund

### Mandate

Global Equity  
 Absolute Return Fund  
 Absolute Return Fund  
 UK Equity / Index Linked Gilts  
 Pooled  
 Property

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

	2016		2017	
	£ million	%	£ million	%
Baillie 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:

	Market Value as at 1 Apr 2016 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2017 £'000
Equities	214,616	222,584	(183,549)	42,463	296,114
Pooled Investments	626,883	804,730	(273,727)	(234,954)	922,932
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>
<b>Other Investment Balances</b>					
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>5,724</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>
<b>Other Investment Balances</b>					
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>
	129,934	133,609
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>1,358,380</b>

The market value per investment manager is as follows:

	Market Value 31 Mar 2016		Market Value 31 Mar 2017	
	£'000	%	£'000	%
Baillie Gifford	209,888	21.6%	0	0.0%
GMO UK Ltd	242,796	25.0%	324,295	24.0%
Insight Investment Management (Global) Ltd	0	0.0%	71,743	5.3%
Legal & General	277,864	28.6%	339,865	25.1%
London LGPS CIV	56,344	5.8%	405,215	30.0%
Goldman Sachs Asset Management		0.0%	77,929	5.8%
Ruffer	54,606	5.6%	0	0.0%
Schroders Asset Management Property Fund	129,934	13.4%	133,609	9.9%
	<u>971,432</u>	<u>100.0%</u>	<u>1,352,656</u>	<u>100.0%</u>

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2015/16 £'000	2016/17 £'000
Dividends from overseas equities	8,660	11,917
Dividends from UK equities	0	89
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>17,413</b>

## TAXES ON INVESTMENT INCOME

	2015/16 £'000	2016/17 £'000
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
Price inflation (CPI)	2.1%
Pay increases	2.0%
Funding basis discount rate	4.2%

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

### Actuarial Value of Promised Retirement Benefits

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

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £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	31st March
	2016	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	789
Investment management expenses	3,076	2,879
Oversight & governance	86	183
	<b>3,839</b>	<b>3,851</b>

## 14. INVESTMENT EXPENSES

	2015/16 £'000	2016/17 £'000
Management fees	2,901	2,722
Custody fees	29	35
Transaction Costs	146	122
	<b>3,076</b>	<b>2,879</b>

The investment management expenses above includes transaction costs of £160,000 (£74,000 in 2015/16). Costs are also incurred through the bid/offer spread on investment sales and purchases and these are reflected in the costs of purchases and proceeds from sales of investments.

## 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	19,846
Fixed interest securities	60,630	73,978
<b>Total</b>	<b>215,330</b>	<b>97,920</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	19,846	198	(198)
Fixed interest securities	73,978	(740)	740
<b>Total change in net assets available</b>	<b>97,920</b>	<b>(500)</b>	<b>500</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 2017 £'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>

### 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 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'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	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'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	23,701	0	0	23,701
Current Assets	1,914	0	0	1,914
Current Liabilities	(10,595)	0	0	(10,595)
	<b>1,367,676</b>	<b>0</b>	<b>0</b>	<b>1,367,676</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>

## 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	1,177
Cash balances	148,359	18,428
	<b>149,053</b>	<b>19,846</b>

### Analysis of debtors

	2015/16 £'000	2016/17 £'000
Other entities and individuals	149,053	19,846
	<b>149,053</b>	<b>19,846</b>

## 18. CURRENT LIABILITIES

	2015/16 £'000	2016/17 £'000
Sundry creditors	671	4,687
HMRC creditor		4,199
Benefits payable	1,271	1,664
	<b>1,942</b>	<b>10,550</b>

### Analysis of creditors

	2015/16 £'000	2016/17 £'000
Other entities and individuals	1,942	10,550
	<b>1,942</b>	<b>10,550</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
Fund Administration Expenses	£'000	£'000
Payroll / HR Support	494	494
Corporate Finance	175	175
	669	669

### Key Management Personnel

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

Chief Accountant

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

	2015/16	2016/17
	£'000	£'000
Short term benefits	19	30
Long term/post retirement benefits	4	13

### 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 2016/17 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

There are no contingent liabilities as at 31/03/2017.

## 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  
27<sup>th</sup> September 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 27<sup>th</sup> September 2017.

## **Annual Governance Statement**

The AGS is elsewhere on this agenda – approx. 40 Pages.

## 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

**Corporate Director of Resources**

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Andrew Sayers  
KPMG LLP  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

Date: 26<sup>th</sup> September 2017

Dear Andrew

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Tower Hamlets (“the Authority”), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority’s expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes (including the Expenditure and Funding Analysis). The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended;
  - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
  - iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

#### **Information provided**

4. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements;and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

10. The Authority confirms that:
  - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
  - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

### **Specific representations**

12. In relation to grants, as defined by the Tower Hamlets Commissioners, the Authority confirms that:

- The Authority has informed you of all significant grants paid and significant grant funding schemes operating during the year ending 31 March 2017; and
  - The Authority has no known unlawful items of account, other than the fifty payments (to eleven organisations) totalling £xxx,xxx that are disclosed in Note X of the Authority's financial statements.
13. In relation to section 106 and Community Infrastructure Levy (CIL) agreements, the Authority confirms that during the year ending 31 March 2017 and subsequently (to the date of this letter):
- The Authority has not refunded any monies held under section 106/CIL agreements; and
  - The Authority has not received any requests for refunds on any monies held under section 106/CIL agreements.

This letter was tabled and agreed at the meeting of the Audit Committee on 27 September 2017.

Yours sincerely,

**Cllr Candida Ronald**  
Chair of the Audit Committee

**Zena Cooke**  
Corporate Director of Resources

## **Appendix to the Authority Representation Letter of the London Borough of Tower Hamlets: Definitions**

### **Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

## **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

## **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## **Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

## **Related Party and Related Party Transaction**

### **Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).



- viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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**Corporate Director of Resources**

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E14 2BG

Tel: 020 7364 4262

**Zena.Cooke@towerhamlets.gov.uk**  
**www.towerhamlets.gov.uk**

Andrew Sayers  
KPMG LLP  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

Date: 27 September 2017

Dear Andrew

**RE: Representation Letter of the London Borough of Tower Hamlets Pension Committee**

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Tower Hamlets (“the Authority”), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority’s expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

## Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
  - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
  - iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

## Information provided

4. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements;and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
10. The Authority confirms that:
  - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
  - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,have been identified and properly accounted for; and
- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

### **Specific representations**

12. In relation to grants, as defined by the Tower Hamlets Commissioners, the Authority confirms that:
  - The Authority has informed you of all significant grants paid and significant grant funding schemes operating during the year ending 31 March 2016; and
  - The Authority has no known unlawful items of account, other than the fifty payments (to eleven organisations) totalling £151,778 that are disclosed in Note 9 of the Authority's financial statements.

13. In relation to section 106 and Community Infrastructure Levy (CIL) agreements, the Authority confirms that during the year ending 31 March 2016 and subsequently (to the date of this letter):

- The Authority has not refunded any monies held under section 106/CIL agreements; and
- The Authority has not received any requests for refunds on any monies held under section 106/CIL agreements.

This letter was tabled and agreed at the meeting of the Audit Committee on 27 September..

Yours sincerely

**Cllr Candida Ronald**  
**Chair of the Audit Committee**

**Zena Cooke**  
**Corporate Director of Resources**

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<p><i>Non-Executive Report of the:</i>  <b>Audit Committee</b>          27<sup>th</sup> September 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>Quarterly Assurance 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 summarises the work of Internal Audit for the period covering July 2017 to August 2017.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

## 2. RECOMMENDATION

- 2.1. Members are asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

### 3. Background

- 3.1. From April 2005, we have assigned each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

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

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





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

### 4. Overall Audit Opinion

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

#### 4.2. 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.

#### 5. Overview of finalised audits

5.1. Since the last Assurance Report that was presented to the Audit Committee in June 2017, twenty final reports have been issued. The findings of these audits are presented as follows:

- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
- Appendix 1 provides a list of the audits organised by assurance rating and significance.
- Appendix 2 provides a brief summary of each audit.

5.2. **Members are invited to consider the following:**

- The overall level of assurance provided (para 5.3-5.5).
- The findings of individual reports. Members may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

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

**Chart 1 Analysis of Assurance Levels**

<b>SUMMARY</b>		<b>Assurance</b>				
		Full	Substantial	Limited	Nil	Total
<b>Significance</b>	Extensive	1	11	6	-	18
	Moderate	-	2	-	-	2
	Low	-	-	-	-	-
<b>Total Numbers</b>		1	13	6	-	20
<b>Total %</b>		5%	65%	30%	-	100%

- 5.4. From the table above it can be seen that of the eighteen finalised audits which focused on high risk or high value areas; one was assigned Full assurance, eleven were assigned Substantial Assurance and six were assigned Limited assurance. A further two audits were of moderate significance and were assigned Substantial Assurance.
- 5.5. Overall, 70% of audits resulted in an adequate assurance (substantial or full). The remaining 30% of audits have an inadequate assurance rating (limited or nil).

## **6. Performance Indicators**

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

<b>Performance measure</b>	<b>Target</b>	<b>Actual</b>
Percentage of Audit Plan completed up to July 2017	20%	18%
Percentage of Priority 1 Audit Recommendations implemented up to August 2017 by Auditees at six monthly follow up audit stage	100%	80% 20 of 25
Percentage of Priority 2 Audit Recommendations implemented up to August 2017 by Auditees at six monthly follow up audit stage	95%	75% 18 of 25

- 6.2. The percentage of priority 1 recommendations fully implemented at the follow up stage was 80%, whereas the percentage of priority 2 recommendations was 75%. Details of priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Details of recommendations not implemented for each Follow Up audit are sent to the relevant Divisional Director and the Corporate Director for any appropriate action they would like to take.

## **7. Comments of the Chief Finance Officers**

- 7.1. This is a quarterly noting report covering the period July 2017 to August 2017 highlighting findings arising from the work of the internal audit. There are no specific financial implications arising from the contents of this report.

## **8. Legal Comments**

- 8.1. 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.
- 8.2. Pursuant to Regulation 3 of the Accounts and Audit Regulations 2015 ('the 2015 Regulations'), the Council is required to ensure that it has a sound system of internal control that facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational

management of the authority is effective; and includes effective arrangements for the management of risk.

- 8.3 The Council is also required by Regulation 5(1) of the 2015 Regulations to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 8.4 Quarterly Assurance Reporting from Internal Audit is an integral part of ensuring compliance with these duties.

## **9. One Tower Hamlets**

- 9.1. There are no specific one Tower Hamlets considerations.
- 9.2. There are no specific Anti-Poverty issues arising from this report

## **10. Best Value Implications**

- 10.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

## **11. Risk Management Implications**

- 11.1. 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.

## **12. Sustainable Action for a Greener Environment (SAGE)**

- 12.1. There are no specific SAGE implications.

## **13. Crime and Disorder Reduction Implications**

- 13.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.




**APPENDIX 1**

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
<b>LIMITED</b>	Extensive	Corporate	Control and Monitoring of Declaration of Interests by Staff
	Extensive	Place	Street Lighting
	Extensive	Resources	Tower Hamlets Local History Library and Archives (THLHLA)
	Extensive	Resources	Client Monitoring of ICT Contract
	Extensive	Corporate	Acting Up and Honoraria Payments
	Extensive	Governance	Registrars Follow Up
<b>SUBSTANTIAL</b>			
	Extensive	Resources	Staff Recruitment – Follow Up
	Extensive	Resources	Treasury Management
	Extensive	Resources	Payroll Account Reconciliation Follow Up
	Extensive	Resources	Housing Benefit and CTRS
	Extensive	Resources	Emergency Grants Funding Follow-Up
	Extensive	Corporate	Business Continuity Planning and Disaster Recovery
	Extensive	Tower Hamlets Homes	Sickness Management
	Extensive	Tower Hamlets Homes	Housing Rents
	Extensive	Tower Hamlets Homes	THH Estate Parking, Sheds and Garages
	Extensive	Place	Tendering for Waste Contracts
	Extensive	Place	Pay By Phone Parking Income – Follow Up
	Moderate	Children’s Services	Norman Grove Children’s Home - Follow-Up
	Moderate	Children’s Services	Guardian Angels CoE Primary School
<b>FULL</b>	Extensive	Children’s Services	Missing Children

**Summary of Audits Undertaken  
Limited Assurance**

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Declaration of Interests by Council Staff	August 2017	<p>This audit reviewed the systems and controls for declaration of interests (DOI) by staff. The Council requires officers to act with the highest standards of integrity and not to act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. In accordance with the Code of Conduct, every employee either positively declares that they have no interests or if they believe they have any actual or potential, conflict of interest they make a written declaration for consideration and approval by their manager. Each Directorate is required to maintain a confidential register of declarations which must be in writing, giving information about the nature of the interest and the names of the parties and the functions involved and this process is managed through the HR Self Service system.</p> <p>This audit was conducted in two parts. Firstly, the in-house team carried out the systems based audit to assess and test the effectiveness of governance, controls and risk management around DOI. Secondly, an external Data Analyst was procured to carry out data matching exercise with Open Source information in accordance with the agreed Scope. For this analysis, a methodology was agreed with the Statutory Officers, which required a random sample of 100 employees to be drawn from a list of services which was risk assessed. In addition, the Statuary Officers agreed to include all 35 members of the CLT and DMTs to be included in the data matching exercise. In total the sample included 135 employees' personal details such as names, addresses, dates of birth, NI numbers, managerial authority and content of declared interests, if any. The sample included five senior managers who had been procured through Comensura. The methodology adopted was approved by the Statutory officers.</p> <p>From our testing, we found that HR and WD service established adequate control at corporate level over the DOI system. There was improvement in the number of staff completing their DOI's since our last review in August 2014. The DOI completion rate was 99.98%, compared with less than 48% in August 2014.</p>	Extensive	Limited  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Declaration of Interests by Council Staff	August 2017	<p>However, we found the following control weaknesses.</p> <ul style="list-style-type: none"> <li>• There were no written procedures on the type of risk assessment to be undertaken by line manager when a DOI has been made by staff and there was no facility within HR Self-Service system to capture the risk assessment and authorisation by Divisional Directors.</li> <li>• Our testing of 23 declarations which were approved by line managers, in 3 cases, no response was received from line managers to support their authorisation. In 1 case the officer's declaration was subject to an internal investigation. In 6 cases, the DOI disclosures should have been referred to the Divisional Directors for further decision/approval or no evidence was provided to demonstrate that the referral had been made. In addition, we had concerns about 7 officers' declarations, which were recommended to be referred to the Anti-fraud team for further inquiries subject to Statutory Officers approval.</li> <li>• Of the 135 employees selected for detailed testing and data matching against open source data, there were 4 officers who were members of DMTs whose DOIs through agency, were not adequate. Testing showed that all four had completed DOI's when audit testing was being undertaken. As these officers were not on the Council's Establishment List, they were not required to submit DOI forms on HR Self Service. We have recommended a process be put in place that ensures declarations of interests are completed, validated and approved when any new consultants or interims are engaged through agencies and their DOI information should be updated annually.</li> <li>• Audit testing of officers DOI's and their details against open source data such as Companies House, Charity commission, Electoral Roll etc showed that 4 employees had failed to declare a company directorship and 5 employees failed to declare their consultancy companies. These cases will be referred to Statutory Officers for further consideration.</li> </ul>		


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Declaration of Interests by Council Staff	August 2017	<ul style="list-style-type: none"> <li>In cases where members of the same family are employed by the Council, our testing of 65 such cases found that in 9 cases the relationship was declared in full by both employees, in 17 cases the relationship was declared by only one employee, and in the remaining 39 cases there was no declaration by either employee.</li> </ul> <p>All findings and recommendations were agreed with the Central Services Manager and Divisional Director, HR and WD. Final report was issued to the Chief Executive, the Monitoring Officer and Corporate Director, Resources.</p>		

### Management Comments

The Declaration of Interest process including the procedure, guidance and the form is currently subject to review which will incorporate written guidance on the type of risk assessments to be carried out by line managers. Additionally, guidance will form part of the 'Tower Hamlets manager' development programme and wider communications will be issued to staff about the declaration of interest process and the requirement for disclosing interests including family relationships.

The development of an electronic risk assessment form with authorisation in-built to the HR system will be included in the programme of eForm development of HR forms.

Work will shortly commence on a review of the declaration of interest form and process applied to consultants, interims and agency workers with the proposal being that recruiting managers have sight of these prior to interview to inform their discussions/decision-making.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Street Lighting	May 2017	<p>This audit was undertaken as part of the 2016/17 agreed internal audit plan and entailed a review of the systems and controls operating within the Council, in respect of the arrangements for street lighting.</p> <p>The Council has a contract with Bouygues (value circa £1million), to cover the maintenance of the borough's street lighting (including both parks and highways). Bouygues draws down on the budget set to repair any faults identified. The Council's internal team does perform a degree of monitoring to help assess contractor activity, on the basis that the nature of the work allows Bouygues to both identify and complete maintenance works (which is therefore a potential area of risk).</p> <p>The 'Mayrise' system is used within the street lighting function. This system allows information regarding street lighting to be logged, and includes all the streets within LBTH that Bouygues is responsible for scouting, the assets within each street as well as information regarding costing.</p> <p>Following a recent restructure, the management of the service is relatively new to post (past 12 months). Since this time, there have been developments in the provision of guidance to staff in the form of process maps, as well as the introduction of more sophisticated technology (handheld devices) which are used by the contractor to log maintenance activity so that this can be reconciled through to eventual payment/draw-down.</p> <p>It should be noted that the in-house operational team for this area has been reduced in size and therefore the ability to perform additional monitoring is limited by the resources available to the service.</p> <p>The audit was designed to review the monitoring arrangements for street lighting to ensure that works are identified, ordered, carried out, monitored and paid for in accordance with the contract, 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>	Extensive	Limited 


		<ul style="list-style-type: none"> <li>• Only a limited amount of in-house street lighting monitoring is undertaken, which is outside of the normal working hours of the officer undertaking the monitoring, to help provide assurance that Bouygues is undertaking its work sufficiently.</li> <li>• Quarterly contractor meetings between the Council and Bouygues have not taken place for the last 18 months to discuss performance as well as any other developments that may have taken place.</li> <li>• Key Performance Indicators (KPIs) do not appropriately total and are incomplete for October 2016 and November 2016 (Note: KPIs have only started being produced/filed since August 2016).</li> <li>• Policies, procedures and guidance documents do not contain version control histories (including review date and author).</li> <li>• Information regarding non-working street lights is often being acknowledged via member's enquiry (this is where members of the public report issues with assets at Councillor surgeries/forums). Information should only come through this channel once a query has been logged and no further action has been taken to rectify the issue.</li> <li>• From a sample of three monthly payments made, for the April 2016 payment of £4,413.73, no confirmation to pay email was provided to confirm that the payment was approved for payment.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director Public Realm, Highways Manager and Interim Head of Clean Green and Highways, and reported to the Corporate Director CLC.</p>		
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### Management Comments

The service accepts the recommendations outlined in the report, and are making progress in delivering more robust monitoring procedures. The service is being restructured to provide more resource to ensure systems are in place, and the post for a Business Manager in the Highways Team has recently been advertised.

Contract monitoring across Highways functions will be a key priority and it is important that we have the systems in place to deliver this. Work is also in progress to implement the PSI project, and although this will take longer in the Highways functions it is now at the development phase, and is projected to be delivered in the next 9-12 months.

The team will continue to ensure that progress is made, and that contract monitoring is recorded and evidenced to ensure compliance, and that a quality service is delivered for the Council.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Local History Library and Archives (THLHLA)	May 2017	<p>Tower Hamlets Local History Library and Archives (THLHLA) covers the area of the present-day London borough of Tower Hamlets - the original East End of London which, until 1965, comprised of the boroughs of Bethnal Green, Poplar and Stepney. It is the recognised Place of Deposit for the archives of Tower Hamlets Council.</p> <p>This audit looked to review the procedures for various areas of the THLHLA and help to provide assurance as to whether they are up to date and being complied with. The Grade II listed library building dates from 1860 and hosts a joint service managing both archives and local studies library collections. The extensive collections cover a vast range of popular subjects such as housing, health and immigration, and include thousands of photographs and press cuttings as well as rare publications. The archive collections are spread across a variety of formats, from medieval parchment to digital audio and video. The collections are managed according to two similar but different professional disciplines:</p> <ul style="list-style-type: none"> <li>• The <i>library</i> collections are managed by a professional (postgraduate qualified) librarian. Library materials are so defined because they are published, i.e. more than one copy was printed and disseminated at the time of creation. They include paper and audio-visual formats. While they are generally replaceable, some items can be extremely rare.</li> <li>• The <i>archives</i> collections are defined as 'recorded evidence of an activity' and can take any format. They are usually unique - for example, minutes, correspondence, reports, and diaries. The archives are managed by professional (postgraduate qualified) archivists. Archives are usually unique and therefore very hard if not impossible to replace in the case of loss.</li> </ul> <p>Both collections are catalogued onto the same database (Axiell CALM) by the appropriate staff member/s, but the procedures for creating the descriptions in each case are different.</p>	Extensive	Limited 




		<p>The audit was designed to provide assurance that the controls over collection management – including acquisition, cataloguing, preservation, security, and the facilitation of public access and engagement – are sound and secure, and to evaluate the potential consequences which could arise from any weaknesses in internal control procedures including value for money and equalities issues. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"><li>• Policies and procedures remain in draft format and are yet to be finalised and subsequently approved by senior management. Policies and procedures for the use of the collections are not yet ready for public reference.</li><li>• Examination of 20 archive items accessioned since April 2016 (identified from the CALM database), identified one instance where the item could not be located. In a further 10 instances, the location of the item was not recorded on the database, although the Borough Archivist was still able to locate each item manually (as per the Auditor's request to physically examine the accessioned items). It is noted that these 10 items were still being processed at the time of the test, i.e. their location was not finalised.</li><li>• Examination of the Archive Cataloguing Back-Log List identified that there are a number of cases that have been accessioned but not yet catalogued and made available to the public. In two instances the items were accessioned as far back as 1987. However, the majority of backlog material dates from the 1990s.</li><li>• The Auditor conducted a physical check to verify whether 10 archive items of catalogued inventory could be traced back from their physical locations on site to the CALM database. Testing identified one instance where there was no information on the CALM database for the item's location. In a further two instances, it was identified that the item's physical location did not match that expected, as per the CALM database.</li><li>• Discussion with the Heritage Manager identified that THLHLA does not have insurance on its collections, other than in respect of one painting that is valued as being over £80k. Instead, a management discussion of whether to insure or conserve collections at THLHLA was advised to be in process (including agreement on the percentage of the collections to conserve), but it was advised that no decision has been reached.</li><li>• The existing strong room (where collections are stored) has been full to</li></ul>		
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		<p>capacity since 2005. The Auditor observed that items are being stored in 'overspill' rooms which are not as secure and environmentally sound as the strong room (i.e. does not have four-hour fire doors for example).</p> <ul style="list-style-type: none"> <li>• Examination of 20 items catalogued (since April 2016) identified one case where the catalogued reference number was not identifiable on the item itself. It was also identified that five items had no date of accessioning stated in their records.</li> </ul> <p><b>Note:</b> Points/Recommendations 3 and 6 (above) are considered to be the highest priority. Although the audit has classified other recommendations to be High Priority, numbers 3 and 6 have the most serious impact on the service's work. Recommendations 3 and 6 are outside of the control of THLHLA staff to address directly. The remaining recommendations are still considered as fundamental, but in comparison are potentially less significant (on the basis that the actions proposed which can reasonably be dealt with within the next few months).</p> <p>All findings and recommendations were agreed with the Heritage Manager, Deputy Head of Idea Store and Divisional Director (Customer Access), and reported to the Corporate Director Resources.</p>		
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## Management Comments

Action has been taken by THLHLA management to address all recommendations within their purview. Recommendations 3,5 and 6 are outstanding however and require senior management attention.

1. More policies are being written by the team onsite to ensure completeness. The full suite of policies will be ready for management sign-off by the end of September 2017.
2. All unaccessioned material has now been accessioned.
3. A growth bid for fixed-term cataloguing archivists needs to be drafted, submitted and funded, so as to address the extensive backlog of uncatalogued collections – approximately 50% of all materials held. The impact of having such a longstanding backlog is that approximately half of the collections being stored at THLHLA are not accessible. Researchers need to be able to search THLHLA's collections using the online catalogue and then be able to locate specific items which they then request to consult onsite. But without additional funding the status quo will be maintained – ie that no-one, not even staff, knows what information is contained within this material. It may be noted that the largest bulk of uncatalogued backlog consists of council records from the 1950s-1990s, access to which is often required by LBTH staff investigating legacy issues, as well as by Tower Hamlets residents and the general public.
4. and 7. Certain in-house staff procedures have been improved, namely recording locations for work-in-progress, and for ensuring that all mandatory fields are completed before records are made live on the catalogue.
5. The collections remain uninsured. Additional funding needs to be sought or the cost of insurance added to the growth bid.
6. Since 2005 an expanded strongroom facility has been required so as to properly store the growing heritage collections, which need specific controlled and secure environmental conditions for their permanent preservation. There is insufficient space in the building footprint to meet the existing requirement plus 40 years' growth. We are awaiting the result of feasibility study by Capital Delivery for shared use of the building with neighbouring QMUL (involving an extension onto their land); this will be considered alongside an options appraisal regarding possible relocation of the Local History Library & Archives service to an alternate location with sufficient room for bespoke collections storage as well as public access, educational activities and exhibitions – perhaps a location such as Spitalfields or Bethnal Green better suited to maximise audiences for heritage tourism than the present site in Bancroft Road.
7. See (4) above

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Client Monitoring of ICT Contract	July 2017	<p>The objective of this audit was to provide assurance that procedures for monitoring the ICT contract which was refreshed in June 2016, following a mid-term review, were sound and secure. The original contract with Agilisys Limited covering ICT services was signed on the 30th April 2012. The annual Partner Price including indexation and after price smoothing is £10,473,635 for the financial year 2016/17; £9,759,154 for 2017/18 and £8,577,055 (2018/19).</p> <p>Our review found that governance arrangements have been strengthened and the membership of the Executive Partnership Board (which meets annually), Strategic Partnership Board (meets quarterly) and Monthly Operations Meeting was constituted at the appropriate level. There were adequate procedures for the client team to monitor the key requirements of the refreshed contract. The performance standards and KPI's have been revised to allow any improvement in performance to be clearly measured and monitored. Our testing showed that the Client team reviewed and signed off the monthly performance reports, including the PI Dashboard, performance against key service levels, exceptions reports including major incidents reports, other service disruptions/priority issues and a complaint/compliment log. Reality checks were also made against data/evidence submitted by the contractor. For these reasons, we assigned Substantial Assurance that the client team's systems for monitoring the contract are adequate.</p> <p>However, we were concerned that the contractor's performance is not fully compliant with all the requirements of the contract. The Client Team, despite their current lack of numbers, have identified a number of contract compliance issues through the contract monitoring process. These issues include non-compliance with some key requirements included in the refreshed contract. A number of PI reports including those on open book accounting, asset management, quarterly Third Party Contract Financial reports and user experience had not been provided. We were concerned that although the Council has provided direct funding of some £59,000 p.a. to the contractor to meet the cost of a Performance Monitoring Officer and despite the client team raising non-compliance issues</p>	Extensive	Limited 

		<p>regularly, the contractor was not compliant with key PI requirements. We recommended that the Corporate Director, Resources should seriously consider available options to ensure that the contractor is compliant. For these reasons we assigned Limited Assurance to the compliance aspects of the contract.</p> <p>All findings and recommendations were agreed with the Divisional Director of ICT and final report was issued to the Corporate Director of Resources.</p>		
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**Management Comments**

The Tower Hamlets Divisional Director IT is meeting regularly with the Agilisys Partnership Director to achieve compliance with the contractual performance indicators. If this does not achieve the desired outcomes the Corporate Director Resources will write formally to Agilisys requiring compliance. Performance Indicators marked as not-complete previously were presented and discussed at the August Monthly Operational Management Board indicating the desired direction of travel.

The Tower Hamlets Client Team has produced a register of contractual reporting obligations based on the performance indicators and current compliance status. The register will be reviewed weekly by the Divisional Director IT and Agilisys Partnership Director; with issues being worked through one by one and the register updated as compliance progresses. The Monthly Operational Meeting chaired by the Divisional Director IT and attended by representatives from Tower Hamlets and Agilisys provides a regular checkpoint on progress.

If the Divisional Director IT and Agilisys Partnership Director are unable to make adequate progress the Corporate Director Resources will initiate formal action.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Acting Up and Honoraria Payments	June 2017	<p>This audit provided assurance that systems and procedures for selecting approving, processing and controlling Acting-Up Allowances and Honoraria Payments are sound and secure. Acting Up Allowances and Honoraria payments are made to staff for work carried out on behalf of the Council deemed over and above their normal duties. Acting Allowances and Honoraria are paid through the Council's Payroll system. During the financial years 2014/15 and 2015/16, total Honoraria payments amounted to some £ 471,194 and £481,717 respectively. For the period April 2016 to December 2016, Honoraria payments stood at £421,827 paid to some 126 staff. Due to the accounting method, acting up allowances cannot be identified separately.</p> <p>The following issues were highlighted:</p> <ul style="list-style-type: none"> <li>• An overarching Council policy for directing management in relation to acting up roles and honoraria payments was not in place, albeit the 'Guidance for Managers', dated November 2012 provide some guidance to process acting up appointments and honoraria payments;</li> <li>• We noted that the 'Guidance for Managers' needed to be reviewed to include monitoring controls around discretion given to managers to directly appoint for acting up roles.</li> <li>• Testing showed that there were no procedures in place for operational and management duties, e.g. processing of forms, setting up payments, evidencing verification of payments set – up, producing monthly returns and management reports;</li> <li>• As a result of control weaknesses and audit trail issues, we recommended that all Directorates should undertake a complete review of their current acting up arrangements and honoraria payments to identify discrepancies and instigate corrective actions, such as filling in vacant posts, reviewing pay of staff on ongoing honoraria basis, stopping payments which have continued in error and recovering overpayments made.</li> </ul>	Extensive	Limited

		<ul style="list-style-type: none"> <li>• A set of management reports is not currently produced and circulated to relevant officers on a regular basis to enable Directorates to make informed decisions in relation to acting up roles and honoraria awards;</li> <li>• An honorarium payment of £2,244.00 was made to an employee without supporting documentation and authorisation. It was noted that this payment was made in error and recovery of the overpayment had begun from the employee's March salary;</li> </ul> <p>All findings and recommendations were agreed with the Consultancy Business Manager HR, Human Resources and Workforce Development and final report was issued to all Corporate Directors.</p>		
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### Management Comments

The current project on reviewing HR policies and procedures will incorporate a review of the existing guidance and the development of a policy and criteria for determining the basis for the payment of an acting allowance or honorarium payment, including the limits on discretions to managers and detail the escalation mechanism to Corporate Directors if an acting arrangement exceeds 12 months. The new guidance will be communicated to all managers and staff in accordance with the usual process for launching new and revised guidance. It is proposed to launch the revised guidance in October 2017.

Monthly reports on acting and honoraria payments will be distributed to Corporate Directors for reviewing, controlling and monitoring in collaboration with their HR Business Partner.


The existing Acting and Honoraria forms have been reviewed and two new electronic forms (one for acting and one for honoraria payments) accessible in HR Self Service are currently in development with the intention of launching these in October 2017. Each of these forms will include specific sections within which a manager has to provide a full business case and demonstrate the relevant criteria detailed in the guidance in which the request falls. In addition the acting up form will include the requirement of providing a post number and the method of recruitment for acting arrangements. The workflow for the new eforms will enable managers to submit their request for honoraria payments and acting up arrangements via HR Self Service with the request flowing electronically to Divisional Directors and Corporate Directors. This will

mean that all requests will be held within the HR system on the relevant employee's electronic personal file, with a clear audit trail from which monthly reports will be submitted to Corporate Directors. Additionally, the workflow between the HR and Payroll Teams is currently being reviewed as part of the One HR Programme and the development of eforms and will eliminate the need for checklists and other manual interventions. This workflow will be reviewed within the development period with the proposed 'go live' date in October 2017.

In conjunction with the launch of the revised procedure in October 2017, a report of current acting and honoraria arrangements is being prepared and will be sent to all Corporate Directors to review all payments that are being paid in their service areas and determine whether payments should continue. The Senior Business Partners will also receive these reports and will be raising the actions required at the Directorate Management Meetings that they attend. These reports will subsequently be produced on a monthly basis. Where payments are to continue the relevant extension of acting up form (which has already been revised) will need to be completed in full, prior to HR and Payroll processing the request.

It has been accepted that a payment made without supporting documentation was as a result of human error and the payment has subsequently been recouped. The workflow between the HR and Payroll Teams is currently being reviewed as part of the One HR Programme and the development of e-forms and will eliminate the need for checklists and other manual interventions.



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Registrar's Office Follow-Up	August 2017	<p>The Registration Service has a statutory duty to provide the registration of life events; Births, Deaths, Stillbirths, Marriages, Civil Partnerships and Civil Partnership Conversions for all citizens of England and Wales who meet the criteria for the specific service and provide ceremonial services to the public.</p> <p>Among other responsibilities, the Registration Service also Licence 'Approved Venues' within Tower Hamlets which they can attend to conduct Civil Ceremonies. They hold security stock of current registration events, medical certificates for general practitioners and hospitals, and are custodians of all registration documents and registers (both current and historical) on behalf of the Council. They are also appointed by the Home Office (HO) to conduct Citizenship Ceremonies and are regulated under the Office of the Immigration Service Commissioner (OISC) to provide a Nationality Checking Service and Joint Passport Application facility (processing applications for members of the public wishing to become British Citizens).</p> <p>The Registration Service is governed by the General Register Office (GRO), a department within Immigration and Passport Services (IPS) at the HO. Over time, GRO has gradually released more of its registration responsibilities to local authorities. GRO also requires the local authority to replace and update the tools and systems that enable Registration Officers to deliver an accurate and efficient service meeting strict Key Performance Indicators (KPIs).</p> <p>A full systems audit on the Registration Service was undertaken as a part of the 2015/16 agreed Internal Audit Plan and the final audit report was issued in June 2016. This audit was assigned Substantial Assurance and seven recommendations were raised (five medium priority recommendations and two low priority recommendations).</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 showed that of the five medium priority recommendations</p>	Extensive	Limited 

	<p>made at the conclusion of the original June 2016 full systems audit, two have been partly implemented and three have not yet been implemented.</p> <p>We have made five recommendations. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• Examination of 10 daily cash sheets, from the period January 2017 to March 2017, identified that in nine cases (daily cash sheets: 08/03/2017, 06/03/2017, 28/02/2017, 21/02/2017, 20/02/2017, 03/02/2017, 24/01/2017, 19/01/2017 and 10/01/2017), the daily cash sheets were not signed and dated by the reviewer. The Auditor also noted that, in three cases (daily cash sheets: 28/02/2017, 20/02/2017 and 24/01/17) the name and/or signature of the officers completing the daily cash sheets were not indicated.</li> <li>• Examination of five spoilt certificates from the period January 2017 to March 2017, identified that four spoilt certificates (BRR 645482, BBL 337869, BRR 644820 and RTA 678898) were not initialled by the issuing officer. In addition, two of these spoilt certificates (BBL 337869 and BRR 645482) were also not dated when spoilt. All five spoilt certificates were not crosschecked or reconciled by an officer. Discussion between the Business Support Manager and the Auditor identified that there was no formal procedure in place for the disposal of spoilt certificates. The Spoils Log for the period January 2017 to March 2017 did not indicate the date and type of spoilt certificate. One out of the five spoilt certificates examined (BBL 337869) was not found in the Spoils Log.</li> <li>• Examination of seven out of 112 card payments for the period covering June 2016 to December 2016 identified that, in all seven cases, there was no formal recording of purchase requests, authorisation and/or delivery confirmation.</li> <li>• Discussion between the Business Support Manager and the Auditor identified that there was no documented Scheme of Delegation in place with respect to the use of the corporate card.</li> <li>• It was identified that regular one to one meetings between staff and their managers, a record of performance development review (PDR) and a record of staff training sessions were not currently documented.</li> </ul>		
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### Management Comments

Following on from the agreed Final Audit Report, the Head of the Service unfortunately went on long term Sickness Absence from July 2016 – February 2017. Due to the additional pressures this put on the Team and Management, the recommendations were not implemented. This matter has been addressed in full.

End of day administration procedures have been improved and introduced and training on these for all Team members arranged.

Spoilt Security Stock now on advice from GRO can be disposed of on a rolling annual basis. This will be undertaken with both a Registration Officer and Business Support Officer from Legal on a monthly basis.


PRD Training has taken place for Managers. A PDR information and support exercise has taken place and dates are being finalised for everyone to submit PDR/PDPs paperwork in accordance with guidelines.


The Head of Registration takes full responsibility for the fact that these recommendations were not implemented immediately and within the timescales agree. This was due to unfortunate circumstances, increased workloads and staffing levels.

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Staff Recruitment Follow-Up	July 2017	<p>Staff recruitment is concerned with the interviewing, selection and validation of new and existing employees that are to be appointed by the Council. Recruiting managers identify a vacancy and advertise the post both internally and externally depending on the nature of the job.</p> <p>I-Grasp is used by staff, as well as recruiting managers, applicants and redeployees, the latter having access to the redeployment portal. This system is used to retain all evidence of the approval / decision to recruit, the applications made, interviews held as well as the eventual confirmation of employment. Approval of the decision to recruit is completed electronically through this system, by Service Heads with an audit trail being retained.</p> <p>Once the decision to recruit is approved, each post is advertised. Methods of advertisement include: the Council’s website, the Guardian newspaper and the internal intranet. The method can vary depending on which is deemed most appropriate by the Recruiting Manager.</p> <p>The People Resourcing Team arrange interviews and contact the candidates for the recruiting managers. Pre-employment checks are also completed by the People Resourcing Team, with the level of checks required being dependant on the specific post being applied for. The start date of employment is agreed once the required checks are completed and the manager deems the clearances to be satisfactory to the council (in line with the Council’s internal Recruitment and Selection Standards).</p> <p>This follow-up audit was undertaken as part of the 2016/17 agreed internal audit plan.</p> <p>Our follow up audit identified that, of the four medium recommendations made in our original report, three have been fully implemented and one has been partly implemented.</p>	Extensive	Substantial ↔


		<p>We have made one recommendation. The areas of weakness are as follows:</p> <ul style="list-style-type: none"><li>• Through review of the Recruitment Process Quarterly Review spreadsheet, the Auditor identified that, where documents were missing (i.e. no interview notes on file), there were no record of actions taken.</li><li>• The Auditor identified that, in eight instances, the name of officer undertaking the Recruitment Process Quarterly Review check was not indicated in the spreadsheet.</li></ul> <p>All findings and recommendations were agreed with the Consultancy Business and Performance Manager, and reported to the Interim HR, OD &amp; Transformation Manager and Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Treasury Management	June 2017	<p>The objective of this audit was to provide assurance that systems of control around the Treasury Management functions were sound, secure and adequate.</p> <p>The Treasury Management function is responsible for the ongoing monitoring and forecasting of monetary assets of the Council and for the effective investment of funds surplus over any given period of time to generate a sufficient financial return. As at 30th September 2016, the Council had a total of outstanding investments of £406.85M, of which £236.62M was invested overnight with the remainder being invested for longer periods.</p> <p>Our review showed that the Council developed a Treasury Management Strategy Statement that determines the treasury management priorities and details the procedures required for effective investment. This was approved appropriately. All investments tested were undertaken after reference was made to the forecasted annual cash flow position, which is updated on a daily basis and helps the Council's Treasury Management team to maintain control over cash flow. The investments tested were found to comply with the Treasury Management Policy. Monthly reconciliations were undertaken between the GL and the bank statements, in addition to reconciliations between local records and the GL. Counterparty limits are clearly defined so staff are aware of investment limits up to which investments can be made. However , the following issues were also highlighted:-</p> <ul style="list-style-type: none"> <li>• The contract extension for treasury advice with a company was not in accordance with Procurement procedures and a retendering exercise was required to be undertaken as soon as possible.</li> <li>• Appropriate training on Treasury Management needs to be provided to the Members of the Audit Committee.</li> <li>• The Treasury Management procedure notes required version control.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director Finance, Procurement and Audit and final report was issued to the Corporate Director of resources.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payroll Account Reconciliations Follow-Up	May 2017	<p>Financial Procedures FA4 requires that the Council conducts frequent reconciliations of net payroll expenditure against approved bank account(s), payments of statutory and non-statutory deductions to third parties (e.g. pension contributions), and annual year-end statutory deductions compared to amounts paid to the Paymaster General.</p> <p>The Payroll Reconciliation is a three-way reconciliation between BACS payments totals to the Payroll system and to the General Ledger. The objective of the payroll account reconciliations is to ensure that all records of transactions paid and received in relation to a given period as per the Payroll system, match the records of payroll expenditure and receipts in the general ledger. This is to ensure that all monies spent and received by the Council in relation to the payroll are accounted for in the main accounting system.</p> <p>The Payroll reconciliations involve the reconciling of the Council's payroll accounts in the general ledger against the payroll records, using reports generated from Northgate Resource Link and Agresso systems, respectively. The Payroll system has an inherently high risk of errors and irregularities. A strong control environment is necessary to manage this level of risk. Within the financial year, there are 12 payroll reconciliation periods (one each month).</p> <p>A full systems audit on Payroll Account Reconciliation was undertaken as a part of the 2015/16 agreed Internal Audit Plan and the final audit report was issued in March 2016. This audit was assigned Substantial 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. Our follow up review showed that, of the four medium recommendations made in our original report, two have been fully implemented, one has been partly implemented and one has not yet been implemented.</p> <p>We have made two recommendations. The areas of weakness are as follows:</p>	Extensive	Substantial 

		<ul style="list-style-type: none"><li>• The Payroll Reconciliations procedure note has not been reviewed and appropriately signed off.</li><li>• Information regarding unrecognised items outstanding, and the duration of the outstanding items, was not included in the Financial Systems and Controls spreadsheet. It was advised that the original recommendation had not been implemented due to a non-allocation of permanent staff to this area.</li></ul> <p>All findings and recommendations were agreed with the Senior Accountant and reported to the Divisional Directors for HR and Finance/Procurement, and the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Benefit and CTRS	July 2017	<p>Tower Hamlets operates a centralised benefit claims processing service and a dedicated benefits call centre both based at the Town Hall (but supported by the One Stop Shop). Areas of responsibility include the processing of claims for Housing Benefits and the Council Tax Reduction Scheme (CTRS), the correct award or rejection of claims received, and the accurate payment of the amounts awarded.</p> <p>In addition, the function is responsible for identifying where the eligibility of claimants has lapsed, and for the recovery of overpaid amounts.</p> <p>Northgate is the Council's system that is used to store and process all Housing Benefits and CTRS information.</p> <p>As at February 2017 (and since April 2016), there had been 4,113 new claimants, 103,459 separate instances of changes to circumstances and 29,837 instances of overpayments which totalled £13,447,509.58 (averaging to £450.70 per case).</p> <p>It was also noted, through discussion with the Head of Risk Management and Internal Audit, that there is a known issue regarding the consistency of data between the LBTH Council Tax records and the LBTH Housing Benefits records. More detailed testing is in the process of being undertaken within the Council Tax Department regarding those claimants who are claiming Single Person Discount, against Housing Benefit claims as well as against the electoral role, to highlight any discrepancies.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around Housing Benefits and CTRS 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:</p> <ul style="list-style-type: none"> <li>Some procedure notes available to staff are dated 2008 (for example, the Absence from Home Policy) which could lead to confusion as to whether the guidance remains up-to-date. Procedure notes, which are available to all staff via the shared drive, are also not in a 'read only' format, which</li> </ul>	Extensive	Substantial 

		<p>could allow unauthorised staff to make amendments without management consent/knowledge.</p> <p><i>Note: The recommendation linked to this finding has not been accepted by management, but has remained in the report for transparency (along with a supporting rationale).</i></p> <ul style="list-style-type: none"><li>• Reconciliations between Northgate Housing Benefits, Northgate Rents and Agresso (the Council's Financial system / General Ledger) are signed by both the HB Manager and the Head of Benefits Services, but there are no dates for the Head of Benefits Service signature stated to verify when these signatures have been appended, thus it is not possible to confirm that the reconciliations have been consistently prepared and reviewed in a timely manner.</li><li>• No evidence was provided to verify that any benchmarking takes place with other councils.</li></ul> <p>All findings and recommendations were agreed with Benefits Subsidy/Overpayments Benefits and ICT Manager and Head of Benefits Services, and reported to the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Emergency Grants Funding Follow-Up (Revised Final)	July 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 on Emergency Grants Funding 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 recommendation at the conclusion of the original systems audit had been implemented.</p> <p>The one medium priority recommendation included within the original audit was raised on the basis of audit testing which examined 13 emergency grants cases. Payments were made in nine cases and it was discovered that the Emergency Grants Team were unable to provide evidence of the approval email sent from the certifying officer to the grant officer in three of these cases (Tower Hamlets Law Centre, Volunteer Centre Tower Hamlets and Senrab Football Club). In addition, audit testing of the monitoring regime further identified that the Emergency Grants Team were also unable to provide evidence of the confirmation email sent by the monitoring officer to the budget holder in three cases (Tower Hamlets Law Centre, Volunteer Centre Tower Hamlets and Triratna Arts).</p> <p>Our follow up review aimed to identify whether the one medium priority recommendation made in the original audit report had been implemented. However after a number of requests no information to support the implementation of the recommendation was provided. In the absence of this engagement, it was initially necessary to downgrade the follow-up opinion to Limited and a Final report was therefore issued in April 2017 (as we could not provide assurance on this basis). It could also not be confirmed how much the Council had paid during 2016/17 for emergency grants to put the potential risk exposure into context. The area of weakness was as follows:</p> <ul style="list-style-type: none"> <li>• Verification emails were not retained in three cases in the testing of both payments and monitoring processes (at the time of the original audit). It was recommended that management should remind the Emergency Grants</li> </ul>	Extensive	Substantial 

		<p>Team of the need to retain all supporting evidence in respect of control processes undertaken in the administration of grants. However, evidence of this control now operating appropriately was not forthcoming during the course of follow-up.</p> <p><b>NOTE:</b> Post audit (June 2017), the Head of Benefits Services subsequently responded to provide assurance that the identified risks (as highlighted above) had been addressed. A revised version of the Final Report has therefore been produced to acknowledge an improvement in overall assurance rating up to Substantial, based on the new evidence received.</p> <p>For clarity and transparency, it can be confirmed that the following evidence was provided by the Head of Benefits Services:</p> <ul style="list-style-type: none"> <li>• Evidence that payment approval request emails and the confirmation emails (sent to the Third Sector Programmes Manager by the Programmes Officer that manages the Emergency Funding Programme) are retained and kept in a central Agresso Payment folder on the team's shared drive. Screenshots were provided (but it was noted that this procedure is no longer to be followed).</li> <li>• The Head of Benefits Services confirmed that the above approach was adopted by the Third Sector Team when the financial system changed to Agresso). The previous system had the approver physically signing the AP1 prior to it going to payments. This was used for all grant programmes. The Council now has a Procedure Note (v3 12/02/16) that includes this process for all grant payments. The process was not brought in due to benchmarking or engagement externally and is not a corporate requirement.</li> <li>• Evidence of the further improvements made with effect from January 2017. Noted that monitoring, premises and debts outstanding checks should always have been made by the Grants Monitoring Officers prior to the raising of payment approvals. The Desktop Monitoring Confirmation Report evidences that checks have been made and the Emergency Funding – East London Asian Family Counselling report was provided. The improvements made from January 2017 include the establishment of improved processes and clarification of expectations regarding Grants Monitoring Officers</li> </ul>		
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		<p>responsibilities relating to premises and debtor checks and the introduction of a new Grants Spotlight Review Panel to meet with groups whose performance ratings are Amber or Red rated. The checks are undertaken and recorded by the Grants Monitoring Officer on each quarterly performance monitoring assessment.</p> <ul style="list-style-type: none"> <li>• Evidence that the Emergency Funding procedures have been updated (update is from 21 October 2016 and includes the 'Email Verification' process which is no longer used).</li> </ul> <p>In summary, the additional documentation provided has helped to demonstrate that the points raised by audit are being addressed. It was noted by the Head of Benefits Services that there is a work in progress to improve processes and provide greater assurance. The change to the payments approval process and specifically no longer using the 'Email Verification' process, demonstrates that the Council is updating and developing improved processes all the time. There are upcoming plans to introducing a new ICT system, including workflow, which will further improve operational arrangements and will be transparent and fully audit trailed.</p> <p>All findings and recommendations were reported to the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Business Continuity Planning and Disaster Recovery	July 2017	<p>Business Continuity Planning continually confronts the likelihood, or otherwise, of a disaster. The cause of the interruption doesn't matter, but being capable of gaining management control of the interruption does. Business Continuity Planning is an answer to the unexpected. It is an executive commanded, crisis management programme driven by business requirements. Business Continuity Planning modifies the consequences of a business interruption to a level acceptable to management and provides a vehicle which when executed, will permit an effective resumption of interrupted functions.</p> <p>The London Borough of Tower Hamlets (the Council) has specific legal duties under the requirements of the Civil Contingencies Act 2004. These duties include planning the response to civil emergencies in the Council and to prepare, test and exercise business continuity plans for its core public essential services. The Civil Protection Unit publishes and distributes the Corporate Risk Register with the identified risks being assessed / reviewed in conjunction with other Council services. The Unit also prepares, and co-ordinates the preparation of, generic response plans (i.e. Borough Major Emergency Plan Parts 1, 2 &amp; 3) along with other Council services and subsequent exercising of these arrangements being undertaken by the Council.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around Business Continuity Planning and Disaster Recovery 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:</p> <ul style="list-style-type: none"> <li>• The ICT Disaster Recovery Test Schedule details the prioritised critical IT systems / services that are subject to scheduled disaster recovery testing. The list was previously reviewed by CLT, but has not been specifically reviewed recently to help ensure that the priority list still aligns with the Council's service requirements.</li> <li>• Business Impact Assessments (BIAs) are not being completed for every service within the Directorates. For three out of a total of 20 individual service areas selected for testing, a Business Impact Assessment had not been completed.</li> </ul>	Extensive	Substantial 


		<ul style="list-style-type: none"><li>• In a further four cases, the BIA could not be agreed to the BCP. In one of these four cases, the Business Impact Assessment had also not been fully completed, including the Contingency Action Plan section.</li><li>• Business Continuity Champions are not in place for each of the Directorates. There are vacant posts where previous champions have left the Council.</li><li>• Staff training records concerning business continuity require updating following the recent restructuring of the Council.</li><li>• The Council undertakes an annual communications exercise known as Sandcastle and this was undertaken in August 2016. However, a scheduled no-notice exercise involving a Council building in 2016 is still yet to be performed.</li></ul> <p>All findings and recommendations were agreed with Divisional Director for Community Safety, and reported to the Director of Resources and Corporate Director of Health, Adults &amp; Community Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Sickness Management	June 2017	<p>This audit examines the systems in place for managing, controlling and monitoring sickness management at Tower Hamlets Homes (THH) and has been undertaken as part of the 2016/17 agreed Audit Plan.</p> <p>Sickness documentation for THH employees is held locally by their respective service managers. THH uses the Council's systems for recording and monitoring sickness. These systems include HR Shared Services, where managers input staff sickness information, which is subsequently fed through to Resource Link, the system used by the Council for Payroll.</p> <p>The average number of days lost per employee for 2016/17 was 10.7 days in comparison to 11.1 days for 2015/16. The number of staff on formal sickness reviews has decreased for 2016/17 to 144 in comparison to 146 for 2015/16. Five staff were dismissed for sickness in 2016/17 in comparison to two being dismissed for 2015/16. The total number of days lost due to sickness absence has decreased from 5,151 in 2015/16 to 4,882 for 2016/17.</p> <p>The audit was designed to assure management that there are sound systems in place for managing and monitoring services, and ensuring that services are well planned, managed and controlled in order to achieve key service objectives. The main weaknesses were as follows:</p> <ul style="list-style-type: none"> <li>• The Managing Sickness Absence Procedure has not been updated since November 2013. In addition, there is no indication of who has produced, approved and reviewed the procedure note.</li> <li>• The Managing Sickness Absence Procedure states that officers on long term sickness absence should still be provided with the 'News for Views' communications as well as any minutes for team meetings. The Auditor requested this information but was not provided with any evidence of this occurring for the 20 long term sickness absence cases tested within the sample.</li> <li>• The HR Shared Services System (system used to input data which is then fed into ResourceLink, the Council's payroll system) is not always updated in a timely manner. This has caused officers to be informed that their salaries will be reduced to 50 percent due to their absence, when</li> </ul>	Extensive	Substantial 




		<p>this could have been avoided by managers updating the system promptly following the staff member's return to work.</p> <ul style="list-style-type: none"> <li>• A sample of 20 short term and 20 long term sickness absence cases was sampled for Q1-Q3 of the financial year 2016/17. It was identified that there were six instances (121475, 133480, 39253, 117109, 37048 and 133460) of short term sickness absence, out of 20 examined, where no RTW/self-certificate form was provided and two equivalent exceptions (117678 and 37227) in respect of the long term sickness absence cases examined. In addition, there was one long term absence case (37072) where there were no signatures nor dates of the officer and manager, but the names were printed on the RTW/self-certificate. There was one instance for short term sickness where the RTW was completed a month after the employee returned to work (27653). This RTW was also not signed by the manager or dated.</li> <li>• From the sample of 20 short term and 20 long term sickness cases tested, it was identified that, for short term cases, there was one instance (118044) where the General Practitioner's (GP) note was unclear (retained copy was illegible) and one instance (117678), for the long term cases, where a GP note was not provided. In two further long term instances (118113 and 37072), the GP notes held did not cover the full sickness period.</li> <li>• Examination of the sample of 20 short term and 20 long term sickness absences identified that, in five short term cases (36885, 133480, 39253, 37172 and 37048) and four long term cases (27687, 37072, 37304 and 37227), there was no evidence of OH being discussed or an OH appointment taking place despite being expected. There was one instance (117109) for short term sickness where an OH appointment was due but no evidence was provided to confirm it took place. In addition, there was one instance (27539) for long term sickness where an OH appointment was discussed but no further evidence was available to verify that the appointment took place.</li> <li>• Examination of 20 instances of short term absences and 20 instances of long term absences, where staff had reached trigger levels (an amount of sickness which requires investigation) identified that for nine short term cases (121475, 133480, 39253, 36782, 117109, 128851, 126058, 133460 and 122666), no evidence was held to support that a review had</li> </ul>		
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		<p>taken place. For long term sickness absences, there was one instance (37304) identified where discussion regarding a formal review had taken place but there was no evidence to support this subsequently taking place. In addition, there was one case (124575) where there was no evidence of a formal review at all.</p> <ul style="list-style-type: none"><li>• Discussion with the Lead HR Business Partner identified that trigger levels are identified via managers, as well as when manual reports are created. However there is no automatic trigger level notification in place for when an officer reaches an unacceptable level of absence marker.</li><li>• The Auditor was only able to gain assurance that meetings of the HR SMT Management Information, Organisational Stream Board took place in Q1 for 2016/17. No other minutes were provided upon request although the expectation was for quarterly meetings to be held.</li></ul> <p>All findings and recommendations were agreed with Senior Employee Relations Manager and Lead HR Business Partner, and reported to the Director of Business Transformation (THH) and Chief Executive (THH).</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Housing Rents	August 2017	<p>Tower Hamlets Homes (THH) is an Arms-Length Management Organisation (ALMO) owned by Tower Hamlets Council. The THH rents function is responsible for the correct billing of rent increases, amendments, arrears and the collection of rental income from Council owned housing stock.</p> <p>The 2015/16 budgeted gross rents collection was set at £69.3 million, with an additional £6.6m in relation to tenant service charge. The Housing Revenue Account rental income and tenanted service charges outturn figures for 2015-16 were subsequently £68.116 million and £6.493 million respectively. For 2016/17 the budgeted figures are £67.2 million of rental income and £6.4 million of service charges. This has reduced from the 2015/16 figures on account of a reduction in housing stock and also a one percent reduction on rents charged (in line with Central Government policy). The current arrears figure as at September 2016 was £2.79m, which had increased from £2.68m as at September 2015.</p> <p>The housing rents section is split across four areas. There are North and South Arrears Teams which chase current tenant arrears. There is a manager who oversees the recovery of debt from former tenants and an Accounts Team who deal with the processing of rent charges and increases.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around the Housing Rents system are sound, secure and adequate. The main weaknesses were as follows:</p> <ul style="list-style-type: none"> <li>• Reconciliations are not signed and dated by both the officer performing the reconciliation and the officer reviewing the reconciliation.</li> <li>• The quarter four 2015/16 write-offs were not approved in a timely manner, instead they were approved for write-off with the quarter one 2016/17 write-offs.</li> <li>• Debt recovery for former arrears was not always undertaken in a timely manner (verified through sample testing of 20 arrears cases examined). One instance was identified where the debt was not chased due to the</li> </ul>	Extensive	Substantial 

		<p>officer considering it too low (£54.50), but was higher than the agreed lower limit (£50).</p> <ul style="list-style-type: none"> <li>• Access rights forms need to be confirmed as appropriate but the Head of Resources had not tabled this issue at the latest meeting with Agilisys. The Head of Resources has included it within the October meeting agenda with Agilisys/ICT.</li> <li>• Policies and procedures lack information regarding review/approval details and when they are next due for revision.</li> <li>• Examination of 20 current arrears cases identified two cases where payment had been missed by the tenants who were on payment plans but these were not identified within the team's six weekly checks.</li> <li>• Examination of 20 current arrears cases also identified one instance where an ARL01 (reminder letter of money due) was sent before the tenant had fallen into arrears.</li> </ul> <p>All findings and recommendations were agreed with Director of Finance (THH), and reported to the Director of Neighbourhoods (THH) and Chief Executive (THH).</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Estate Parking, Sheds and Garages	August 2017	<p>Estate parking within the borough is controlled by parking regulations. Residents living on estates and wishing to park their vehicles, whether in parking bays, car parks or on the street, must obtain a parking permit. A charge is levied on all permits, though there is no charge for a disabled blue badge holder. Each year, THH can put forward a bid to suggest how much should be charged for non-residential items but the decision of whether to increase any charges is ultimately determined by the Council (LBTH). Charges for non-residential items (including parking, sheds and garages) have only increased in line with the Consumer Price Index (CPI). The Head of Customer Access and Facilities Management confirmed that this approach had been considered appropriate on the basis that additional price increases would be detrimental to Tower Hamlets in light of its economic status as a poorer borough.</p> <p>The rents are chargeable at weekly rates and determined by the Council. Consideration has been given by THH as to whether to convert some existing garage licences to storage licences. However, negativity was expressed from residents in light of concerns over what may be stored if these changes were to be implemented.</p> <p>The Housing Service Centre Team uses the Northgate system to record information on all non-residential items. However, THH has plans to introduce a self-service function to form part of Northgate, which would allow individuals to bid/apply for any non-residential items directly. On an administrative basis this would prove beneficial as it would also help to control applications i.e. if an agreed maximum number of bids was received the system would prevent further bids from being submitted and help quicken/improve the decision making process. Work is ongoing to implement this during 2017/18.</p> <p>There is no waiting list for non-residential items and individuals are expected to use the THH website and search for vacancies themselves, subsequently submitting applications on a first-come-first-served basis. If an individual does not have access to the internet, or is unable to use a computer, they can attend a one-stop-shop and an officer of the Council will help the individual to search</p>	Extensive	Substantial 

		<p>and complete their application.</p> <p>It should also be noted that the Head of Customer Access and Facilities (THH), and the Special Initiatives Manager (THH), at the time of the audit, communicated that work remains ongoing across the processes for managing parking, sheds and garages. Such proposed changes include amendments which would see applicants being required to pay in advance for their respective parking/shed/garage licences (whereas currently they are paid for monthly). In addition, there was a suggestion that some processes may currently be less effective than they could be as a result of information being stored in individual rent accounts (which results in a greater amount of administration). Although not specific points of testing within the agreed audit scope, this information has been stated here to help provide greater context.</p> <p>The audit was designed to provide assurance that management have put in place effective controls for administering, managing and controlling estate parking, sheds and garages, and to verify that assets are managed efficiently and effectively. The main weaknesses were as follows:</p> <ul style="list-style-type: none"><li>• Policies, procedures and guidance documents do not contain version controls and are out of date.</li><li>• Examination of 20 instances, where either a garage or parking permit had been awarded to an applicant (from a total population of 389 issued since April 2016), identified that, although supporting evidence to support each decision could be traced upon audit sample testing, there was no summary evidence retained to verify the management control in place which is used to provide periodic and ongoing assurances about the compliance in this area.</li><li>• Benchmarking against other boroughs is not undertaken nor is information utilised to inform decision making regarding increases to non-residential item charges.</li><li>• Examination of 10 shed applications (processed since April 2016) identified no exceptions in respect of the expected document retention. However, there was a potential improvement in the pipeline (through the implementation of the Northgate system for voids management) which would allow applicants to apply directly onto the system and therefore</li></ul>		
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		<p>improve the robustness of the audit trail maintained. As this is yet to be implemented, a recommendation has been raised to allow these improvements to be monitored through the audit follow-up process.</p> <ul style="list-style-type: none"> <li>• In addition, in light of the low financial value gained from the rental of parking spaces, garages, and particularly sheds, the Auditor identified a need for THH to further consider its approach to managing the system overall, and whether it remains financially viable to implement additional controls.</li> <li>• Budget variances are not explained and budget information is not discussed/passed up to senior management.</li> <li>• No evidence was provided to confirm that checks were undertaken on garages and sheds to confirm that they were suitable to be re-let.</li> <li>• There is currently no restriction on the number of permits one household can obtain as long as all required information is provided.</li> <li>• Discussion with the Senior Housing Advisor, and examination of the THH website, identified that there is no information regarding how the public can confidentially report instances of inappropriate use of non-residential assets (for example, using a garage to store anything other than a motor vehicle). It is difficult for THH to identify potential areas of misuse itself.</li> </ul> <p>All findings and recommendations were agreed with the Head of Customer Access and Facilities (THH) and Special Initiatives Manager (THH), and reported to the Director of Neighbourhoods (THH) and Chief Executive (THH).</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tendering for Waste Contracts	June 2017	<p>The purpose of this review was to determine whether EU Regulations, and the Council's Procurement Procedures and Financial Regulations were being complied with whilst tendering for the Council's waste management contracts. Four contracts which were procured recently were tested viz. Refuse Collection and Street Cleansing (EC2713); Interim Recycling Collection (CLC 4969); Waste Treatment and Disposal (CLC 3245);and Material Recovery Facility (MRF) services (CLC5077). Our testing showed the following:-</p> <ul style="list-style-type: none"> <li>• Approval was sought from Cabinet for all the procurement undertaken.</li> <li>• Our review showed that the EU Regulations and the Councils' Procurement procedures were complied with for the procurement of the waste contracts.</li> <li>• In accordance with the Procurement procedures, Tollgate 2 reports were completed.</li> <li>• Risk management system, JCAD was used to record and manage major project risks.</li> <li>• Conflict of Interest and Confidentiality Agreement forms had been completed by the teams who carried out the ITT evaluation but not by the Project Sponsor and Project Manager (CLC 4969) and Project Sponsor (CLC4970).</li> <li>• We noted that there was no independent officer or a moderator present in the Evaluation Panels. This appeared to be due to no corporate guidance or criteria over the make-up of the tender evaluation panel and their roles and responsibilities.</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	Substantial  



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pay by Phone Parking Income  Contract Monitoring  Follow Up	May 2017	<p>This follow up audit provided assurance that the recommendations agreed at the conclusion of the original audit in May 2016 have been implemented and embedded in the business.</p> <p>Our testing showed that out of seventeen high priority recommendations made in the original report, fourteen had been progressed and implemented. Subsequent to the final report issued in May 2016, Management undertook a full investigation of any missing income and has now established the key components of the system which is fully understood by all officers. Procedures for monitoring the contract and reconciling the income received from the contractor have been put in place. Risk assessment of the key contract risks has been undertaken. Contract monitoring meeting have standing items on the Agenda and these meetings cover key aspects of performance. Contract variations have been agreed to control refunds and chargebacks.</p> <p>However, we have reported that the procedures for supervisory and spot checks needed to be fully embedded in the business process. Although performance information was provided by the contractor, it was not clear whether this information was of relevance to the service and whether other KPIs and targets required by the client needed to be put in place. Although, the deed of variation included the chargeback process, our testing showed that the chargebacks amounting to £1937 had not been included in the contractor's invoices. A credit note has now been received from the contractor.</p> <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	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Norman Grove Children's Home Follow-Up	June 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 Norman Grove Children's Home was finalised in February 2017 and was awarded Limited assurance. This follow-up audit was undertaken to provide assurance as to whether the eight high and two medium priority recommendations raised at the time of the full audit have been subsequently implemented.</p> <p>Norman Grove Children's Home is able to provide accommodation for up to six children aged between 13 and 17 years of age. They can be of either gender and are all in the care of the Council under the provisions of the 1989 Children Act. Each child has an individual Care Plan which determines the main objectives for their stay at Norman Grove. Some return to the family network and some remain placed in the children's home until they are ready for independence at 18. Others move on to alternative placements.</p> <p>All children's homes have unannounced inspections by Ofsted twice in a calendar year. This is a full inspection and a follow up inspection. Norman Grove had its full inspection in August 2016 and was rated 'Good', and an interim/follow-up inspection in February 2017 was rated as 'Sustained Effectiveness'. The children's home has a budget of £843,600 for the financial year 2017/2018.</p> <p>Our follow up audit identified that six of the high priority recommendations and one of the medium priority recommendations made in the original audit report had been implemented. Two of the high priority recommendations and one medium priority recommendation had been partly implemented.</p> <p>We have made three recommendations. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• Testing of five petty cash requests (with a value over £25) made between January 2017 and April 2017, identified that in one case the money request form was not signed by the Registered Manager (money request</li> </ul>	Moderate	Substantial ⇒

form M371).

In addition, there was one instance where the money request form was both requested and approved by the Registered Manager (money request form M359), which resulted in there not being a segregation of duties enforced.


- Testing of five purchases made via the credit card from January 2017 to April 2017 identified that in one instance, the date of the order was not completed on the Card Holder Transaction Log (date 31/03/2017 - for an Oyster Card top-up of £20).
- The Auditor noted that, in one case (Inventory Sheet, Staff 1st Office Downstairs), the date and name of the officer who prepared the Inventory Sheet had not been indicated.

All findings and recommendations were agreed with the Group Manager and Children's Home Manager / Registered Manager, and reported to the Corporate Director of Children's Services.

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Guardian Angels CoE Primary School	July 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>• The School Development Plan (SDP) should be presented to the governors for review and formal sign off. This should be formally minuted.</li> <li>• The Head Teacher should retain evidence of monthly payroll reconciliations.</li> <li>• The School should renew its licence with the Information Commissioner's Office (ICO) as soon as possible.</li> <li>• The School should renew its Declarations of Business Interest annually, for both the governors and staff. A clear record of these declarations should be retained within the School.</li> <li>• The Finance Officer and the Head Teacher should sign and date all the key documentation in respect of the monthly reconciliations as evidence of being reviewed and checked. The monthly reconciliation processes should be carried out within two weeks of the month end to ensure consistency and timeliness of the process.</li> <li>• All invoices should be paid within the 30 days of payment period.</li> <li>• The School should keep a record of the cash transfers between staff and each staff member should sign the record to confirm receipt.</li> <li>• The results of the Inventory Check and the list of assets marked for disposal should be presented to the FGB for review and sign-off. This should be formally minuted in the meeting.</li> <li>• The School should ensure the safe limit is not breached or consider increasing the authorised limit (if appropriate).</li> </ul>	Moderate	Substantial ⇒

		<ul style="list-style-type: none"><li>• All staff should complete a pre-employment medical questionnaire as part of the recruitment process.</li><li>• The School should consider developing a leavers 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.</li><li>• The School should ensure that an Initial Costing and an End of Journey Statement is produced and presented to the FGB for review and sign-off.</li><li>• The Loan of School Equipment form should be signed-off by both the member of staff loaning the item and the authorising officer.</li></ul> <p>All findings and recommendations were agreed with the 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
Children Missing Education - Follow Up	May 2017	<p>The objective of this follow up audit was to carry out required testing in assessing the progress made in implementing the recommendations agreed in the final audit report issued to Management in June 2016. Our testing showed that out of nine medium priority recommendations tested, all had been progressed and implemented.</p> <p>We found that following the amended guidance from the Department for Education (DfE) from 1<sup>st</sup> September 2016, the LBTH Guidance on Children Missing from Education (CME), Missing Children and The Missing Children Register was reviewed and updated. Flowcharts were included to improve clarity on the process. We understand that the triangulation of information on children missing education and children who go missing was undertaken to support effective information sharing and coordination by the Multi-Agency Missing/ CSE/ Trafficking Working Group.</p> <p>In addition, Independent schools were notified and reminded of their responsibilities via email and the Designated Safeguarding Leads Forum, which they also attend. A workshop was held in September 2016 by the Multi-Agency Missing/ CSE/ Trafficking Working Group where the Tower Hamlets Guidance on Children Missing from Education (CME) and the Missing Children Register was fully discussed and agreed. Attendance and Welfare Service agreed to hold workshops on an annual basis to seek to identify and address issues and improve identification. A specific risk viz. "Child suffers serious harm or death" as a result of "a child is missing from school or goes missing from education and procedures are not followed" has been added on JCAD risk register. The missing child register is currently maintained on MS Excel and password protected.</p> <p>The report was agreed with the then Divisional Director, Children's Social Care and final report was issued to the Corporate Director, Children's Services.</p>	Extensive	Full 

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

Audit Subject	Recommendation	Divisional Director	Officer Name
Norman Grove Children's Home	Checks should be undertaken by the line manager of the credit card holder to ensure that the Card Holder Transaction Log is correctly completed, indicating the order date of the purchase and the date goods were received.	Nancy Mehan	Phil Morgan
Norman Grove Children's Home	Staff should be reminded that the money request forms for petty cash should be checked and counter-signed by the line manager of the officer who is requesting the money. Money request forms should be requested and approved by independent officers (in line with the above). The administrative staff should sign the money request form when change is received.	Nancy Mehan	Maria Best
Pay By Phone	As documented in the procedures notes, a senior officer should carry out monthly supervisory and spot checks to monitor that the necessary checks, reconciliations and other key processes are being complied with.	Roy Ormsby	John Eaton
Pay By Phone	The contract monitoring officer should identify which KPIs and targets, in addition to what the contractor currently provides, should assist in monitoring the performance of the contract. These should be communicated to the contractor and should form the basis of future monitoring.	Roy Ormsby	John Eaton
Pay By Phone		Roy Ormsby	John Eaton

**Follow Up Audits – List of Priority 2 Recommendations still to be implemented**

Audit Subject	Recommendation	Divisional Director/ Corporate Director	Officer Name
Staff Recruitment	<p>When HR undertakes the quarterly 10 percent checks of new starters (to confirm that the selection decisions made are in line with the Recruitment and Selection Standards and that the new starter’s files includes all of the relevant documentation required), the monitoring spreadsheet should be updated to clearly indicate:</p> <ul style="list-style-type: none"> <li>• the date and name of the officer(s) who have undertaken the checks, and</li> <li>• the mitigating actions taken (in the event that exceptions are identified).</li> </ul>	Heather Daley	Debbie Southgate
Norman Grove Children’s Home	<p>The Inventory Sheet should indicate the date and the name of the officer who prepared it.</p> <p>An inventory check should be undertaken on a regular basis by an independent officer on all assets over £100 owned by Norman Grove Childrens Home.</p>	Nancy Mehan	Maria Best
Payroll Account Reconciliation	The Payroll Reconciliation Procedure note should be reviewed and signed off as approved soon as possible.	Stuart Young/Neville Murton	Danny Warren
Payroll Account Reconciliation	The Financial Systems and Controls spreadsheet that is submitted to the FMT meetings, should contain information regarding which unreconciled items are outstanding and how long they have been outstanding.	Stuart Young/Neville Murton	Danny Warren



**Follow Up Audits – List of Priority 2 Recommendations still to be implemented**

Audit Subject	Recommendation	Divisional Director / Corporate Director	Officer Name
Registrars	<p>Purchase orders should be raised with a formal request and authorisation by a delegated officer should be obtained. A record of the formal request / authorisation should be retained.</p> <p>A segregation of duties should exist over the order process. Information regarding segregation of duties should be evidenced and retained, for example one officer raises a request with a different independent officer authorising the purchase.</p>	Catherine Sutton	Grainne Nixon.
Registrars	<p>A formal scheme of delegation with respect to the use of the corporate card should be created and approved.</p> <p>The scheme of delegation should detail the purchase limit for each officer as well as what to do in the event an officer is not available</p>	Catherine Sutton	Grainne Nixon
Registrars	<p>Training sessions undertaken by each staff member, and training needs identified during the annual PDR, are recorded and maintained into a spreadsheet.</p>	Catherine Sutton	Catherine Sutton

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<p><i>Non-Executive Report of the:</i>  <b>Audit Committee</b>                  27<sup>th</sup> September 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>Annual Governance Statement 2016/17</b></p>	

<b>Originating Officer(s)</b>	<i>Minesh Jani, Head of Audit and Risk Management</i>
<b>Wards affected</b>	<i>All wards</i>

## 1. Summary

- 1.1 This report updates the Audit Committee on the processes to review the governance arrangements of the Council as part of the process to produce the 2016/17 Annual Governance Statement (AGS).
- 1.2 Section 3 of this report provides a background and outline of the work undertaken to review the Council's governance arrangements. Section 4 provides an overview of all significant issues raised since 2015/16, their current status and future planned actions.
- 1.3 The updated draft version of the 2016/17 AGS is attached as Appendix 1.

## 2. Recommendation

- 2.1 The Audit Committee is asked to: -
  - o Agree the draft AGS for the financial year 2016/17 at Appendix 1.

### 3. Background

- 3.1 The Accounts and Audit Regulations 2015 require the Council to conduct an annual review of its governance arrangements and to publish an AGS with the financial statements. The Statement of Recommended Practice 2015 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.
- 3.2 The draft 2015/16 AGS was presented to the Audit Committee for approval in June 2016, to comply with the statutory deadlines regarding statement of accounts. The External Auditors are nearing concluding their audit for the financial year 2015/16. The Mayor and Chief Executive have reviewed and signed the 2015/16 statement.
- 3.3 The table in section 4 of this report captures all significant governance issues raised in 2015/16 and provides details of actions taken; the status of the governance issue and further actions planned, if any.

### 4. 2015/16 Annual Governance Statement

- 4.1 The draft Annual Governance Statement for 2016/17 is attached at Appendix 1.
- 4.2 The issues raised in 2015/16 are set out in the table below with an update showing their status.

Issues in 2015/16 statement	Current Status
1) Payments to third sector organisations outside Mainstream Grants.	Completed. The systems and processes have been improved and increased compliance work has been completed and embedded into control environment.
2) Management arrangements for the control and monitoring of grants.	Completed. Following a comprehensive review of this service and its approach to audit, a corporate grant function has been created to enhance consistency of approach to grant giving, monitoring and reporting across the Council. It is also anticipated that the function will ensure approved grant is only paid following proper due diligence of the organisations, and outcomes expected from the grant.

Issues in 2015/16 statement	Current Status
<p><b>3)</b> Strengthen controls over disposal of assets that demonstrate best value is secured by the Council.</p>	<p>Completed. Following the inspection disposal of assets is part of the Best Value Action Plan – Improvements to process have been made. Internal Audit work in this area also generated actions which have been implemented.</p> <p>The Council’s asset management strategy has been reviewed and approved by Cabinet.</p>
<p><b>4)</b> Publicity Expenditure Controls</p> <p>This issue was identified during the inspection and the Authority subsequently received directions relating to publicity expenditure.</p>	<p>Completed. A new Strategy and Protocol documents have been produced and a fully costed communications plan is now in place. An annual communications strategy detailing delivery plans and budget have been prepared.</p>
<p><b>5)</b> Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.</p>	<p>On-going. The General Purposes Committee has substantially completed its review of the Council’s constitution and the remainder of the document will be reviewed in this financial year.</p>
<p><b>6)</b> Enhance contract management and contract letting process.</p>	<p>Completed. A Procurement Strategy and accompanying procedures have been refreshed and adopted. A clear category management strategy to ensure value for money for all categories of spends and reduces costs and oversupply in place.</p> <p>Improved finance and procurement controls introduced and implemented to increase compliance with, and transparency o spend across the organisation.</p>
<p><b>7)</b> Review, and where necessary, enhance arrangements around declarations of interests.</p>	<p>Completed. A review was undertaken in 2016/17 which resulted in 99.9% of the Council staff completing their annual declaration. Internal audit have reviewed arrangements and recommended</p>

Issues in 2015/16 statement	Current Status
	further enhancements to existing controls.
<p><b>8) Review the Council's Section 106 arrangements.</b></p> <p>The Council's external auditors highlighted a number of control issues in the administration of the Council's S106 arrangements.</p> <p>An independent review of the arrangements in relation to s106 receipts and payments will be undertaken to ensure effective and robust processes, controls, monitoring and reporting arrangements are in place, in accordance with agreements and aligned with the planning consents.</p>	<p>Completed. An independent review of the arrangements in relation to s106 receipts and payments was commissioned and reported to the Audit Committee in June 2016. Recommendations from the review have been implemented.</p>

**5. Comments of the Chief Financial Officer**

- 5.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements as required by regulation 4(2) of the Accounts and Audit Regulations 2015. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 5.2 There are no additional financial implications arising from the recommendations within this report.

**6. Legal Comments**

- 6.1. The Council is required by regulation 4 of the Accounts and Audit Regulations 2015 to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 6.2. The Council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the Council's Audit Committee and following the review the

committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The Audit Committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the Council's constitution. The subject report is intended to discharge the Council's obligations in this regard.

- 6.3. In relation to what constitutes "proper practices" it is appropriate for the Council to have regard to the relevant CIPFA code of practice.
- 6.4. In approving the annual governance statement, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The committee may take the view that a sound system of internal control will support delivery of the Council's various programmes and objectives that are targeted at these matters.

## **7. One Tower Hamlets**

- 7.1 The maintenance of an effective system of internal control assists the Council to discharge its functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

## **8. Risk Management Implications**

- 8.1 The review of the Council's governance arrangements has highlighted strategic risks that the authority is actively managing. The risk management framework is in place to ensure all strategic risks are reviewed and reported to the Corporate Management Team.

## **9. Sustainable Action for a Greener Environment (SAGE)**

- 9.1 There are no specific SAGE implications.

## **10. Crime and Disorder Reduction Implications**

- 10.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

## Draft Annual Governance Statement 2016/17

We (the Council) are required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement enables stakeholders to have assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2015.

This statement relates to the financial year 2016/17. The Annual Government Statement for 2015/16 was presented in draft to the Audit Committee on 20 September 2016. The governance issues raised in that statement have been reviewed as part of the review of effectiveness the Council's governance arrangements for 2016/17.

### Background

Following an independent inspection in April 2014 the Council was placed under Best Value Directions by the Secretary of State for Department of Communities and Local Government (DCLG) in December 2014. The Directions included the appointment of three Commissioners with decision making powers in the areas of Grants, Procurement, Property, Election and Communication. The Council developed a Best Value Strategy and action plans with 205 activities to deliver improvements across these areas. This, alongside effective engagement with the Commissioners and DCLG, led to the transitional return of power to the Council with full control being given back and removal of Directions and Commissioners confirmed in March 2017. The table below sets out some of the achievements against the Best Value areas during the period of the original Directions.

Best Value area	Achievements
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Delivered a new quarterly magazine 'Our East End';</li> <li>• Annual Communications Strategy detailing delivery plans and budget prepared;</li> <li>• Implementation of a campaigns model to support a range of high level projects; including the Mela and UK Parliamentary Election;</li> <li>• Establishment of the Statutory Notices publication scheme.</li> </ul>
<b>Elections</b>	<ul style="list-style-type: none"> <li>• Delivered a number of successful elections and the EU referendum: -</li> <li>• UK Parliamentary Election May 2015;</li> <li>• Tower Hamlets Mayoral Election June 2015;</li> <li>• Election of Mayor of London and Greater London Authority elections May 2016;</li> <li>• EU Referendum June 2016;</li> <li>• Whitechapel ward by-election December 2016;</li> <li>• UK Parliamentary Election May 2017.</li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>• Developed and implemented a new Community Benefit Reduction scheme for organisations based in Council buildings;</li> <li>• Implemented a Community Hub model with investment to create a range of accessible work and community spaces across the borough;</li> <li>• Property audits completed on a range of Council assets;</li> <li>• Identified and transferred vacant Council buildings to Housing Management to progress development to residential use;</li> <li>• Refreshed governance arrangements on asset management to strengthen transparency.</li> </ul>
<b>Organisational culture</b>	<ul style="list-style-type: none"> <li>• Series of engagement events completed over 6 months to develop a new set of refreshed core values with staff and members;</li> <li>• Weekly staff bulletin and regular Chief Executive/Corporate Leadership Team Roadshows to engage with staff in the improvement journey and transformation</li> <li>• New corporate senior management structure completed and majority of posts</li> </ul>



Best Value area	Achievements
	recruited; <ul style="list-style-type: none"> <li>• Whistleblowing related activities completed through Clear Up Project to address any remaining issues;</li> <li>• Independent review of whistleblowing processes and procedures completed;</li> <li>• Governance structure refreshed with review of Council Constitution;</li> <li>• Re-constituted Tower Hamlets Local Strategic Partnership with plans to develop a new Community Plan for 2018.</li> </ul>
<b>Grants</b>	<ul style="list-style-type: none"> <li>• Decision making and scrutiny of grants has been established with the Cabinet Grants Determination Sub Committee and Grants Scrutiny Sub Committee;</li> <li>• Delivery of the Mainstream Grants Programme 2015 with independent evaluation work completed;</li> <li>• Development of a comprehensive Grants Register reviewed annually to ensure a co-ordinated approach to grant management;</li> <li>• Three year Voluntary and Community Sector Strategy adopted with a three year action plan, detailing how the Council will work and support the sector.</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>• Established a clear category management strategy to ensure value for money (VFM) for all categories of spend, to reduce costs and oversupply;</li> <li>• Central contracts register linked to contract award implemented to capture all contracts above £25,000 including all procurement waivers;</li> <li>• Supply Chain Ethical Code of Conduct developed and approved to strengthen adherence to ethical standards by suppliers delivering public services on behalf of the Council;</li> <li>• Improved Finance and Procurement controls introduced and implemented to increase compliance with, and transparency of, spend across the organisation;</li> <li>• New e-sourcing system rolled out which requires all procurement opportunities to be tendered through a single e-tendering system that is integrated with the Council's financial systems;</li> <li>• Social Value Act action plan developed for implementation.</li> </ul>

In March 2017 the Secretary of State issued new Directions which will be in force until 30th September 2018. These require the Council to:

- Submit quarterly reports on all outstanding actions in the Best Value Action Plan and Best Value Improvement Plan 2017-18 to the Secretary of State. The first report was sent in June 2017;
- Set up a new Best Value Improvement Board. This met in April 2017 and is chaired by the Mayor, with cross party representation and external representatives to provide challenge to improve all Council activities; and
- Set up an independent review of achievement against the Best Value Action Plans and Best Value Improvement Plan 2017-18 to be submitted to the Secretary of State by 1st August 2018.

### 1. Responsibility of the Council

We are responsible for ensuring our 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. We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, we are responsible for putting in place proper arrangements for the governance of our affairs and facilitating the effective exercise of our functions.

We have approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how we comply with the code and also meet the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of the Annual Governance Statement.

## **2. What is Corporate Governance Framework?**

The governance framework comprises the systems and processes, and culture and values, by which we direct and control our activities and through which, we account to, engage with and lead our community. The governance framework allows us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage any such risks efficiently, effectively and economically.

Our governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2017 and up to the date of approval of the statement of accounts.

## **3. The Council's Governance Framework**

Our governance arrangements aim to ensure that we set out and meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our use of public money and resources is safeguarded, properly accounted for and used economically, efficiently and effectively. The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

### **3.1 Vision and Priorities**

The shared vision for the borough as set out in the Community Plan is to: *'Improve the lives of all those living and working in the borough'*. The Council's Strategic Plan supports the delivery of this vision and focuses on 3 key priorities and 10 outcomes:

*Priority 1: 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

*Priority 2: Creating and maintain 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

*Priority 3: Working smarter together as one team with our partners and community*

- An enabling and efficient Council

These priorities are supported by an enabling objective which aims to deliver a transformed Council, making best use of resources and with an outward looking culture.

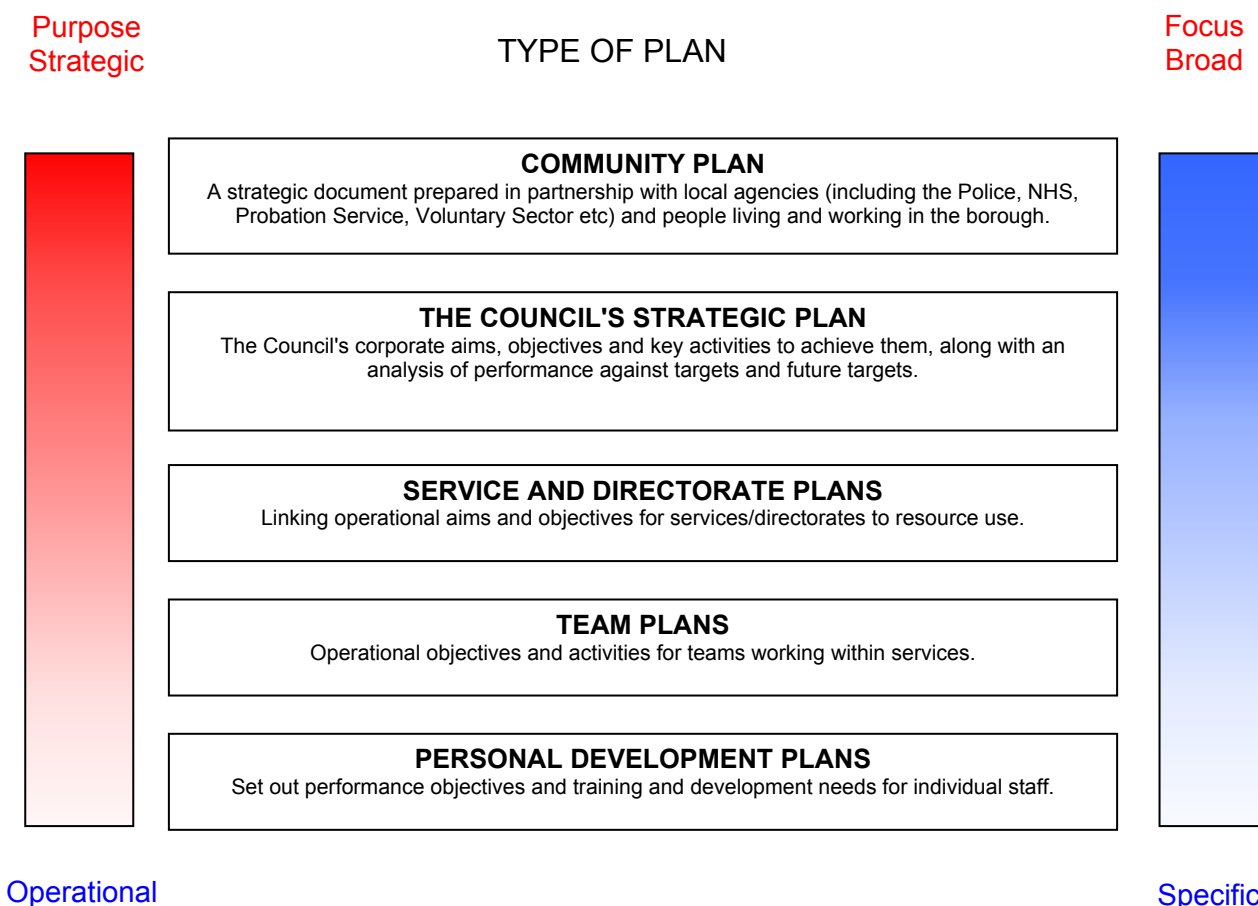
More information about our performance against the Plan and achievements in 2016/17 can be found on the Council's website.

[http://www.towerhamlets.gov.uk/lgnl/community\\_and\\_living/community\\_plan/strategic\\_plan.aspx](http://www.towerhamlets.gov.uk/lgnl/community_and_living/community_plan/strategic_plan.aspx)

### 3.2 Corporate and Service Plans

The overall planning framework is illustrated in the following diagram. As the diagram below shows, we align our Strategic Plan with the Community Plan structure around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by the Overview and Scrutiny Committee.



Our vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDPs). This ensures that there is a “golden thread” that runs from the Community Plan to each individual employee’s work. This helps ensure that the vision, priorities and objectives are communicated to and delivered at all levels of the organisation. Further communication of core values and key initiatives takes place through the Council’s staff newsletter “Tower Hamlets Now”.

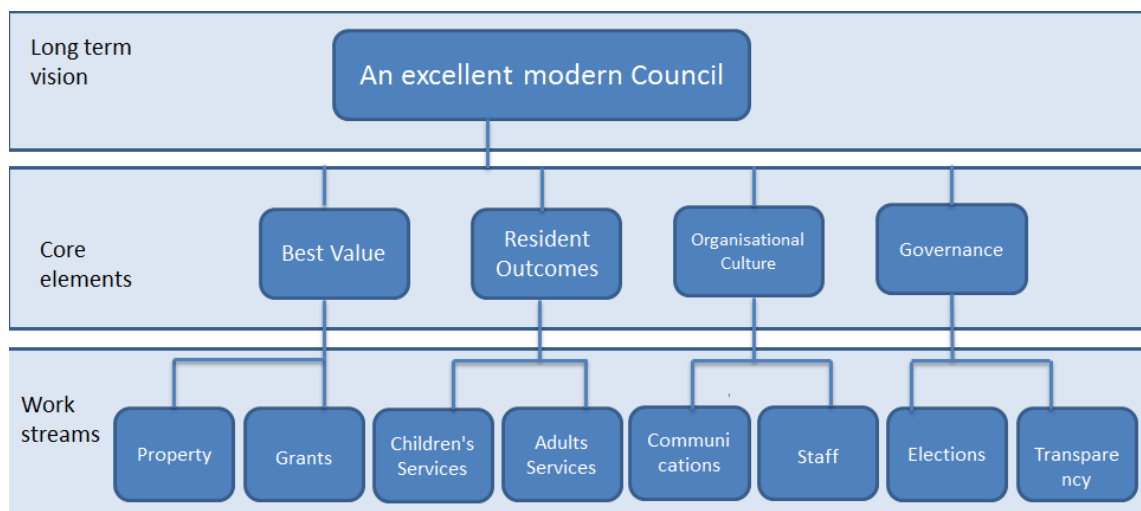
### 3.3 Tower Hamlets Improvement Framework

The Tower Hamlets Improvement Framework sets out the core elements and work streams that will develop the Council into an ‘excellent modern Council’, these being:

- delivering improved outcomes for local people;
- providing value for money;
- embracing modern technology and innovations;
- working effectively with all stakeholders including staff, local residents and partners from all sectors;
- externally recognised.

The diagram below details the Council’s long term vision; core areas of focus and a range of supporting work streams that are taking place across the organisation to develop an ‘excellent modern Council’. These work streams are supported by the following groups and boards:

- Best Value Improvement Board
- Children’s Services Improvement Board
- Adults’ Improvement Board
- Cabinet
- Overview and Scrutiny Committee
- Performance Improvement Board



Given the range of work taking place across the organisation we will share the learning and communicate this to local people and its staff and partners. We will co-ordinate improvement activities to reduce duplication and ensure learning is embraced from best practice and also undertake a Corporate Peer Challenge with the Local Government Association in 2018 to help understand progress made and areas for further development.

### 3.4 Performance Management

We operate a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and plans; and that progress against plans and targets is monitored and evaluated at all levels.

There is a mechanism by which all Council strategic performance indicators are challenged, annually risk assessed and a sample selected for testing by the performance management team supported by internal audit.

The Council’s Corporate Leadership Team (CLT), comprising the Directors and Corporate Directors for each service (including the Council’s Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CLT also has responsibility for reviewing and challenging the Council’s performance and delivery of the strategic plan. The Cabinet and the Overview and Scrutiny Committee receive regular reports highlighting Council performance.

During 2016/17 the Governance arrangements of the Council have been considered by all the Statutory Officers of the Council as part of the scheduled CLT meetings. This has contributed to the review of effectiveness outlined in below in part 4 of the statement.

### **3.5 Council Constitution**

We have an agreed constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- the role of overview and scrutiny;
- the role and responsibilities of the Audit Committee;
- codes of conduct for Councillors and employees; and
- members' scheme of allowance.

Under the Council's constitution, the Executive is the elected Mayor, who makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his decisions the Mayor is supported by the Cabinet, Directors and Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

All key decisions required are published in advance in the Executive's Forward Plan.

The constitution has been refreshed during 2016/17. The Monitoring Officer is also undertaking a review of the Officer Scheme of Delegation and when completed this will be appended to the constitution and published in the same timeframe.

The Council considers and approves any changes proposed to the key strategic policies set out in article 4 of the constitution, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the licencing policy; and
- the local development framework.

### **3.6 Codes of Conduct**

We have a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers at least annually. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities. For the financial year 2016/17, 99.5% of staff completed their annual declarations of interest.

The responsibility to declare interests has also been extended to all tenderers and bidders as part of the procurement process. Periodically the audit plan contains reviews relating to compliance with the codes of conduct.

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

### **3.7 Rules, Regulations, Policies, and Procedures**

Our rules and procedure are contained in part four of the Council's constitution. We have a duty to ensure that we act in accordance with the law and relevant regulations in the performance of our functions. We have developed policies and procedures to ensure that, as far as are reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

### **3.8 Overview and Scrutiny**

During 2016/17 the work of the Executive was scrutinised by an Overview and Scrutiny Committee, the Grants Scrutiny Sub Committee and the Housing Scrutiny Sub Committee. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Mayor in Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At its meetings it also consider performance monitoring information and has a key role in reviewing and challenging the Mayor in Cabinet's budget prior to consideration at Full Council.

An Annual Scrutiny Report detailing the work of the Overview and Scrutiny Committee, the Health, Grants and Housing Scrutiny Panels was presented to Council and noted on 19 July 2017. The work programme also involved a number of in-depth scrutiny reviews and challenge sessions focusing on the Council's Medium Term Financial Strategy and budget monitoring, Strategic Plan and Delivery Plan for 2017/18, Housing Strategy, Substance Misuse Strategy, Community Engagement Strategy, Budget Scrutiny and Monitoring and challenging Council's performance.

### **3.9 Audit Committee**

For 2016/17, the Audit Committee comprised seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the Audit Committee: Guidance for Local Authorities and Police. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council's external auditor, KPMG. The Audit Committee met five times in 2016/17. The 2015/16 annual accounts received an unqualified audit opinion, but the VFM conclusion was "except for".

### **3.10 Internal Audit**

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Leadership Team and members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control and where relevant, recommends improvements. It also supports the management of the Council in developing its systems and providing advice on matters pertaining to risk and control. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. This report is one of the sources of assurance used in the preparation of this statement. A review of internal audit has been carried out in 2017/18 and once the report is finalised any recommendations raised from the review will be implemented during the financial year.

The Head of Audit & Risk reports quarterly, on a formal basis, to the Corporate Leadership Team on findings of audit work and investigations. He also meets as required with CLT members individually as well as other officers with roles key to the Governance Framework to discuss governance related issues. The internal audit charter, setting out the purpose and authority and responsibility of internal audit was approved by CLT and the Audit Committee in June 2017.

### **3.11 External Audit**

The Council's external auditors, KPMG:

- Review the Council's accounts to ensure that they comply with statutory requirements and that proper practices have been observed in compiling them; and
- Conclude on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In 2016/17 financial year, KPMG issued an unqualified audit opinion on the Council's financial statements. In respect of whether the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, KPMG issued an adverse opinion.

### **3.12 Whistle Blowing Policy and the Complaints Procedure**

The Council has a whistle blowing policy in addition to the Council's Anti Fraud and Corruption Strategy. The Anti-Fraud and Corruption Strategy was refreshed and reported to the Audit Committee at its meeting in June 2016. We have enhanced current arrangements by promoting the Council's whistle blowing arrangements by raising awareness of the Council's whistle blowing arrangements and improving reporting. The new arrangements were rolled out from May 2016. During 2016/17, we have independently reviewed the Council's whistle blow process to see if further steps can be taken to enhance current arrangements.

We also have a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of three stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards (Advisory) Committee.

The Mayor and elected members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

### **3.13 Risk Management**

We have a Risk Management Strategy to identify and manage the principal risks which impact on achieving our objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Management Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management.

We have engaged Zurich Municipal Engineering to review of the Council's risk management arrangements and to suggest enhancements to further embed risk management within the organisation and facilitating workshops with the Corporate Leadership Team and Directorate Leadership Teams. This work looked at our appetite to take risks in pursuit of our strategic objectives and assess whether organisationally we have the same understanding of our risk appetite.

### **3.14 Information Governance**

We have established two groups to oversee Information Governance as a risk area and ensure robust governance arrangements are in place and adhered to across the organisation. An Information Governance Group meets six weekly. In addition, the Information Governance Strategy Board has been established, which is chaired by the Head of Legal Services and is represented by Divisional Directors from each directorate.

### **3.15 Financial Management**

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected.

Our medium term financial strategy sets out the need to deliver financial savings to 2019/2020. Arrangements have been made to identify opportunities and for the delivery and reporting of savings to CLT and Cabinet.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2016/17 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial strategy incorporating an analysis of the financial risks facing the Council over the next three years and an assessment of the adequacy of General Fund and HRA reserves;
- regular reporting of actual expenditure and income against budgets and spending forecasts and service performance against targets;
- an annual Treasury Management and Investment Strategy including a prudential borrowing framework and associated indicators; and
- standing meetings of finance managers from across the Council.

### **3.16 The Efficient and Effective Use of Resources**

As noted earlier in this statement, we have been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2013/14 and 2014/15 resulted in the issue of adverse opinions in respect of the authority's arrangements to secure value for money.

The authority has developed action plans to improve value for money and seek continuous service improvement through a range of processes, including the application of best value principles and the carrying out of efficiency reviews as set out under the background section of this report.



The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives in the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency together with associated Equality Impact Assessments.

We also participate in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Cabinet Office, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Cabinet Office to test and improve the output from the NFI exercise. The findings were reported to CLT and the Audit Committee, the exercise is completed every two years.

We are deploying increasingly innovative approaches to tackle risks to deliver value for money services. One example is to link debtors across a number of Council activities to ensure the more efficient and effective use of Council resources in pursuit of the debts and to improve outcomes through a targeted approach.

### ***3.17 Learning and Organisational Development***

We have a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they are best equipped to deliver excellent public service. These include a Leadership programme, specific training relating to Recruitment and Selection, Risk Management, and computer based training.

Councillors have a member support officer and a development programme to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. For some aspects of Council work members are required to undertake mandatory training to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### ***3.18 Communication and Engagement***

We publish numerous documents on our website as well as providing a quarterly paper during 2016/17, Our East End to keep residents up-to-date, in an informal and accessible way, on the work of the Council. A review of the value for money and compliance of East End Life was requested as part of the Best Value Action Plan. Following the review, a decision was made for East End life to be published fortnightly from January 2016 and quarterly from May 2016 to bring the publication in line with the Recommended Code of Practice for Local Authority Publicity.

We also engage with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform us of the perception of services we provide and the experience of service users. Further, we use portal and a range of digital media to engage with a wide range of stakeholders. Our website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

At a local level we have a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Mayor's surgeries with community groups, local businesses and others also provide direct communication and engagement with all stakeholders.

Elected members of the Council also hold regular surgeries for their wards.

### **3.19 Partnerships**

Our most significant partnership is The Tower Hamlets Partnership.

In February 2012, the partnership structure was refreshed. In the structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. At a ward level Local Community Ward Forums enable local people to engage with the Council and identify local priorities and projects for co-delivery.

Due to the Care Act and the drive towards more integrated services with the Council we have been working in partnership with the Clinical Commissioning Groups, BARTs and East London Mental Health Trust. A formal partnership called the Tower Hamlets Integrated Provider Partnership has been created and we are committed to working to achieve shared outcomes with the members of the partnership. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

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

### **3.20 Children's Services**

An Ofsted inspection undertaken in January and February 2017 rated our services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The report made 15 recommendations and highlighted poor frontline practice and ineffective, complacent and sometimes resistant management practices which enabled non-compliance with basic standards (including legal requirements) and in some cases left children at risk of harm. The report also highlighted the need for stronger leadership, management and governance to ensure there is robust performance management and scrutiny of children's social care.

In consultation with the Department of Education (DfE) a Children's Services Improvement Board led by an Independent Chair has been established and an Improvement Plan has been submitted to DfE in July 2017. The Board ensures that there is clear leadership of the improvement journey at corporate, political and partnership levels. The Board's key focus has been on understanding why this happened in Tower Hamlets and how to put this right through the development, implementation and monitoring of the Improvement Plan. An Operational Group has also been set up to support the work of the Board and is chaired by the Corporate Director of Children's Services. The Council is working with its DfE appointed Practice Improvement Partners from Lincolnshire and Islington Councils, to ensure that it learns from best practice in Councils that have achieved a 'good' standard in the Ofsted single inspection framework. Ofsted will be carrying out quarterly monitoring visits to ensure that its recommendations are being robustly addressed. The first of these monitoring visits took place at the end of August 2017.

The Children's Service Improvement Board will continue to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work. Quarterly progress updates will be provided to the Best Value Improvement Board and the Council's Cabinet and Overview and Scrutiny Committee.

### **3.21 Adults' Services**

The Council has set up an internal time limited Adults Improvement Board to drive up standards in relation to performance and practice in adult social care to improve outcomes for vulnerable adults in the borough. There are four broad areas of focus:

- Practice – improving safeguarding practice will be a key feature;
- Culture – adopting a strengths-based approach with a focus on prevention and demand management;
- Capacity planning – a key strand of work will be around our workforce and its development;
- Performance – will focus on performance against the key outcomes identified in the Directorate Plan and associated measures and data.

With support from an LGA Improvement Adviser, the Adults Improvement Board has utilised the ADASS Risk Toolkit to assess risk and inform the prioritisation of improvement activity. The Adults Improvement Board has developed plans to address priorities for action to ensure consistent and effective practice results in improved outcomes for vulnerable adults in the borough. This includes improving: practice, practice governance, safeguarding, workforce stability and planning, skills, quality and performance management. This Board will report on the progress against work streams at a future meeting of the Best Value Improvement Board.

## **4. Review of Effectiveness**

We have responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness has been an on-going process throughout the period and is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review involved the evaluation of the key sources of assurance:

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal financial controls.
- Performance monitoring shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- Monitoring of the 2015/16 Significant Governance Issues as well as the actions plans arising from the PwC review of best value.
- The outturn on the 2016/17 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Leadership Team.

- Meetings with Corporate Leadership Team members who have reviewed their own directorate governance issues and actions with their Directorate Management Teams to seek input to the issues at a corporate level.

There has also been significant work to review and improve our governance arrangements and this work is considered in the process to produce this statement.

In addition to the above there have been independent assurances obtained from:

- Grant Thornton who were commissioned to independently review the organisation against the newly updated Principles of Good Governance;
- Two reviews of the Third Sector team who administer the Council's mainstream grant;
- Grant Thornton / CIPFA who reviewed the Council's Financial Management Arrangements;
- Grant Thornton review of the Council's whistle blow arrangements; and
- OFSTED review of Children's Services.

### Significant Governance Issues

All of the above sources of challenge and assurance have been considered in determining both the status of the 2015/16 significant governance issues and also what issues remains a high priority in relation to 2016/17. The significant issues and the specific actions to address that have been taken and those planned for the future are set out below and in all cases, due to the on-going monitoring of the governance framework, work is already underway to address the action points.

Each significant governance issue has an identified CLT lead who takes responsibility for progress and implementation. The actions identified within this statement form part of the performance management framework for each director and will be incorporated into their directorate performance plans.

The overall process is overseen by the Audit Committee which approves the Annual Governance Statement prior to it being signed off by the Mayor and the Chief Executive. The 2015/16 Annual Governance Statement contained eight Significant Governance Issues. As a result of the 2016/17 review all issues have been closed or superseded by new issues.

The table below details the four Significant Governance Issues relating to 2016/17, the CLT lead responsible, the actions to date and the further actions planned.

<b>Governance Issue and action noted</b>	<b>Proposed action</b>	<b>CLT Lead and expected resolution date</b>
Ofsted assessment of Children's Services	<p>We have developed an improvement board in consultation with the Department of Education for improving our services. The board is chaired by an independent Chair. An operational group has also been established to support the board.</p> <p>The Children's Services improvement board has met three times and has set a clear forward plan to focus on relevant thematic issues for each of its meeting. The improvement plan was submitted to the Secretary of State on 19 July 2017.</p>	<p>Corporate Director, Children's Services.</p> <p>March 2018</p>

Governance Issue and action noted	Proposed action	CLT Lead and expected resolution date
Council's Governance Framework	We have continued to review our constitution at the General Purposes Committee. We plan to complete this exercise by the end of the financial year.	Corporate Director, Governance March 2018
Improve Organisational Culture	We have developed a best value improvement plan for organisational culture and we recognise this is a key component in moving the Council forward. The aims of the organisational culture plan is to; ensure the culture of the organisation continues to be one which strives for continuous improvement and engages and invests in staff and ensure relationships between groups of members and between members and officers are professional, respectful, open and honest.	Chief Executive March 2018
Payments to third sector organisations as part of mainstream grant process.	For the financial year 2016/17, a total of £x was identified by the Council's external auditors as unauthorised payments as formal lease agreements were not in place for some organisations. The commissioners had stipulated grant payments should only be made where formal lease agreements are in place.  We are actively working with Third Sector Organisations to regularise lease agreements.	Corporate Director, Resources March 2018

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement that were identified in our review of effectiveness and will monitor progress periodically and confirm their implementation and operation as part of the process to produce the 2017/18 Annual Governance Statement.

.....

Chief Executive

Date:

.....

Mayor

Date:

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<p>Non-Executive Report of the:</p> <p><b>Audit Committee</b></p> <p>27 September 2017</p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Zena Cooke – Corporate Director Resources</p>	<p><b>Classification:</b> [Unrestricted or Exempt]</p>
<p><b>Annual Risk Management Report 2017/18 and Q2 Risk Management Update</b></p>	

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

## Summary

The purpose of this report is to provide the Audit Committee with:

- a) An oversight of the authority’s processes to facilitate the identification and management of its significant business risks.
- b) Summary of the Q2 2017/18 Corporate Risk Register and update since last reported in June 2017.
- c) Risk Management Team activity over the last 12 months

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

## Recommendations:

The Audit Committee is recommended to:

1. Note the corporate risks and recommend changes and updates as necessary;
2. Note the contents of the Annual Risk Management Report 2017/18 and agree actions at section 9 of the report;
3. Request risk owner(s) requiring further scrutiny provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its December meeting; and
4. 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 to satisfy core statutory obligations.

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

- 1.1 This report is brought annually and quarterly to provide the Committee with an oversight of the authority's processes to facilitate the identification and management of its significant business risks.

## **2. ALTERNATIVE OPTIONS**

- 2.1 None.

## **3. 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.

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.

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.

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 objective's, 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.

### **Managing Key Risks**

The Council's risk management process is implemented across Directorates, Business Units and Projects. On a quarterly basis each Directorate review and updates the risks captured on their risk registers and add any new or emerging risks.

New risks and key changes to current risks are discussed and challenged at Directorate and Corporate Leadership Team meetings. Annually each Directorate is encouraged to undertake a full risk review in line with service and financial planning processes. Key risks are included within relevant Directorate and Divisional business plans and are also reported to Audit Committee. This reporting format ensures that the Council's risk management framework remains embedded and that reporting remains "live" across the organisation. Further information on risk reporting can be found in the Council's risk management strategy.

## **4. Annual Risk Management Report 2017/18**

- 4.1 The report sets out in some detail risk management activity over the last twelve months.

## 5. DETAILS OF REPORT

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 12 risks rated with four rated as red, five as amber and three as yellow (see para 3.2 above for the risk definitions).

The table below is a breakdown of the number of corporate risks by directorate for quarter 2, 2017/18.

Directorate	6	8	12	15	16	20	25	Grand Total
	Material	Material	Significant	Significant	Severe	Severe	Severe	
HAC	0	0	1	1	1	0	0	3
CSD	0	0	3	0	0	0	1	4
PD	0	0	0	0	0	1	0	1
GD	0	1	0	0	0	0	0	1
Resources	1	1	0	0	0	1	0	3
Total	1	2	4	1	1	2	1	12

Table 1. 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

The Council’s strategic priorities detailed within the Corporate Strategy 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.

5.3 The table below shows the number of risks associated with these corporate priorities.

<b>Corporate Priority</b>	<b>Q3 2016/17</b>	<b>Q4 2016/17</b>	<b>Q1 2017/18</b>	<b>Q2 2017/18</b>
Creating opportunity by supporting aspiration and tackling poverty	4	3	3	3
Creating and maintaining a vibrant, successful place	2	2	2	1
A transformed council, making best use of resources and with an outward looking culture	6	8	8	8
<b>Total</b>	<b>12</b>	<b>13</b>	<b>13</b>	<b>12</b>

*Table 2. The number of risks identified by Corporate priority.*

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

6.1 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.

## **7. LEGAL COMMENTS**

7.2 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.

7.3 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee

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

## **8. ONE TOWER HAMLETS CONSIDERATIONS**

8.1 There are no specific one Tower Hamlets considerations arising from the recommendations in this report.

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

9.1 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.

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

10.1 There are no specific proposals in the report contributing to a sustainable environmental action for a greener environment.

## **11. RISK MANAGEMENT IMPLICATIONS**

11.1 The report sets out arrangements for mitigating risks to the Council and actions taken to treat and eliminate identified risks.

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

12.1 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**

- Annual Risk Management Report 2017/18
- 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:**

- *A.Sotande-Peters Ext: 4051*

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# **Annual Risk Management Report 2016/17**

Minesh Jani,  
Head of Audit and Risk Management

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Appendix 2: Corporate Risk Register

Appendix 3: Risk Management scoring matrix



## **1.0 Introduction**

1.1 The Council's ongoing risk and assurance aims are:

- To provide Members and Senior Officers an understanding of the key risks facing the Council and its community, and to show how these risks are being mitigated.
- To implement and maintain a fluid process for the everyday management of risks relevant to our objectives, outcomes, services and assets.
- To align reporting mechanisms for finance, risk, audit and performance providing members and senior officers triangulated risk and assurance profiles.
- To continue to meet the requirements of our external auditor and compliance providers.

## **2.0 Risk Management Team**

2.1 The Risk Management team comprises of Internal Audit, Fraud, Insurance and the Risk Management services. The team is led by the Head of Audit and Risk Management. The following section focuses on the Risk Management service this is delivered by the Head of the team and the Strategic Risk Adviser. It highlights the aims of the team and the services that underpin these objectives.

### **The Risk Management team aim's and services**

2.2 The Risk Management Team has the following targets:

- A.** ensuring the consistent use of risk management and ownership of risk at all levels;
- B.** building and maintaining a risk aware culture within the council, including appropriate education and training;
- C.** developing, implementing and reviewing the risk management framework and risk management processes;
- D.** developing competence and maturity in risk management;
- E.** linking with the other functions within and beyond the Risk

Management team that advise on specific aspects of risk management (e.g. insurance, health and safety, business continuity, civil contingencies, occupational health, internal audit) ;

F. Reporting, escalating and communicating risk issues to key stakeholders.

2.3 In order to meet these aims the team delivers the following services:

- Management and coordination of the corporate risk management process which is part of the council's corporate governance framework.
- Provision of professional risk management support on a range of corporate and directorate projects. This includes, where appropriate, attendance at management meetings, risk interventions such as the production of risk strategies and process guides, risk identification and control workshops, access and training to the council's Risk Management Information System (JCADCORE).
- Preparation and publication of risk information on TH Net.
- Maintenance and development of the Risk Management Information System, known as JCADCORE.
- Provision of risk training including members, and senior managers, new managers and staff as well as regular training opportunities on JCADCORE.

2.4 Section 3 below provides information on the corporate risk process including the council's corporate risks.

Sections 4 to 7 below provide an update on the team's work during the year and aligned to the above services it provides.

### 3.0 **Corporate Risk Management Process**

3.1 The approach to managing risk is outlined in the Council's Risk Management Strategy which also contains the Risk management Policy Statement. The Statement encourages innovation and creative approaches to service delivery whilst requiring careful consideration of the risks involved and taking appropriate

measures to manage them. The Corporate Risk Management process is aimed at identifying, assessing, prioritising and mitigating the significant risks that could impact on the delivery of the council's objectives (i.e. corporate risks). This process is also aligned with the council's team planning arrangements. Risks are prioritised for reporting in accordance to the scoring methodology in the risk management scoring matrix.

- 3.2 Corporate risks (strategic risks) are those concerned with ensuring overall success of Council objectives, and the vitality and viability of the organisation. Materialisation of such risks can have a number of consequences, for example they could significantly affect the reputation of the Council, or present significant financial costs. Risks are identified and assessed by impact and likelihood on an ongoing basis across all Directorates. Guidance has been produced to help Risk Champions (see 3.4 below) and their directorates identify corporate risks from their service level assessments.
- 3.3 The review of both corporate and directorate risk is undertaken on a monthly basis by the Risk Champions Group. A process is in place to aid all directorates capture key risks and assess their significance. The methodology adopted by the authority (the UK Government's Management of Risk approach) is used to assess and prioritise key risks and to focus attention on those risks that require attention. Significant risks are examined at directorate level and any risk that remains significant after existing controls are taken into account (residual risk) are reported quarterly to the Corporate Leadership Team (CLT) so that they can be considered further.

### **Risk Champions Group**

- 3.4 The Risk Champions Group is a key part of the council's corporate risk process. The Group is chaired by the Corporate Resources Director and its members comprise senior officers from each of the directorates. The group meets monthly and its primary purpose is to ensure that there is appropriate scrutiny of risks that have been identified by directorates and recommended for elevation to the corporate risk register. It also reviews and scrutinises directorate risks.
- 3.5 The role of a Risk Champion is set out in the group's terms of reference and includes the following activities:
- Update and maintain directorate risks on JCADCORE every quarter;
  - Maintain close liaison on risk and risk dynamics with individual Divisional Directors and Directorate Leadership Teams (DLT) collectively

- Challenge officers in their directorate in their assessment of risk and seek explanations over the proposed actions to manage the risk;
  - Build a risk-aware culture within their directorate and disseminate good risk management practices;
  - Provide advice and assistance as required;
  - Obtain and update on planned actions from appropriate service heads for reporting to CLT; and
  - Bring significant risks to the attention of the CLT.
- 3.6 Once the group have scrutinised, reviewed and updated the corporate risks the risk management team prepare a quarterly risk management update report for CLT and subsequently to Mayor’s Advisory Board (MAB).
- 3.7 Corporate risk owners continue to be invited to discuss their risk(s) with the group to get a better understanding on how well the risk is being managed. It may then make recommendations to the risk owner for suggested improvements to the controls.

### Corporate Risk Register

- 3.8 Risks that feature on the corporate risk register have been identified by the corporate leadership team and also include risks that have met the corporate risk criteria and escalated by each directorate.
- 3.9 The current corporate risk register (as at 31/08/17) identifies 12 corporate risks. The definition of each of these risk ratings is set out in Appendix 3 (Risk Scoring Matrix).

Directorate	6	8	12	15	16	20	25	Grand Total
HAC	0	0	1	1	1	0	0	3
CSD	0	0	3	0	0	0	1	4
Place	0	0	0	0	0	1	0	1
Governance	0	1	0	0	0	0	0	1
Resources	1	1	0	0	0	1	0	3
<b>Grand Total</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>12</b>

Table 1. The number of risks within each directorate by risk score.

Key: **HAC** – Health, Adults and Community Services directorate



<p>(Resources)</p> <p>Review date 03/01/18.</p>		<p>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.</p> <p>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.</p> <p>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>DRCPCD002</p> <p>(Place)</p> <p>Review Date 11/11/17</p>	<b>20</b>	<p>Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019).</p>	<p>Updated</p>
<p>CSA0002</p> <p>(HAC)</p> <p>26/09/17</p>	<b>16</b>	<p>Community Unrest (previously failure to achieve community cohesion)</p>	<p>Updated.</p>
<p>ASD0015</p> <p>(Adult's)</p> <p>Review date 13/08/17</p>	<b>15</b>	<p>Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.</p>	<p>Update required.</p>
<p>ASD0017</p> <p>(HAC)</p> <p>Review date 10/10/17</p>	<b>12</b>	<p>Risk that should a major incident take place affecting council services, there may be a failure to implement an effective response. The risk is increased if there was to</p>	<p>Updated.</p>

		be more than one incident at the same time.	
CSDR0011  (Children's) Review date 06/09/17	12	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).	Request made to Children's DMT for risk to be re-assigned to them. Awaiting response.  Awaiting response from Children's DMT regarding risk owner.
CSDSC0004  (Children's) Review date 03/10/17	12	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.	Update required on control measure.
CSDSC0005  (Children's) Review date 11/10/17	12	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.	Update required on control measure.
LPGLS0001  (Governance) Review date 26/05/17	8	No-compliance with corporate governance procedures.	Update required.

RSB0019 (Resources) 24/11/17	8	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	To be updated to include transformation risks in mitigating actions.
ICT-CT0010 (Resources) 23/11/17	6	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs.	Updated.

Table 2 – Corporate Risk register summary

#### 4.0 Risk Management Support and Interventions

4.1 An important role of the Risk Management team is to assist teams/services in using a risk management approach to help them deliver operational or project objectives. During the reporting period risk management has provided support to a number of areas within the council. Support can take various forms including the provision of advice and guidance as well as setting up risk processes and training.

#### 5.0 Preparation and Publication of Risk Management Information

5.1 The Risk Management pages on THnet includes information and tools on managing risks which are updated regularly. Over the period more documents have been added or revised:

- A quick reference guide to Risk Management (a user friendly two page guide)
- Further guidance on how to use the JCADCORE Risk system
- Risk management guidance for managers
- LBTH Risk Management strategy

#### 6.0 Risk Management Training

6.1 Risk Management training is essential if managers and staff are to understand the benefits of this approach and use it to help make effective decisions and achieve directorate/corporate objectives.



The risk management team invited the institute of risk management October 2016 to give a presentation on professionalism in risk management – building a healthy risk culture.

Fundamentals of Enterprise Risk Management: a practical introduction to risk management, a bespoke training provided by the Institute of Risk Management started in May 2017. A major aim of this training is to create a good risk culture in the Council ensuring the following outcomes for the Council;

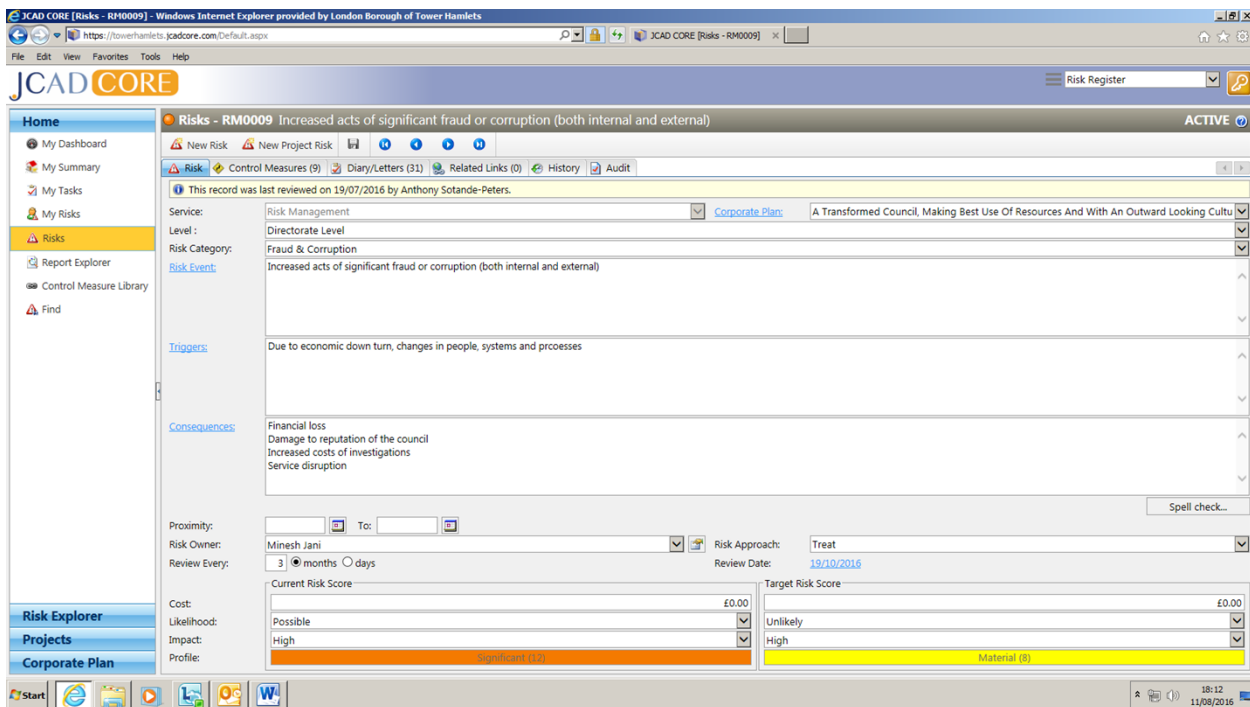
- Risk leadership – creating a distinct and consistent tone from the top.
- Informed risk decisions allowing sufficient diversity of perspectives, values and beliefs to ensure that the status quo is consistently and rigorously challenged.
- Accountability – appropriate risk taking behaviours rewarded and encouraged and inappropriate behaviours challenged and sanctioned.
- Transparency – transparent and timely risk information flowing up and down.
- Risk skills – risk management skills and knowledge valued, encouraged and developed.
- Alignment with employee engagement and people strategy.

The course contents also include an introduction to risk management, risk assessment, risk treatment and monitoring & communicating risk.

The training is targeted at senior and middle managers to ensure risk management capability is consistently embedded across all areas of the Council. To date forty-five staff have attended and completed the course

## **E-Learning**

- 6.3 The Council's risk management system JCADCORE contains all recorded risks from across the Council. Information from the risk managements system is used to create reports for management teams and members. An ELearning course has been developed to help train new users of the system as well as provide a refresher for existing users. Pictured below is a screen shot showing part of the E-Learning module.



## 7.0 Promotion of Risk Management

7.1 This section highlights the promotional Risk Management activity which has taken place during the reporting period.

### Risk Talks

7.2 Risk talks are regular, usually monthly, lunch and learn sessions and were initiated in May 2012. Their purpose being to bring life to Risk Management through the use of case studies, research, sharing best practice and updates all highlighting the importance and benefits of managing risk. The talks are advertised on the THnet as well as targeted invitations being sent to officers. There is usually a mixed audience of senior managers, managers and staff.

7.3 A programme of further risks talks featuring internal and external speakers commenced in January 2017.

## 8.0 Risk Management performance

8.1 This section provides evidence of the overall council performance of its formal Risk Management arrangements. Two areas are highlighted. The first is the council's Annual governance statement and also the result of the council's most recent participation in the Alarm/CIPFA Risk Management benchmarking exercise in 2016. The evidence suggests that the council has processes in place which continue to improve.

### The council's Annual Governance Statement

8.2 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 responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, this includes arrangements for the management of risk. Risk management is a principal element of corporate governance, a risk management strategy is in place to support this and is regularly reviewed.

The **2015/16** Annual Governance Statement Report noted the following comments regarding the Council's Risk Management arrangements.

"we have a Risk Management Strategy to identify and manage the principal risks which impact on achieving our objectives. The principles of risk management are embedded in the Council' decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments. Key risks are recorded in corporate and directorate risk registers, which are subject to periodic review and reporting to the Corporate Leadership Team. Directorate Risk Champions oversee the continued development of the Council's approach to risk management"

### Benchmarking risk management

8.3 To assess and compare our "risk management health" with other authorities

the Council participates in CIPFA benchmarking exercise. A summary of our performance from our most recent participation is provided below:

<b>Enablers</b>  <b>Leadership &amp; Management</b>  <b>Policy &amp; strategy</b>  <b>People</b>  <b>Partnerships &amp; Resources</b>  <b>Processes</b>	<b>Awareness</b>	<b>Happening</b>	<b>Working</b>	<b>Embedded &amp; Integrated</b>	<b>Driving</b>
	<b>Awareness</b>	<b>Happening</b>	<b>Working</b>	<b>Embedded &amp; Integrated</b>	<b>Driving</b>
	<b>Awareness</b>	<b>Happening</b>	<b>Working</b>	<b>Embedded &amp; Integrated</b>	<b>Driving</b>
	<b>Awareness</b>	<b>Happening</b>	<b>Working</b>	<b>Embedded &amp; Integrated</b>	<b>Driving</b>
	<b>Awareness</b>	<b>Happening</b>	<b>Working</b>	<b>Embedded &amp; Integrated</b>	<b>Driving</b>
<b>Results</b>  <b>Risk Handling &amp;</b>  <b>Assurance</b>  <b>Outcomes &amp; Delivery</b>	<b>Awareness</b>	<b>Happening</b>	<b>Working</b>	<b>Embedded &amp; Integrated</b>	<b>Driving</b>
	<b>Awareness</b>	<b>Happening</b>	<b>Working</b>	<b>Embedded &amp; Integrated</b>	<b>Driving</b>

**Level Guide:**

Awareness	<20%
Happening	20 – 45%
Working	45 – 70%
Embedded & Integrated	70 – 85%
Driving	85%

## Table 3- LBTH Summary of Risk Management Benchmarking results

8.4 The five key risk management enablers were assessed as “Embedded & Integrated” (4) and “Driving” (1). Our aspiration is to move all ratings to the “driving” category and work continues on these improvement areas.

### 8.5 Risk Numbers

At the end of August there are 391 identified active risks on the Council’s risk register. To ensure risk management process remains effective and aligned to organisational objectives, this is reviewed quarterly by the risk team.

## 9. Risk Management Action plan 2017/18

9.1 The Risk Management team plan includes a number of actions to address some of the points above and made elsewhere in this paper:

- The council’s Risk Management policy and manager’s guide will be reviewed and revised to incorporate the revised risk appetite from the risk appetite workshops.
- Further work will be undertaken to ensure risks are more closely aligned to service and business objectives.
- Risk Talks will continue with regular features in TH Now.
- Risk Management protocol and risk champions terms of reference will be refreshed to provide guidance and further assurance on the application of Risk Management within directorates, with particular emphasis on identification of key risks and emerging risks.

### Risk Appetite

“By defining its risk appetite, an organisation can arrive at an appropriate balance between uncontrolled innovation and excessive caution”

Following a series of workshops held with the Mayor’s Advisory Board, Corporate Leadership Team and Directorate Leadership Teams a report on its outcome will be presented to the corporate leadership team on the 27 September 2017. This will provide guidance on risk appetite on various risk categories.

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# Appendix 1 Corporate risk Register



Risk Ref	Risk Event	Current Risk Rating	Controlled Risk Rating	Risk Owner
CSD0016 <i>Corporate Level</i>	<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>	25	16	Nancy Meehan
REV0007 <i>Corporate Level</i>	<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>	20	10	Roger Jones
DRPCD002 <i>Corporate Level</i>	<p>Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019).</p>	20	10	Richard Chilcott
CSA0002 <i>Corporate Level</i>	<p>Community Unrest.</p>	16	12	Ann Corbett
ASD0015 <i>Corporate Level</i>	<p>Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.</p>	15	10	David Jones
ASD0017 <i>Corporate Level</i>	<p>Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.</p>	12	4	Denise Radley
CSDSC0004 <i>Corporate Level</i>	<p>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</p>	12	12	Nikki Bradley
CSDSC0005 <i>Corporate Level</i>	<p>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.</p>	12	9	Nikki Bradley
CSDR0011 <i>Corporate Level</i>	<p>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.)</p>	12	8	Anthony Sotande-Peters

## Basic Risk Report



Risk Ref	Risk Event	Current Risk Rating	Controlled Risk Rating	Risk Owner
LPGLS0001 <i>Corporate Level</i>	Non-compliance with corporate governance procedures	8	6	Asmat Hussain
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	4	Khaled Hussein



## Appendix 2 - Detailed Risk Register (Corporate Risks)

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
GSD0016	<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> <p>Adherence to statutory government guidance, policies and procedures laid down by the council and LSCB / SAB Local Safeguarding Children's Board Statutory government</p>	5	5	25	4	4	16	Nancy Meehan	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		
				<p>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> <p>Effective working relations and swift communication across partnership agencies. Effective working relations and swift communication across partnership agencies that is held at different levels of Children's services. LSCB has an executive board for Directors and Chief Executive Officer level across the partnership.</p> <p>Continue to implement Signs of Safety as overarching practice framework</p>		<p>integrated commissioning partnership at the most senior level.</p> <p><b>Nancy Meehan</b> <b><u>Required Control Measure Target Date:</u></b> <b>30/08/2017</b></p>			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<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. Training and development work is part of the CSC workforce strategy.</p> <p>LSCB and CSC has Quality Assurance systems in place. This should provide evidence and assurance to safeguarding board and partners that service is being delivered to expected standards, there are clear (proxy) indicators and where it is not so remedial action can be taken.</p> <p>As part of the response to the Ofsted inspection and subsequent improvement plan, the QA framework has been revised. The LSCB is reviewing its priorities and audit programme.</p> <p>Serious case review/learning process in place There has been a refreshed case alert process disseminated within Children Social Care, which feeds into the LSCB case review group. 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</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>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> <p>Ensure that CMT have a view of the activities within the service. Ensure that CMT have a view of the activities within the service and develop some assurance using the corporate accountability framework, risk register, management oversight, audit framework and Forward Plan. CMT safeguarding board is active. The Ofsted SEF document have been through DMT and to lead member. A new Inspection and Improvement Board has been set up.</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
DRPCD0022	Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019).	End of Mulberry Place lease in June 2020 (or as otherwise negotiated)	Additional capital and/or revenue costs (corporate finance) to ensure delivery of a business continuity office location.	<p>Initial dialogue with the landlord on a lease extension took place. Initial dialogue with the landlord on a lease extension took place in 2016. LBTH advised to pause dialogue in light of commercial office market, currently in decline. Commercial dialogue with landlord to re-commence in 4Q, 17.</p> <p>Council appointed JLL consultancy to take conduct commercial negotiations and reach agreement. The council (Asset Management team) to appointed JLL consultancy to conduct commercial negotiations on the council's behalf and reach agreement with the landlord.</p>	4	5	20	2	5	10	Richard Chilcott	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture
Page 289												

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		
CSA0002	Community Unrest.	Wide range of international, national or local incidents. Far right activity. Terrorism, Extremism, Hate crime, Acid attacks or other crime. Police action. Council funding decision exacerbating community tension. Increasing polarisation between communities in the borough.	Rising crime and unrest within the Borough. Vigilante action. 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>	4	4	16	<p>Task and Finish groups take forward action plans on areas of potential concern e.g. acid attacks</p> <p><b>Emily Fieran-Reed</b> <b><u>Required Control Measure Target Date:</u></b></p>	3	4	12	Ann Corbett	Creating And Maintaining A Vibrant, Successful Place

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>Competing prevent agenda action plan funded by Home Office</p> <p>Multi-agency and community based approach including Tension Monitoring Group and comms mechanisms to assess potential or actual impact of incidents.</p> <p>Prevent programme of activity including multi-agency case panel to consider individuals of concern and project activity.</p> <p>No Place for Hate programme of activity.</p> <p>Diversinary activities with young people.</p> <p>Commissioned activity to give particular parts of the community a voice.</p> <p>Commissioned activity to build cohesion and integration.</p>											
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</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>	3	5	15				2	5	10	David Jones	Creating Opportunity By Supporting Aspiration And Tackling Poverty
								<b><u>Required Control Measure Target Date:</u></b>							



Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
		<p>service areas against increased demand. Local authority contracted out service do not have sufficiently robust safeguarding arrangements.</p>		<p>Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board A sub group of the Safeboarding board leads on publicity and promotion of safeguarding</p> <p>4 year (2015 – 2019) adults board strategy 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>Target operating module as part of the care act implemented. This includes key worker role assigned.</p> <p>Signs of safety framework implemented. This framework helps identify the risks in a strategic manner.</p> <p>CQC care commission embargo list used. This list is available from the CQC highlighting all providers where the CQC has raised concerns.</p> <p>Failed visit policy and procedures in place. Introduction of safeguarding Star Chamber for front line teams</p> <p>discharge policy in consultation with Bart's</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
ASD0017	Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.	Failure by Directorates to ensure that the Borough Major Emergency Plan (Part 3B) is kept up to date with Directorate information and procedures. Staff are unaware of the EP process. Insufficient resilience in key roles including management, rest centres, BECC and CPU.	(1) Failure of the Council to continue to operate during a crisis period as a consequence of a civil event or situation. (2) Slower than expected management response causing increased disruption to key service delivery, inconvenience to service users and the stakeholders, adverse public criticism and additional costs to the Council.	<p>2016 June BC business impact assessment reviews by service areas</p> <p>2016 June BC plan update notification has been sent to directorates</p> <p>Business continuity plans kept up to date</p> <p>Staff with extensive experience in dealing with incidents are in place Officers in the Civil Protection Unit have dealt with incidents on several occasions, and have gained quite extensive experience on dealing with this type of incident and the action that may be required to be taken.</p> <p>Any future restructure will need to ensure that key posts are retained within the organisation to continue to minimise this risk</p> <p>Borough Emergency Management Team to co-ordinate the Council's response on tactical matters. B. E. M. Team.</p> <p>6 month review of EP plan with Directorate changes.</p> <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>	4	3	12	<p>Procurement of an IT system to manage BC plan update</p> <p>Drafting of a business case to procure IT System to manage BC plan update - the business case is drafted and has been agreed by the Directorate Management Team. The proposal will now go forward to the Corporate Leadership Team in September 2017.</p> <p><b>Ann Corbett</b> <b><u>Required Control Measure Target Date:</u></b> <b>30/03/2018</b></p> <p>Additional staff to be sought to be trained and on call if needed.</p> <p><b>Ann Corbett</b> <b><u>Required Control Measure Target Date:</u></b></p> <p>Business Continuity test on key LBTH sites.</p> <p><b>Ann Corbett</b> <b><u>Required Control Measure Target Date:</u></b></p> <p>Sessions on MEP/BC plans for members and senior managers.</p> <p><b>Ann Corbett</b> <b><u>Required Control Measure Target Date:</u></b></p>	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			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
CSDR0011	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).</p> <p>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> <p>CMT to consider if or when to commit any additional resource to the landscaping and improvement of the Open space</p> <p>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.</p>	3	4	12				2	4	8	Anthony Sotande-Peters	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture

**Required Control Measure Target Date:**

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	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	Better co-ordination of intelligence through the appointment of a data analyst  Refresh of Risk Management policy is complete. Development of co-ordinated strategic and delivery to recognise vulnerability across CSE, HSB, MAPPA, Gangs matrix and Youth Justice victims work. Further development of Restorative Justice work. A number of strategic groups exist that are hampered by a lack of data analyst that impairs the identification of patterns and impedes co-ordinated action. Funding has been awarded for this role by MOPAC.  <b>Nikki Bradley</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/07/2017</b>	3	4	12	Nikki Bradley	Creating Opportunity By Supporting Aspiration And Tackling Poverty
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	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	3	4	12	<b><u>Required Control Measure Target Date:</u></b>	3	3	9	Nikki Bradley	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		
		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		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								
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 noncompliance in key areas such as use of purchase cards, petty cash, budget monitoring etc...	2	4	8	2	3	6	Asmat Hussain	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		
				<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>O&amp;S Grants Scrutiny Sub-committee responsible for pre-decision scrutiny of grants matters</p>				<p><b>Asmat Hussain</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/12/2017</b></p> <p>Progression to the Mayor taking executive decisions in the absence of the Commissioners</p> <p><b>Will Tuckley</b> <b><u>Required Control Measure Target Date:</u></b> <b>03/10/2017</b></p>							

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				Discharge of Executive decisions by the Commissioners to ensure that legal requirements are met.								
RSB0019	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	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	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.	Implement savings programme/opportunities Longer term financial and investment strategy  Formal annual budget setting process and medium term financial plan  Continuous monitoring of Council's medium term financial plan in place  Monthly monitoring and management reporting of Council's financial position  Annual External Audit health check on financial processes including budgets and reporting  Programme Manager for Council Savings Plan in place.  Corporate Programme Board formed to monitor delivery of savings programme. Monitoring in progress.  Develop and implement corporate approach to deliver and monitoring of Council savings plan and transformation plan  On-going advancement of linkages between the 30 year HRA Business Plan and Council service plans. Longer term financial and investment strategy  Methodology for council transformation in place and ongoing Corporate Transformation Programme covering all directorates with a focus on delivering service	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		
				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	<p>New enhanced performance regime introduced as part of reset</p> <p>Performance is being reported on, monitored and is generally within target</p> <p>Mulberry Place &amp; Albert Jacobs House Comms room UPS have been upgraded.</p> <ul style="list-style-type: none"> <li>- Some temporary measures to free up storage agreed</li> <li>- SAN remediation being worked on</li> </ul> <p>Relationship is much better than pre -reset</p>	2	3	6	<p>Get Focus on the projects</p> <ul style="list-style-type: none"> <li>- Oldest projects being looked into on regular basis and helping movement (either progress or abandon).</li> <li>- Prioritising projects that really matter is helping</li> <li>- Project dashboard is being reviewed to monitor what matters</li> <li>- Use of formal project appraisal techniques being considered (NPV, ROI) for the future</li> </ul> <p><b>Muhibul Hoque</b></p> <p><b><u>Required Control Measure Target Date:</u></b></p> <p><b>30/11/2017</b></p>	2	2	4	Khaled Hussein	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		



18 September, 2017

## Probability Impact Heatmap

Almost Certain	0	0	0	1	1
Likely	0	0	1	1	1
Possible	0	0	0	3	1
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
	4	33.33%
	5	41.67%
	3	25.00%
	0	0.00%
	<b>12</b>	

## Risk Profile Quarterly Movements

### 2017

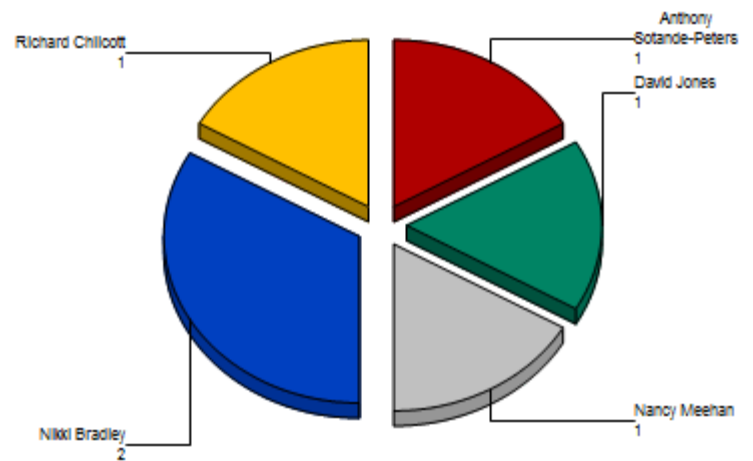
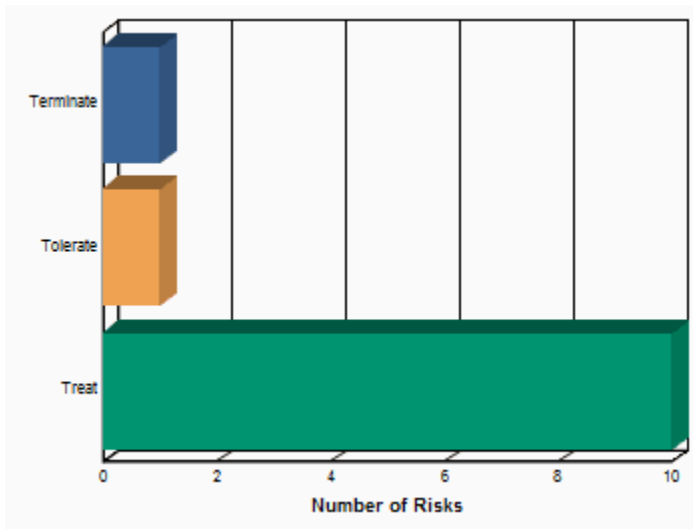
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	1	2	2	0
	9	8	9	0
	2	2	1	0

### 2016

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	0	1	0	0
	10	10	11	10
	1	0	0	1

## Risk Approach Summary

## Overdue Risk by Risk Owner



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## London Borough of Tower Hamlets – Risk Scoring Matrix

### What is a risk?

- A risk can be defined as “an event or set of events that could impact on the achievement of objectives” . A risk can have a negative or a positive impact.
- A risk should be assessed against an objective.
- A risk is measured in terms of likelihood and impact. (see Tables below)
- It is important to note that if the likelihood of the event occurring is *less than* 100%, i.e. it is not a certainty
- A risk may never 100% mitigated, but its risk score may reduce to an acceptable level
- A risk can be dealt with in 4 ways – Treat (mitigate), Tolerate (accept), Transfer to a third party or Terminate (avoid).

### How to use the Risk Scoring Matrix

To assess a risk , first consider the likelihood of that risk occurring. Consult the Likelihood Classification Table below and choose the most appropriate description e.g. **Possible** ,which has a score of 3. Next, consider the impact of that risk occurring using the Impact Classification Table. There may be several impacts of a risk e.g. service disruption and financial loss, choose the highest rated impact e.g. **High** which has a score of 4. It is essential to take into account, when scoring, any existing measures that either reduce the likelihood or/and impact of the risk occurring. Using the Risk Matrix below a likelihood score of **Possible (3)** and an Impact of **High(4)** gives a risk score of **12 (Amber)**. The Risk Definition table indicates the meaning of that score in terms of management action required.

#### Likelihood Classification

Score	Likelihood Description	Definition ( % = Chance of happening)
5	Almost certain	Expected to occur in most circumstances (>80%)
4	Likely	Will probably occur in most circumstances (51% - 80%)
3	Possible	Fairly likely to occur (21% - 50%)
2	Unlikely	Could occur at some point (6% - 20%)
1	Rare	Extremely unlikely or virtually impossible (<5%)

#### Impact Classification

Impact Type / Impact description	Service disruption	Financial Loss	Reputation	Performance	Health and Safety
<b>Very High 5</b>	Total failure of service for a significant period	Financial loss in excess of £1,000,001	National adverse media coverage for more than 3 days. Possible resignation of chief/senior officer's)	Failure to achieve a strategic theme or major corporate objective in the Council's strategic plan	Fatality of employee. Service user or other stakeholder
<b>High 4</b>	Significant service disruption	Financial Loss between £500k to £1,000,000	Adverse national media coverage	Failure to achieve one or more strategic plan objectives	Serious injury/permanent disablement of one or more employees/service users
<b>Medium 3</b>	Disruption to service – causing some concern	Financial loss between £51k - £500k	Adverse local media coverage/significant no of service-user complaints	Failure to achieve a service plan objective	Injury to staff/service user resulting in loss of working time
<b>Low 2</b>	Minor impact on service	Financial loss between £5k and 50k	Service user complaints contained with directorate	Failure to achieve several team plan objectives	Minor injury to service user/staff
<b>Negligible 1</b>	Annoyance but does not disrupt service	Financial loss under £5k	Isolated service user complaints	Failure to achieve unit level objective	Slight injury to an employee/service user

#### Risk Matrix

#### Risk Score definitions

Likelihood						
Almost certain	5	5	10	15	20	25
Likely	4	4	8	12	16	20
Possible	3	3	6	9	12	15
Unlikely	2	2	4	6	8	10
Rare	1	1	2	3	4	5
		1	2	3	4	5
		Negligible	Low	Medium	High	V High

<b>Red (Severe)</b>	Serious concern. Comprehensive Management action required immediately.
<b>Amber (Significant)</b>	Significant concern. Some immediate action required plus comprehensive action plans.
<b>Yellow (Material)</b>	Consequences of risk are of some concern although treating the risk will usually be through contingency planning. Risk to be kept under regular monitoring
<b>Green (Manageable)</b>	The risk is relatively low however risk should be monitored.

Impact

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Task	Lead	28-Jun-17	27-Sep-17	09-Nov-17	30-Jan-18	29-Mar-18
<b>1. Audit Committee Effectiveness</b>						
• Review Forward Plan	COA /DOF/HOA	✓	✓	✓	✓	✓
• Approve Terms of Reference, Quorum, Membership and Dates of Meetings (annually)	Audit Committee	✓				
• Carry out Self Assessment of Audit and Anti Fraud Arrangements	HOA / DOF			✓		
• Hold an Annual Private Meeting between Chair of Audit and Head of Audit and Risk Management	COA /HOA	✓				
• Determine and Deliver Training Requirements for Audit Committee Members as Required.	COA /HOA	ongoing	ongoing	ongoing	ongoing	ongoing
<b>2. Internal Audit</b>						
• Annual Head of Audit Opinion	HOA	✓				
• Quarterly Internal Audit Assurance reports	HOA / AM		✓		✓	✓
• Review Internal Audit Strategy and Charter	HOA / DOF	✓				
• Present Annual Internal Audit Plan - 2018/19	HOA / AM					✓
• Present Updated Annual Internal Audit Plan - 2017/18	HOA / AM			✓		
• Annual Schools Report 2016/17	HOA / AM		✓			
<b>3. Anti Fraud and Corruption</b>						
• Annual Fraud Report 2016-17	HOA / CFM		✓			
• Anti Fraud Update Report	CFM	✓			✓	✓
• Progress on National Fraud Initiative 2017/18	CFM			✓		
• Protecting the Public Purse Update	HOA / CFM			✓		
• Anti Fraud and Corruption Strategy	HOA / CFM		✓			✓
<b>4. External Audit (KPMG)</b>						
• Report to Those Charged with Governance (Council and Pension Fund)	KPMG		✓			
• Monitor Progress of Actions Arising from KPMG ISA 260 report (Council and Pension Fund)	CA				✓	
• Agree annual External Audit Plan in respect of 2016/17 accounts and associated fees.	KPMG	✓				
<b>5. Financial Reporting</b>						
• Review Accounting Policies	CA				✓	
• Consider Annual Financial Statements	CA	✓ (draft)	✓			
• Quarterly Treasury Management Report	CA		✓			
• Mid-Year Treasury Management Report	CA			✓		
• Annual Treasury Management Report	CA	✓				
• Treasury Management Strategy	CA				✓	
<b>6. Governance</b>						
• Receive and agree the Annual Governance Statement	HOA		✓			
• Update on implementation of Actions on the Annual Governance Statement	HOA					✓
<b>7. Risk Management &amp; Assurance</b>						
• Annual Risk Management Report 2016/17	HOA		✓			
• Review and Monitor of the Council's Strategic Risks	Audit Committee	✓ Strategy		✓	✓	✓
• Bribery Risk Assessment	HOA				✓	

**Key**

- COA - Chair of Audit
- DOF - Corporate Director, Resources
- HOA - Head of Audit and Risk Management
- AM - Audit Manager
- CFM - Corporate Fraud Manager
- KPMG - External Auditors
- CA - Chief Accountant

**Chair of Audit's Meeting with DOF and HOA (provisional)**

23 June 2017	10.00am
22 Sept 2017	11am
3 November 2017	10.30 am
26 January 2018	10.00am
23 March 2018	10.00am

**Note: outside the formal Committee meetings, members will also review the following:**

- Draft Annual Governance Statement (May)
- Terms of reference (May)

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